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GRANGE RESOURCES AND AUSTRALIAN BULK MINERALS MERGE TO CREATE A NEW A$1 BILLION AUSTRALIAN IRON ORE GROUP

Highlights

- Agreed merger of Grange Resources Limited ("Grange") and Australian Bulk Minerals ("ABM").
- Merger effected through Grange acquiring ABM in an all scrip transaction.
- Acquisition values the combined company at approximately A$1 billion.
- Merger brings together ABM's 100%-owned 2.3Mtpa Savage River operation in Tasmania and
- Grange's Southdown iron ore development project (70% owned by Grange, 30% owned by Sojitz in a JV) in Western Australia.
- Grange shareholders to hold 26.1% and ABM shareholders to hold 73.9% of the merged group's fully diluted share capital.
- Transaction conditions include approvals from Chinese authorities, FIRB and Grange shareholders.
- Strategy to build the merged group into a major iron ore producer, through the development of existing projects and potential acquisitions.

Grange is pleased to announce that it has entered into binding agreements to merge with ABM to create a leading mid-cap iron ore group with complementary production and development assets.

The merger will be effected through Grange acquiring 100% of the holding companies of ABM from Shagang International Holdings Limited ("SI")[1], RGL Holdings Co. Ltd ("RH")[2], Pacific International Co., Pty Ltd ("PI") and Stemcor Pellets Ltd ("Stemcor") by issuing approximately 380 million Grange shares. SI is a wholly-owned subsidiary of Jiangsu Shagang Group Co., Ltd ("Shagang"), the largest private steel producer and the third largest steel producer in China in 2007.

The transaction is subject to a number of conditions. These include approval by Grange shareholders at a meeting expected to be held in November 2008, FIRB approval, approvals from relevant Chinese authorities, no material adverse change in Grange and ABM and an Independent Expert concluding the transaction is fair and reasonable to Grange shareholders.

Key assets of the merged entity will be 100% of the Savage River magnetite mining and pellet operation in Tasmania – Australia's largest pellet producer – and 70% of the Southdown magnetite development project near Albany in Western Australia.

Savage River produces 2.3Mtpa of blast furnace pellets with plans to increase production to 2.9Mtpa. Savage River has resources of 323Mt of magnetite at a grade of 50.5% Fe and reserves of 131Mt of magnetite at a grade of 48.9% Fe. Its major customers are Shagang and BlueScope Steel.

Key financial information for the merged entity is outlined in the table below. ABM currently reports on a calendar year basis and actual results for the first half of the year are shown along with an estimate for the second half of the year based on assumptions which are uncertain in nature.

Revenue is expected to increase in the second half of 2008 primarily as a result of an increase in pellet prices. Tonnages are based on management plans for Savage River but may vary from those shown below. Expected EBITDA is approximately A$80m to A$90m for the second half, a significant increase over the first half.

MergeCo Calendar year (pro-forma)	Unit	H1 2008 (actual)	H2 2008 (forecast)[2]
Pellets sold	Mt	1.1	1.1 to 1.2
Average price received	A$/t	76.6	130 to 140
Pellet revenue	A$m	83.3	155 to165
Other Revenue[1]	A$m	4.2	~ 15
Total Gross revenue	A$m	87.5	170 to180
EBITDA	A$m	23.3	80 to 90

1 Includes revenue from Grange and concentrate and chip sales
2 Refer note regarding "forward Looking Statements

Southdown is a magnetite iron ore development project with a resource of 479Mt of magnetite at a grade of 37.3% Fe and reserves of 388Mt of magnetite at grade of 35.5% Fe. Development of Southdown envisages open pit mining and processing to produce approximately 6.6Mtpa of concentrate. The concentrate will be pumped to the Port of Albany for export to an offshore pellet plant.

Southdown is expected to produce both direct reduction (DR) and blast furnace pellets (BF) at a rate of approximately 6.8Mtpa.

Grange Chairman Anthony Bohnenn said the merger is an outstanding opportunity for Grange shareholders.

"Savage River is an excellent project with very robust economics and strong existing cashflows", he said.

"The merger provides exposure to this strong and growing asset as well as ABM management's extensive knowledge and expertise in magnetite pellet production. This will be of enormous benefit in terms of optimising the development of Southdown."

"The merger also provides Grange with the financial capacity to accelerate the development of Southdown on favourable terms."

ABM Managing Director Dave Sandy said that Grange has a great project in Southdown and the merger will create a platform for major expansion of the group in Australia.

"There is rising global demand for iron ore products generally and DR and BF pellets specifically. We have expertise, experience and track record in these markets and we look forward to working with the Grange team to capture value for all of our shareholders."

The Directors of Grange unanimously recommend that shareholders vote in favour of the transaction and intend to vote the shares they own in favour of the transaction, in both cases in the absence of a superior offer and subject to an Independent Expert concluding that the transaction is fair and reasonable to Grange shareholders.

