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中國鎂業資源集團有限公司\*  
MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

*(Incorporated in Bermuda with limited liability)*  
(Stock Code: 723)

**(1) Very Substantial Disposal and Connected Transaction  
involving the Proposed Disposal of a Magnesite Mining Subsidiary  
and Off-market Repurchase of Shares  
and  
(2) Resumption of Trading**

**Disposal of the Subsidiary**

After the close of trading hours on the Stock Exchange for the morning session on 15 August 2008, the Company entered into the Agreement with PHL and the Guarantor whereby the Company conditionally agreed to sell and assign, and PHL conditionally agreed to purchase and accept the assignment of, the Sale Shares and the Sale Loan at the Consideration of approximately HK\$1,624 million, which will be settled by PHL by way of (i) transferring to the Company at Completion the Repurchase Shares for cancellation, and cancellation of the Convertible Note and the Promissory Note; and (ii) payment of HK\$464,456.5 to the Company in cash at Completion. The Consideration was equal to the fair value of the consideration paid by the Company to PHL pursuant to the 2007 Agreement as recorded in the books of the Company plus the advances made by the Group to the Sale Group since completion of the 2007 Agreement.

The Subsidiary is an investment holding company with its principal asset being the holding of an 80% interest in the PRC Company. The PRC Company is principally engaged in the mining of magnesite ore at the Magnesite Mine in the PRC. The Subsidiary was acquired by the Company from PHL in March 2008 pursuant to the 2007 Agreement for a total consideration of HK\$1,828 million, which was satisfied by the Company by the following: (i) as to HK\$416 million by the issue of 800 million new Shares (which Shares are the same as the Repurchase Shares); (ii) as to HK\$1,092 million by the issue of the Convertible Note; and (iii) as to HK\$320 million by the issue of the Promissory Note. PHL is a substantial shareholder and the single largest shareholder of the Company by virtue of its holding of the Repurchase Shares, amounting to 800,000,000 Shares representing approximately 27.1% of the existing issued share capital of the Company. The Convertible Note also entitles PHL

to subscribe for new Shares at the initial conversion price of HK\$0.52 per Share. As the market price of the Shares on the completion date of the 2007 Agreement was HK\$0.265 per Share, the actual consideration recorded by the Company pursuant to the 2007 Agreement was marked to the fair value of the consideration of HK\$1,624 million by reference to the market price of the Shares on the date of completion of the 2007 Agreement, instead of HK\$1,828 million as stated in the 2007 Agreement. Further explanations on the difference between the Consideration and the 2007 Consideration is set out in the sub-paragraph headed “Consideration” under the paragraph headed “The Agreement” below. Completion of the Agreement will have the effect of completely reversing the 2007 Agreement, the result of which will be that PHL will cease to have any interest in the share capital of the Company and cease to be creditor of the Company under the Promissory Note, while the Company will cease to have any interests in the Subsidiary or the Sale Group. The Company may record an immaterial gain of approximately HK\$2.1 million on the Disposal, subject to any fair value adjustment to the value of the Repurchase Shares and Convertible Bonds on the date of Completion as may be required in accordance with the relevant HK GAAP.

#### **Reasons for the Agreement**

In mid July 2008, the PRC Company encountered some interruption to its operation of the PRC Company on the Magnesite Mine which may have been caused by a Dispute between the Guarantor, the sole beneficial owner of the Purchaser, and Party A. Further information on the Dispute is set out in the paragraph headed “Background of and reasons for the Agreement” below. In August 2008, the interruption to the day to day operation of the PRC Company has been accelerated and the mining operation of the PRC Company has been halted on several occasions as the operating mining site of the PRC Company was occupied by a large disorderly crowd of people unrelated to the PRC Company, which has caused serious interruption to the PRC Company and its management.

The Company has sought legal advice on the matter and is advised that the Dispute would not affect the validity and legality of the Subsidiary’s shareholding interest in the PRC Company, nor would the Dispute affect the Subsidiary’s rights and interests in the PRC Company. The Directors are informed by the Guarantor that he is seeking legal advice on the appropriate actions to take to resolve the Dispute.

