

**HD Baosteel Faces Hurdle In Iron-Ore Gambit**

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SYDNEY -- A **China**-led takeover of Australian **iron-ore mining company** Aquila Resources Ltd. faces a potential roadblock after a competitor snapped up a chunk of Aquila's shares.

A rival bid would complicate Beijing's efforts to accumulate offshore mineral assets considered crucial to the country's long-term economic development.

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Mineral Resources Ltd. of Australia on Wednesday bought at least 12.1% of Aquila at a 10% premium to the price offered by **China**'s state-owned Baosteel Group and partner Aurizon Holdings Ltd., two people familiar with the matter said.

The **Chinese**-led bid values Aquila at 1.4 **billion** Australian dollars (US\$1.3 **billion**).

Earlier in the day, Aquila had said that 50 **million** of its shares changed hands in a block trade carried out at A\$3.75 each, followed by additional large transactions at the same price. Baosteel bid A\$3.40 a share.

It wasn't immediately clear why Mineral Resources -- which has a market value of A\$1.9 **billion** -- might have bought the **stake**. The shares would give the **company** a chance to influence the development of Aquila's prized **iron-ore** project in Western Australia, which has an estimated development cost of A\$7.4 **billion**. Mineral Resources also has an **iron-ore** processing business that could benefit once Aquila's project begins producing.

Aquila's shares rose to more than a two-year high Wednesday, closing at A\$3.61 each -- some 6% above Baosteel's bid. The **Chinese** steelmaker and its Australian partner may now face pressure to raise their bid. They may also be wondering whether Mineral Resources is planning its own takeover move on Aquila with an as-yet-undisclosed ally.

Mineral Resources is "dipping their toes into the water with several options," said Gavin Wendt, a Sydney-based analyst at consultancy Minelife, which specializes in the resources industry. "It could be opportunistic and they'll push the **Chinese** to pay a higher price, or they could see longer-term value in the assets and will want to partner up in getting them developed."

Baosteel, which owns **China**'s largest listed steel mill, bought 15% of Aquila in 2009 when **iron-ore** prices were rising, and later raised its **stake** to 20%. It was attracted to Aquila's plans for the new mine, called West Pilbara, which is expected to eventually produce more than 30 **million** metric tons of **iron ore** a year.

Baosteel first announced its plan to work with rail-freight hauler Aurizon on a joint takeover offer for Aquila last month. Under the proposal, Baosteel would own as much as 85% of Aquila, which also owns an undeveloped coking-**coal** prospect in Queensland state. Aurizon would take the remaining interest.

Aquila -- whose executive chairman and co-founder, Tony Poli, holds 29% of the **company** -- hasn't so far responded to Baosteel's proposal.

The bid was made after Aquila's **iron-ore** project became steeped in delays and cost blowouts, mirroring other investments by **Chinese** companies in the mineral-rich Pilbara region of Western Australia.

Mineral Resources, which has placed its shares in a trading halt, wouldn't confirm that it was the buyer in Wednesday's block trade.

Baosteel couldn't immediately be reached for comment.

**China** has long relied on Australia for the bulk of its **iron-ore** imports, which are used to make steel for things as diverse as skyscrapers and limousines. Most of the **iron ore** is shipped to order from large **mining** companies such as BHP Billiton and Rio Tinto, although a small-yet-growing supply line comes from Australian mines bought by state-run **Chinese** companies in an earlier wave of deals.

Baosteel's takeover proposal underlines the **company's** re-emergence as a leader in **China's** steel industry. It is the first state-owned mill to take up Beijing's call, issued in January, for big **Chinese** resources companies to acquire more **iron-ore** assets abroad.

The move also highlights Baosteel's willingness to spend on new investments despite weak steel prices and a gloomy outlook for the industry at home. **Iron-ore** prices recently fell to their lowest level since late 2012, partly because of concerns about **China's** steel demand.

Traders have also cited concerns about an emerging oversupply of **iron ore** as large producers continue to expand their Australian mines.

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**CO** aqres : Aquila Resources Ltd. | mnrlau : Mineral Resources Limited | qmntnl : Aurizon Holdings Limited | baais : Shanghai Baosteel Group Corp | dorval : Aurizon Mines Ltd | hclamn : Hecla Mining Co

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