Russell Clark will remain as the Managing Director and Chief Executive Officer of Grange. The Board of Directors of Grange will change to reflect the new shareholder ownership of the merged group. The Board will comprise 8 members including Russell Clark and Anthony Bohnenn from the current Grange Board, Dave Sandy (current Managing Director of ABM), Clement Ko, Bin Shen and Feng Gao as representatives of existing ABM shareholders and two independent non-executive directors to be appointed.

Grange expects to issue a Notice of Meeting to shareholders in October and hold the shareholder meeting to vote on the merger in late November.

Shagang Chairman, Shen Wenrong said he believed the merger would deliver positive outcomes for the shareholders of both companies.

“Shagang is very supportive of this transaction given the value it creates, now and in the future”, said Mr Shen.

“We have a unique opportunity to build a major iron ore group, with Australia’s biggest pellet plant, one of Australia’s most promising development projects and an ambition to grow further through acquisitions.”

On completion of the transaction, SI, Shagang’s 100% owned subsidiary will hold a 45.3% stake in the merged group on a fully diluted basis.

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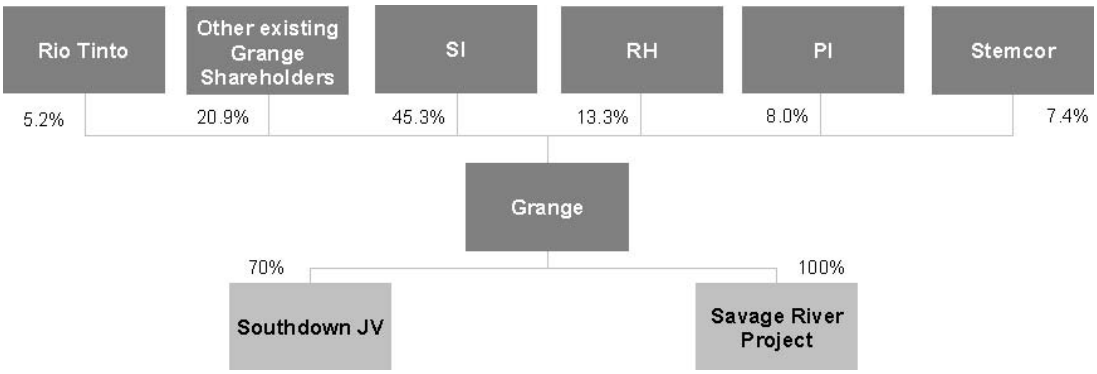
BACKGROUND TO THE MERGER

Overview

- Grange today entered into binding agreements with the shareholders of ABM to merge the two companies and create a leading mid-cap iron ore group with significant production and development assets. The ABM shareholders are Shagang International Holdings Limited, RGL Holdings Co. Ltd, Pacific International Co., Pty Ltd and Stemcor Pellets Ltd.
- The merger will be implemented by way of a scrip acquisition by Grange of all the shares in Ever Green Resources (Hong Kong) Limited ("Ever Green") and Shagang Mining Australia Pty Ltd ("SMAPL"), the entities which control the assets of ABM. The offer consideration will comprise of approximately 380 million Grange shares. Post merger the combined group will have approximately 513 million shares on issue on a fully diluted basis.
- Through the transaction, Grange will also acquire the balance sheet of ABM as at 30 June 2008 which included net debt of approximately A$80.4 million and deferred acquisition payments and royalties with a current estimated gross value of approximately A$350 million payable over the period to 2022.
- Post-transaction, the company will retain the name of Grange Resources Limited and will remain headquartered in Perth, Western Australia.

Ownership of Grange

- After allowing for the exercise of Grange options, existing Grange shareholders will own 26.1% of the shares in the merged group. The post transaction ownership of Grange is set out below on a fully diluted basis:



- SI, RH and PI have agreed to a 12 month lock up on their shares, which will restrict any sales during this period.
- The parent companies of the shareholders in ABM are:
  - Jiangsu Shagang Group Ltd ("Shagang"), China's largest private steel producer and the third largest steel producer in 2007. Shagang manufactured 22.9Mt of crude steel in 2007 and had turnover of RMB115.5bn (US$16.9bn) and profit before tax of RMB14.5bn (US$2.1bn). Shagang is the largest Electric Arc Furnace steel producer in China, a process that uses DR grade pellets, and produces a range of products including hot rolled coils, high speed wire rod, bar and rod, heavy wide plate, and galvanized sheet. It was ranked No.7 globally in terms of annual steel production in 2007.
  - RGL Group Co., Ltd ("RGL"), a privately owned Chinese iron ore and steel trader which deals primarily in timber, iron ore, steel, minerals, mechanical and electrical equipment, automotive fittings, chemical products, lubricants, coke and paper pulp.
  - Pacific Minerals Limited ("PML"), a privately owned Hong Kong incorporated company which principally engages in the importation of steel-making raw materials, primarily iron ore and coking coal, into China.
  - Stemcor Holdings Limited is a privately-owned UK-based company whose principal business is international distribution of steel and raw materials. In 2007, Stemcor generated total turnover for the year ended 31 December 2007 of £4.3 billion and reported profit attributable to shareholders of £44.3 million.