The Directors are not in a position to assess how long it will take for the crisis to be resolved as the Company is not directly involved in the Dispute. Considering the factors set out in the paragraph headed “Background of and reasons for the Agreement” below, the Directors consider that in the circumstances it would be in the interests of the Company to sell back all its interests in the Sale Group to PHL in order to protect the Company from any losses that it may suffer as a result of a prolonged suspension in operation of the PRC Company due to disturbances beyond the control of the Group.

**SGM**

The transactions contemplated under the Agreement constitute a very substantial disposal and connected transaction for the Company under the Listing Rules. The Securities Repurchase amounts to an off-market repurchase of shares by the Company under the Repurchase Code. The Agreement is conditional as described below. In particular, the Securities Repurchase is subject to approval by at least three-fourths of the vote cast on a poll by Disinterested Shareholders present in person or by proxy at the SGM and by the Executive. There is no assurance that such approvals will be granted or that all conditions precedent of the Agreement will be fulfilled. The SGM will be convened and held to consider and, if thought fit, approve the Agreement and the transactions contemplated therein. The Independent Board Committee has been established to give recommendation to the Disinterested Shareholders regarding the Agreement, and an Independent Financial Adviser will be appointed to advise the Independent Board Committee in this regard. A circular containing, among other things, further details of the Agreement, financial information relating to the Group and the Remaining Group, the respective letters of advice from the Independent Board Committee and the Independent Financial Adviser, the notice of the SGM and other information as required under the Listing Rules and the Repurchase Code, will be dispatched to the Shareholders as soon as practicable.

**Cancellation of Repurchase Shares**

On Completion, the Repurchase Shares repurchased by the Company will be cancelled. As a result, the number of Shares in issue following the Securities Repurchase will be reduced from 2,951,076,930 (being the number of Shares currently in issue) to 2,151,076,930. PHL has no Shares other than the Repurchase Shares and it will hold no more Shares after Completion. The Guarantor personally holds 28,500,000 Shares representing approximately 1.0% of the existing issued share capital of the Company. His Shares will not be affected by the cancellation of the Repurchase Shares save for its percentage shareholding interest, like all Shareholders other than PHL, in the Company will be proportionately increased by approximately 37.2% as a result of the cancellation of the Repurchase Shares. Based on the SFO register maintained by the Company as at the date hereof, the Directors are not aware of any person or group of persons acting in concert who, as a result of the Completion, will become obliged to make a general offer for all the issued Shares of the Company. Not less than 25% of the issued Shares will remain in public hands following Completion.

**Resumption of Trading**

Trading in the Shares on the Stock Exchange was suspended at the request of the Company with effect from 2:30 p.m. on 15 August 2008 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 3 September, 2008.

Shareholders are advised to exercise caution when dealing in the Shares.

## THE AGREEMENT

**Date:** 15 August 2008

**Parties:**

**Vendor:** The Company.

**Purchaser:** PHL, an investment holding company incorporated in the British Virgin Islands with limited liability. PHL is a Substantial Shareholder holding the Repurchase Shares, the Convertible Note and the Promissory Note.

**Guarantor:** Yam Tak Cheung, the beneficial owner of PHL. To the best knowledge of the Company, Mr. Yam is an investor and has no directorship in any listed companies in Hong Kong.

**Assets to be disposed of:**

1. The Sale Shares, being the entire issued share capital of the Subsidiary. Based on the audited consolidated financial statements of the Company for the year ended 31 March 2008, the consolidated net assets of the Sale Group attributable to the Company was approximately HK\$1,540.0 million (which has netted off a shareholder's loan due to the Company of approximately HK\$77.6 million but not the advances of HK\$464,456.5 which was made by the Group to the Sale Group after 31 March 2008 as referred to in the next paragraph) as at 31 March 2008; and
2. The Sale Loan, being the entire amount of the interest-free shareholder's loan owed by the Sale Group to the Company as at Completion. As at the date of this announcement, the Sale Loan comprises two loan amounts, one in the sum of US\$9.95 million (equivalent to approximately HK\$77.6 million) which represents all the debts owed by the Subsidiary to PHL at completion of the 2007 Agreement which had been assigned to the Company pursuant to the 2007 Agreement and another in the sum of HK\$464,456.5 which represents all advances made by the Group to the Sale Group since completion of the 2007 Agreement. It is expected that there will not be any change in the outstanding principal amount of the Sale Loan at Completion from that of the amount as at the date of this announcement.

