



8 September 2006

ASX Announcement

King Island Scheelite and Xiamen Tungsten enter into a non-binding Letter of Intent regarding establishment of a 50/50 Joint Venture

King Island Scheelite Ltd (ASX:KIS) is pleased to announce that it has entered into a non-binding Letter of Intent (LOI) with Xiamen Tungsten Co. Ltd (XTC) to establish a Joint Venture to re-develop the King Island Scheelite mine.

XTC is a world leading tungsten processing and manufacturing company based in Xiamen, Fujian Province, China.

Letter of Intent

The non-binding LOI provides for KIS and XTC to establish an unincorporated Joint Venture to develop the King Island Scheelite mine re-development project as a 600,000 tpa open cut mine and treatment plant.

The LOI envisages that XTC will contribute 100% of the capital (including development and working capital) required to build the plant and to develop the project, and KIS will contribute its rights to exploit the resources on the tenements held by KIS. As a result, each party will hold a 50% participating Joint Venture interest in the project and contribute 50% each to monthly cash calls to cover operating costs.

Each party will take their 50% interest in project output in kind. KIS will be free to sell its share of project output for a market price.

XTC will provide technical support services to the project under a Technical Services Agreement.

A Joint Venture Committee will be established to manage the project. The Joint Venture Committee will engage a Project Manager to manage the detailed design, construction and commissioning phases, and a Mine Operator to manage subsequent operations.

As announced in the Quarterly Report to 30 June 2006, KIS is targeting completion of the Final Feasibility Study by September 2006. On completion, KIS will deliver a copy of the Final Feasibility Study to XTC and will then advance to a legally binding Heads of Agreement, followed by a formal Joint Venture Agreement.

Commenting on the LOI, KIS Chairman Ray Soper said:

"The LOI with XTC to form a Joint Venture to develop the King Island Mine re-development project is an important milestone for the company.

" XTC is a professional and reputable company, well regarded as a leading player in the global tungsten market. In particular XTC brings considerable skills in research and development, and technological capability.

"The LOI has potential to add considerable value for the benefit of shareholders of both companies.

"XTC shares KIS' commitment to focus on best-practice environmental and safety procedures, as well as the existing extensive community consultation program."

About Xiamen Tungsten Co Ltd

XTC is a world leading tungsten processing and manufacturing company based in Xiamen, Fujian Province, China. The major shareholders of XTC are the Fujian Metallurgic Co Ltd, the Minmetals Development Co Ltd and the ALMT Corp (Japan).

XTC is listed on the Shanghai Stock Exchange with the stock code of 600549. The company has a market capitalisation of US\$750 million.

XTC group comprises one wholly owned company and 10 subsidiary companies engaged in the tungsten, molybdenum and cobalt industries, the hydrogen storage alloys industry, and real estate. The group employs 4500 people. Sales (excl. related sales to subsidiary companies) for the Financial Year ended 31 December 2005 were US\$360 million.

XTC produces various downstream products from metal concentrates produced from mines owned by subsidiary companies, and purchased concentrates.

XTC is the world's largest producer of ammonium paratungstate (APT), a widely traded intermediate tungsten compound, with capacity of 12,000 tons.

XTC is a leading Chinese exporter of tungsten and molybdenum intermediate products and has significant market share in several dozen countries in the entire world and over 35% of the total export volume of China.

The company is focused on achieving sustainable development and generating long term profitability. XTC emphasises technological innovation and scientific management. It strives to become the leading tungsten and molybdenum industrial company in the whole world.

For additional information about King Island Scheelite please visit the company's website - www.kingislandscheelite.com.au

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