Transaction benefits

Commenting on the transaction, Grange Managing Director and CEO Russell Clark said the merger was an outstanding opportunity for Grange and its shareholders.

"This is a marriage made in heaven", said Mr Clark.

"The merger will position Grange as one of the world's leading mid-cap iron ore companies and combines a producing and well-managed magnetite operation with an attractive magnetite development project that together will produce strong cashflows well into the future."

"The Savage River operations comprise the same building blocks of mine, concentrator, slurry pipeline, pellet plant and port that we envisage for Southdown."

"Combining the magnetite knowledge of ABM and Grange is a benefit that cannot be overstated – no other company will be able to apply the experience from operating a magnetite iron ore asset like Savage River to a quality development opportunity such as Southdown."

Current Grange Chairman Anthony Bohnenn said the merger would create a unique value proposition for investors.

"We believe equity investors will increasingly gravitate towards Grange as their preferred magnetite iron ore exposure", said Mr Bohnenn.

"A portfolio of development and producing assets, a market capitalisation exceeding A$1 billion, balance sheet strength and a supportive major shareholder are all attributes that will attract both existing and prospective investors in Grange."

Significant project development, financing and operational synergies

- Specifically the merger will provide:
  - Enhanced ability to fund Southdown without requiring the involvement of further joint venture parties. The Savage River Project is expected to substantially increase Grange's debt carrying capacity given the project's long anticipated life and strong cash flow generation in the years ahead. Shagang may also provide access to competitive development funding sourced from its existing network throughout Asia.
  - A strengthened balance sheet and access to people and resources to accelerate project execution. Grange's enhanced cashflow will facilitate funding of the feasibility study for Southdown to financial close, as well as providing financial capacity to pay deposits on long lead time items, bonds and prepayments for infrastructure. Shagang may also be able to assist by providing access to Chinese and European manufactured equipment which could accelerate Southdown's development and reduce its capital requirements. The effective date for financial purposes has been set as 1 July 2008, meaning that the benefit of ABM's earnings and cashflow accrue to the combined company from that date forward.
  - A much stronger position in a market competing for engineering and construction resources for project development. Grange and its joint venture partner in the Southdown Project, Sojitz, will be well placed to seek proposals from the engineering and construction industry from consortiums who can develop and deliver the project.
  - Grange believes the merger will significantly reduce dilution associated with equity funding of the development of Southdown and materially improve the timing and probability of its development.
  - Operating expertise, personnel and training capability will significantly enhance the startup processes of Southdown enabling a shorter ramp up period.

Positioned for equity market re-rating

- Grange believes the merger will transform the company as an investment proposition for equity investors given:
  - Grange will be a significant iron ore producer, providing immediate exposure to the current unprecedented iron ore price environment. The ABM business has an outlook for strong earnings and cashflow generation, and there is potential to increase annual production by approximately 25% from 2.3Mtpa to 2.9Mtpa.
  - The merged group's market value is expected to exceed A$1 billion. The combined company's larger size and market presence is expected to increase its share liquidity, broaden its research coverage and provide the basis for an ASX index inclusion.
  - The combined group will become the largest regional pure-play magnetite pellet producer and this will be the first time investors have had the opportunity to invest in the Savage River project.

Offtake arrangements

- Shagang is the largest customer of ABM and currently has the following offtake agreements in place:
  - A contract to purchase 500,000 dry metric tonnes of pellets per annum at fixed prices, expiring in March 2010.
  - A contract to purchase approximately 500,000 dry metric tonnes of pellets at market prices expiring in June 2009.
  - A contract to purchase quantities that vary but average approximately 1.95 million dry metric tonnes of pellets each year at market price, expiring in 2023.
  - A contract to purchase 90,000 dry metric tonnes per annum of pellet chips, expiring in 2022.
- Bluescope Steel has the following agreements with ABM:
  - A contract to purchase up to 1.35 million dry metric tonnes of pellets expiring in June 2009.
  - A contract to purchase 800,000 dry metric tonnes of pellets per annum between July 2009 and June 2012.
- Stemcor also has the following agreement with ABM:
  - A contract to purchase 80,000 wet metric tonnes per annum of concentrate expiring in 2022.
- Each of the above agreements is a frame contract that allows either party to terminate if pricing cannot be agreed and the quantities may be varied by notice in accordance with the contract terms. Pricing reflects market terms and conditions, other than Shagang's fixed price contract which was entered into in 2005 and expires in 2010, where pricing is below current market prices.
- Grange has agreed with Shagang that, in respect of the offtake of iron ore products from the Southdown Project, Shagang will have a right to negotiate in good faith with Grange for the offtake on market terms for approximately 80% of Grange's share of production.

