

SE Business
 HD **Twin sets of frustration spark suitors' hostile move**
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To borrow from Charles Dickens, the hostile \$1.4 **billion** takeover for Aquila Resources is a tale of two sets of frustrations.

Baosteel, enamoured with the West Pilbara **Iron Ore** project since spending \$286 **million** to buy into Aquila at \$6.50 a share five years ago, is frustrated with a lack of progress for what should be a flagship Australian investment by **China**'s most prominent steelmaker.

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Aquila closely watched Baosteel creep up the share register to 19.8 per cent late last year. While there were no outward signs of unhappiness between shareholder and management, yesterday's news and some frank words from Baosteel executive Wu Yiming made clear the level of frustration, particularly over offtake and funding to underpin West Pilbara's development,

Baosteel is not the only unhappy partner in West Pilbara, with AMCI and POSCO also thought to be frustrated with the development direction taken by Tony Poli's Aquila.

Aurizon, meanwhile, is desperate to enter the Pilbara **iron ore** sector and replicate the success of its Queensland **coal**-haulage business.

But it has been frustrated by the inability of proposed Pilbara **iron ore** customers to come up with fundable development plans to deliver the tonnages required for Aurizon's haulage ambitions. Although Aurizon boss Lance Hockridge made clear a multi-user line through the central Pilbara and terminating in Port Hedland remained a long-term option, it appears all but dead for now.

The upshot of all this frustration sparked several months of secret talks between Baosteel and Aurizon before an announcement yesterday that caught the market by surprise. Hockridge says it should deliver a "nation building" project and mark a defining moment in Australia-**China** relations.

The joint bid for Aquila, at \$3.40 a share, also caught the target off guard on Saturday when it was sent to Poli and his board. A board sub-committee is being set up but it remains unclear whether Poli, whose 29 per cent **stake** is worth \$362 **million** at yesterday's \$3.34 Aquila close, will be part of it. As a driving force of Aquila since its listing in 2000, he has enjoyed the backing of retail shareholders, not least because of a past policy to issue annual bonus shares to all investors.

Poli is not expected to endorse a \$3.40 bid that would force him to exit what should be his legacy **mining** project. The suitors will expect a legion of Poli supporters to heed the Aquila boss' advice. But how big is that legion, given West Pilbara's slow progress, and what cash sweetener is required to get minority investors over the line and Baosteel-Aurizon past the 50 per cent control threshold?

CO aques : Aquila Resources Ltd. | dorval : Aurizon Mines Ltd | hclamn : Hecla Mining Co
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