## **Consideration**

Pursuant to the Agreement, the total Consideration for the Sale Shares and Sale Loan, amounting to HK\$1,624,464,456.5, shall be satisfied by PHL at Completion in the following manner:

- (i) as to HK\$212,000,000 by PHL transferring to the Company the Repurchase Shares for cancellation at a price of HK\$0.265 per Share;
- (ii) as to HK\$320,000,000 by cancellation of the Promissory Note issued by the Company in favour of PHL;
- (iii) as to HK\$1,092,000,000 by cancellation of the Convertible Note issued by the Company in favour of PHL; and
- (iv) as to HK\$464,456.5 by payment in cash.

Upon the repurchase of the Repurchase Shares by the Company at Completion, the Repurchase Shares will be cancelled in accordance with the Companies Act.

The Consideration was determined between the Company and PHL after arm's length negotiations having taken into account (i) the form of consideration received by PHL from the Company when the latter first acquired the Subsidiary from PHL in March 2008, as more particularly described in the paragraph headed "The 2007 Agreement" below; and (ii) the carrying value of the Sale Shares of approximately HK\$1,540.0 million (which has taken into account a shareholder's loan due to the Company of approximately HK\$77.6 million) as at 31 March 2008 and of the Sale Loan in the accounts of the Company of approximately HK\$78.1 million. Pursuant to the 2007 Agreement, the consideration as agreed between the parties for the Company to acquire the Subsidiary was HK\$1,828 million (the "2007 Consideration") comprising 800,000,000 consideration shares at the agreed value of HK\$416 million, Convertible Notes in the amount of HK\$1,092 million and Promissory Notes in the amount of HK\$320 million. However, as disclosed in note 36 to the financial statements set out in the Company's annual report for the year ended 31 March 2008, the 2007 Consideration was recorded as HK\$1,624 million comprising fair value of the consideration shares at HK\$212 million, Convertible Notes in the amount of HK\$1,092 million and Promissory Notes in the amount of HK\$320 million. The difference between the 2007 Consideration and the Consideration is due to: (i) the difference between the issue price of HK\$0.52 per Share for the 800,000,000 consideration shares as provided in, and agreed between the parties under, the 2007 Agreement and the ultimate issue price of HK\$0.265 per Share as booked in the accounts of the Company based on the fair value of such consideration Shares as determined by reference to the market price of the Shares on the completion date of the 2007 Agreement in accordance with the relevant HK GAAP; and (ii) the advances made by the Group to the Sale Group since completion of the 2007 Agreement of HK\$464,456.5.

### **The Repurchase Shares**

The Repurchase Shares amount to 800,000,000 Shares and represent approximately 27.1% of the issued share capital of the Company as at the date of this announcement. The Repurchase Shares will be transferred to the Company at the price of HK\$0.265 per Share and then cancelled.

The price of HK\$0.265 per Share agreed by the parties for the cancellation of the Repurchase Shares represents:-

- (i) the fair value per Repurchase Share at the issue price of HK\$0.265 per Share as recorded by the Company as disclosed in note 36 to the financial statements set out in the annual report of the Company for the year ended 31 March 2008;
- (ii) a premium of approximately 99.2% over the closing price of HK\$0.133 per Share as quoted on the Stock Exchange on 14 August 2008, being the last full trading day prior to suspension of trading in the Shares on the Stock Exchange from 2:30 p.m. on 15 August 2008;
- (iii) a premium of approximately 99.2% over the closing price of HK\$0.133 per Share as quoted on the Stock Exchange for the morning trading session on 15 August 2008, prior to suspension of trading in the Shares on the Stock Exchange from 2:30 p.m. on the same date;
- (iv) a premium of approximately 88.2% over the average of the closing price of HK\$0.1408 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the morning trading session on 15 August 2008 regarded as a trading day;
- (v) a premium of approximately 77.6% over the average of the closing price of HK\$0.1492 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the morning trading session on 15 August 2008 regarded as a trading day; and
- (vi) a premium of approximately 15.2% over the audited net assets value per Share attributable to equity shareholders of the Company as at 31 March 2008 of approximately HK\$0.23.

