



HIGHLANDS PACIFIC LIMITED ARBN 078 118 653
Incorporated in Papua New Guinea

Registered Office

PO Box 1486, Port Moresby NCD 121
Papua New Guinea
Level 1, Allotment 6, Section 58, Sir
Hubert Murray Highway
Boroko NCD
Papua New Guinea

Telephone: (675) **323 5966**

Facsimile: (675) 323 5990

Website: www.highlandspacific.com

Registered Office in Australia

GPO Box 3086, Brisbane QLD 4001
Australia

Level 4, 167 Eagle Street

Brisbane Qld 4000

Australia

Telephone: (617) **3239 7800**

Facsimile: (617) 3221 6727

Email: info@highlandspacific.com

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RAMU NICKEL COBALT PROJECT MOVES TO LARGE SCALE CONSTRUCTION AND OPERATIONAL PHASE

Highlands Pacific Limited (ASX: HIG) is pleased to announce that its Joint Venture partner, MCC Ramu NiCo Limited (owner of 85% of the Ramu nickel cobalt project) has officially notified the Ramu Nickel Joint Venture partners, in accordance with the Master Agreement signed in March 2005, that formal Project commencement and accelerated major construction at the Project is due to commence within ninety (90) days.

To date, approximately USD200 million has already been expended or committed on the project, with major infrastructure being constructed at the mine and processing sites in PNG, while a major operational plant has already been ordered and is in the process of being manufactured

Financing for the project will be finalised during this period with Chinese government approval the last formality to be completed. The project financing from Chinese banking institutions will account for approximately 40% of the project cost, with a further 30% being provided by way of a shareholder loan from the Chinese syndicate involved in the project (refer below), the remaining 30% as equity by the Chinese syndicate (on behalf of all Joint Venture partners). This will result in the project being financed by approximately 30% equity and 70% debt – with the debt being repaid over 10 years.

Highlands has an 8.56% interest in the Ramu project which will increase to 11.30% at no cost to the Company after repayment of the debt raised to finance the project has been completed (estimated to be 10 years). From commissioning, Highlands is able to have access to its pro-rata 8.56% share of Ramu's post-debt servicing net cash flow. When the finance is repaid, Highlands will also have the option to purchase an additional 9.25% in Ramu at fair market value which, if exercised, would take Highlands' interest to 20.55%. It should be noted that the development of the Ramu project will be non-recourse to Highlands with respect to the debt funding, while the equity funding is a free carry to Highlands in respect to its 8.56% interest. Highlands' share of product based on its 8.56% share is 2,666 tonnes of nickel and 282 tonnes of cobalt per annum, rising to 3,520 tonnes of nickel and 373 tonnes of cobalt when equity increases to 11.3%.

The Chinese entity, MCC-JJJ Mining Development Company Limited, which owns 100% of MCC Ramu NiCo Limited and which in turn holds 85% of the Ramu project, is structured as follows:

- 61% - China Metallurgical Construction Corporation (MCC);
- 13% - Jinchuan Group Limited (Jinchuan);
- 13% - Jilin Jien Nickel Industry Co., Ltd (Jilin); and
- 13% - Jiuquan Iron and Steel (Group) Co., Ltd. (Jiuquan).

MCC is China's leading multidisciplinary, multinational company, well known for its significant experience and strength in scientific research, industrial engineering practice and international trading. MCC is engaged in engineering, procurement and construction activities, natural resources exploration, papermaking, equipment fabrication, real estate development and the provision of related services.

MCC is a major driving force behind the growth of China's steel industry and a major contractor on a number of key projects in China and the Asia Pacific region. The company is a leading investor, licensed by the Chinese government, in natural resources exploration. MCC has to date invested as much as USD1 billion in mining resources abroad, including the production facilities and interests in mineral deposits. MCC is one of the largest equipment manufacturers in China and has total assets of approximately USD20 billion. In 2007, the company had revenue of USD18 billion and total profit for the group of USD1 billion. It has over 50,000 technical and managerial employees.

MCC has recently signed Memorandums of Understanding with Cape Lambert Iron Ore Limited to complete a due diligence and obtain Chinese government approvals for the acquisition of the Cape Lambert Iron Ore project; and with Gladstone Pacific Nickel Limited for the development (construction and financing) of its AUD3.65 billion Gladstone Nickel project.

Jinchuan, Jilin and Jiuquan are all major players in the steel and nickel industry in China.

Jinchuan is a major shareholder of Allegiance Mining NL and has an off-take agreement with Fox Resources Limited, a nickel producer in Western Australia. Jinchuan is also the largest producer of nickel metal and cobalt in China and is the fifth largest in the world.

Jilin is one of the largest producers of nickel sulphate in the world and Jiuquan is a major domestic iron and steel smelting company which is listed in the top 500 of Chinese national enterprises.

The Ramu project remains on schedule for commissioning of the mine in the first half of 2009, with the process plant to be commissioned in late 2009. The project capital costs have increased to USD1.37 billion due to general raw material price increases (steel, diesel, sulphur etc) in recent years; the strengthening of the Chinese RMB against the USD; and scope changes to the original feasibility study – wharf capacity has been doubled and environmental and social costs have been significantly increased while plant additions have been included to ensure contingency capacity is available throughout the operations.

The project remains very robust with cash operating costs expected to be around USD2.50/lb – which means the Ramu project will be a low cost producer.

Managing Director John Gooding said that Highlands is extremely happy with the progress made by Ramu NiCo Management (MCC) Limited, the project manager / operator of the Ramu Nickel Joint Venture, and that this announcement was a major step forward both for the project and for Highlands.

John Gooding also said “with significant cash reserves held by the company from the sale of the Kainantu Gold Mine to Barrick Gold Corporation, no debt, and with equity in two world-class projects as well as a gold exploration program scheduled for later in the year, Highlands is very well positioned for growth”.

For further information contact:

Mr John Gooding
Managing Director
Highlands Pacific Ltd
Phone: (61 7) 3239 7800

or **Mr Craig Lennon**
Chief Financial Officer
Highlands Pacific Ltd
Phone: (61 7) 3239 7800

Mr David Waterhouse
Waterhouse IR
Phone: (613) 9639 9099
Level 1, Professional Suites
120 Collins Street
Melbourne 3000