Key Transaction Terms

- The transaction is subject to a number of conditions which include:
  - Approval by a simple majority of Grange shareholders at a General Meeting which is expected to take place in November 2008.
  - An Independent Expert concluding that the transaction is "fair and reasonable" to the shareholders of Grange. An Independent Expert has been commissioned and its report will be included in the Explanatory Memorandum to Grange shareholders which is expected to be made available in October 2008.
  - No superior offer being recommended by the Board of Grange.
  - Both Grange and Shagang obtaining FIRB approval for the transaction.
  - Shagang and RGL obtaining requisite approvals from relevant Chinese authorities.
  - There being no material adverse change in relation to either the ABM or Grange business.
  - Other customary conditions for this type of transaction.

- The Merger Implementation Agreement between Grange and SI (representing ABM shareholders) contains standard deal protection mechanisms, including a mutual break fee of $2.5 million, as well as mutual "no shop" and "no talk" obligations. The principal break fee triggers for payment to SI are:
  - A change in or withdrawal of the recommendation by a Grange Director, or recommendation of a competing proposal.
  - Another party acquiring a substantial interest in Grange or its assets.
  - A material breach of the agreement by Grange.
  - The break fee to SI will only be payable if the transaction does not complete and will not be payable by Grange if the Independent Expert concludes that the transaction is not fair and reasonable except where the Independent Expert forms that view due to the existence of a competing proposal.
  - SI has agreed to pay a break fee of A$2.5 million to Grange if it commits a material breach of the agreements and the transaction does not complete.
  - The Share Sale Agreement between Grange and ABM shareholders contains other standard transaction terms such as share sale procedures, warranties and indemnities.
  - A more detailed summary of the transaction documents will be contained in the Explanatory Memorandum.

Indicative timetable

- The expected timetable for the offer is as follows:
  - Dispatch Notice of Meeting and Explanatory Memorandum to Grange shareholders in October 2008.
  - Grange shareholder meeting to consider and vote on the transaction in November 2008.
  - Transaction completion by December 2008, subject to satisfaction of conditions precedent.

This timetable is indicative only and is subject to change.

Azure Capital and UBS Investment Bank are acting as financial advisers and Clayton Utz as legal adviser to Grange. Morgan Stanley is acting as financial adviser and Freehills as legal adviser to Shagang, RGL and PML.

For further information, please contact:

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Forward-looking statements

Any forecasts and other forward-looking statements set out in this announcement are based on a number of estimates, assumptions and proforma adjustments that are subject to business, economic and competitive uncertainties and contingencies, with respect to future business decision, which are subject to change and in many cases outside the control of Grange and ABM. Any forecasts contained in this material may vary from actual financial results, and these variations may be material and, accordingly, neither Grange, nor their Directors can give any assurance that the forecast performance in any forecasts or any forward-looking statement contained in this material will be achieved. Neither Grange nor ABM undertakes to revise the material to reflect any future events or circumstances.

JORC Compliance Statement

The Southdown Mineral Resource is based on information compiled by Mr Richard Gaze who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Gaze is employed by Golder Associates Pty Ltd. Mr Gaze has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (The JORC Code). Mr Gaze consents to the inclusion in this document of the matters based on his information in the form and context in which it appears.

The Southdown Ore Reserve is based on information compiled by Mr Ross Bertinshaw who is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Bertinshaw is employed by Golder Associates Pty Ltd. Mr Bertinshaw has sufficient experience in Ore Reserve estimation relevant to the style of mineralisation and type of deposit under consideration to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (The JORC Code). Mr Bertinshaw consents to the inclusion in this document of the matters based on his information in the form and context in which it appears.

The information in this material that relates to Mineral Resources or Ore Reserves at the Savage River Project is based on information compiled by Mr Ben Maynard, who is a Member of the Australasian Institute of Mining and Metallurgy and is employed by Australian Bulk Minerals Limited. Mr Maynard has sufficient experience to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (The JORC Code). Mr Maynard consents to the inclusion in this document of the matters based on this information in the form and context in which it appears.

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1 Shagang International Holdings Limited is a newly formed company. At the date of this announcement the company name was in the process of being changed to Shagang International Holdings Limited from Great Period Limited

2 RGL Holdings Co. Ltd is a newly formed company. At the date of this announcement the company name was in the process of being changed to RGL Holdings Co. Ltd from Peak Scale Investments Limited