



19 October, 2015

## ASX Announcement

### RECONSTRUCTION PROPOSAL UPDATE

As previously announced, Ferrowest Limited ("the Company") is continuing to try and secure approval from ASX for the release of a Notice of Meeting ("the Notice") to put a proposed reconstruction proposal for the Company ("the Proposal") before shareholders for consideration.

On 14 September 2015 the Company announced the terms of the transaction to secure a 51% interest in Sichuan Fuchuang Property Co., Ltd. ("the Asset") that would be the initial business of the Company if shareholders support the reconstruction. The transaction was conditional on shareholder approval of the Proposal and its successful implementation, including re-quotation of the Company's shares on the ASX. Payments in the order of A\$2.05M to pay for the conditional acquisition of the Asset were made, or to be made, on the Company's behalf by one of the proponents of the Proposal. The Asset was to be held by the proponent on trust for the Company until the reconstruction conditions had been fulfilled and then the shares in the Asset were to be transferred to the Company at the same time as the A\$2.05M was repaid to the proponent by the issue of shares under the settlement of the reconstruction. The proponent was to receive no benefit for financing this A\$2.05M transaction for the time it would take to complete the reconstruction, potentially several months (collectively the transaction described in this paragraph is referred to here as "the Transaction").

On 8 October 2015 the ASX ruled that the Transaction breached Listing Rule 10.1. Listing Rule 10.1 prohibits a company from disposing of a material asset to a related party without shareholder approval (including an independent expert's report commissioned for the relevant Notice of Meeting). Listing Rule 10.1 prevents 'value shifting' away from shareholders to related parties.

It is the action of giving the proponent (a related party) security over the Asset (for which in this case the proponent had paid cash) that ASX had determined invokes Listing Rule 10.1.

In formulating the Transaction, the Company believed that as the acquisition of the Asset was conditional on shareholder approval and successful implementation of the Proposal, the acquisition remained incomplete and the Company therefore was unable to 'dispose' of an asset it did not unconditionally own. The Transaction very neatly secured the A\$2.05M Asset conditionally but without any risk or cost to shareholders, until such time as they had agreed on the reconstruction and it was successfully implemented.

The Company also notes that it was not possible for the Transaction to shift value away from shareholders to the related party because shareholders would have paid nothing for the Asset prior to completion of the reconstruction, at which point the security would no longer exist in any event.

Shareholders could not be disadvantaged by the Transaction in any way and therefore the Transaction was not, in the view of the Company, inconsistent with either the intent or spirit of Listing Rule 10.1.

However, the Company, having been determined by ASX to be in breach of Listing Rule 10.1, is required to rectify the breach by complying with Listing Rule 10.9 which provides two possible solutions as follows:

1. Cancel the transaction; or
2. Seeking the approval of shareholders (which would require an Independent Expert's Report to value the Asset as part of the Notice of Meeting to vote on this issue).

As the Company is unable to fund a further Independent Experts' Report for this purpose in its current condition, the second option is not available to the Company. Further, it is the Board's view that it would be inappropriate to use shareholder funds for the purposes of securing a valuation of an asset for which a deal had just been struck at arm's length on the open market and for which shareholders did not pay in any event.

So the Company has opted to cancel the Transaction in its entirety. The Company has entered into Deeds of Cancellation with the two vendors of the Asset and the proponent that financed the Transaction, in order to undo it completely.

The Company has then negotiated option agreements with the two vendors for the right to purchase the Asset in the future upon the successful completion of the Proposal ("the New Transaction"). However, the vendors were naturally reluctant to defer the sale of the Asset for several months while the reconstruction is completed and so the Company has had to agree to option fees payable upon exercise of the option based upon 7.2% interest per annum on the sale value around A\$2.05M. Depending on the time it takes to complete the reconstruction, this may cost the Company around A\$60,000. While this is a less beneficial outcome for the Company than the proponent's offer to accept the financing risk free of charge, the cancellation of the Transaction and its replacement with the New Transaction will rectify the breach of Listing Rule 10.1.

The Company will now re-draft the Notice of Meeting documentation to reflect the New Transaction as soon as practicable and submit it to ASX for approval.

The Company will update the market in due course.

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