**Promissory Note**

The principal terms of the Promissory Note which will be cancelled at Completion are as follows:

Principal amount:	HK\$320 million
Maturity:	The fourth anniversary from the date of issue of the Promissory Note
Interest rate:	3% per annum on the principal amount and payable annually
Security:	Unsecured

The Agreement provides that all the liabilities and obligations of the Company in connection with the whole of the principal amount of the Promissory Note, together with any interest accrued from date of issue up to the date of Completion, will be cancelled and extinguished on cancellation of the Promissory Note.

**Convertible Note**

The principal terms of the Convertible Note which will be cancelled at Completion are as follows:

Principal amount:	HK\$1,092 million
Maturity date:	The business day falling on the fifth anniversary from the issue date of the Convertible Note
Interest:	1.5% per annum on the principal amount outstanding from time to time and payable annually
Security:	Unsecured
Conversion:	The holder of Convertible Note shall have the right to convert at any time from the date of issue up to the maturity date the whole or part of the principal amount of the Convertible Note in integral multiple of HK\$500,000 into Shares.

However, the holder of the Convertible Note shall not exercise the conversion rights to such an extent that results or will result in (a) the holder and any person acting in concert with it holding or having more than 29% of the then issued ordinary share capital of the Company or otherwise being obliged to make a general offer for the Shares in accordance with the Takeovers Code or (b) the Company in breach of any provision of the Listing Rules (including the minimum 25% public float requirement).

Initial Conversion Price: The Convertible Note may be converted into Shares at the initial conversion price of HK\$0.52 per Share (subject to adjustment).

No part of the principal amount of the Convertible Note has been converted into Shares since the date of issue. The Agreement provides that all the liabilities and obligations of the Company in connection with the whole of the principal amount of the Convertible Note, together with any interest accrued from date of issue up to the date of Completion, will be cancelled and extinguished on cancellation of the Convertible Note.

### **Conditions precedent**

Completion shall be conditional upon the conditions precedent set out below having been satisfied (or where applicable waived):

- (i) the necessary approval by the Executive for any off-market share repurchases to be made by the Company pursuant to the Agreement, including (where applicable) the purchase, redemption and cancellation of the Repurchase Shares and Convertible Note under the Agreement, having been granted pursuant to Rule 2 of the Repurchase Code and not revoked prior to Completion and any condition(s) to which such approval is/are subject to have been satisfied in all respects;
- (ii) the Shareholders (other than those who are required to abstain from voting under the Listing Rules, the Repurchase Code and the applicable laws, rules and regulations) having passed the necessary special resolution at general meeting of the Company to approve the Agreement and the transactions contemplated in the Agreement, including the purchase, redemption and cancellation of the Repurchase Shares and Convertible Note under the Agreement, in accordance with the requirements of the Listing Rules, the Repurchase Code, the bye-laws of the Company and the applicable laws and regulations; and
- (iii) any other approval, consent or authorization (or where applicable the relevant waiver) of any kind required for the entering into and performance of the terms of the Agreement and the transactions contemplated in the Agreement having been obtained by the Company and PHL under the applicable laws and regulations, the Listing Rules and the Repurchase Code.

Conditions (i) and (ii) as stated above are not waiveable. In the event that all the conditions are not fulfilled or where applicable waived on or before 31 December 2008 (or such later date as may be agreed by the parties to the Agreement in writing), the Agreement will lapse and terminate and none of the parties shall have claim against the other save for antecedent breach.

The proposed repurchase of the Repurchase Shares by the Company and cancellation of the Convertible Note (which carries rights to subscribe for Shares) constitute off-market share repurchases of the Company. Under Rule 2 of the Repurchase Code, off-market share repurchases must be approved by the Executive. The Executive's approval,

if granted, will normally be conditional upon approval of the proposed repurchase by at least three-fourths of the votes cast on a poll by Disinterested Shareholders present in person or by proxy at a general meeting to be held for such purposes. Due compliance with the aforesaid voting requirement on the Agreement will be made by the Company in this regard.

### **Completion**

Completion shall take place on the third business day after the fulfillment or waiver (as applicable) of the conditions precedent to the Agreement or such other date as the parties to the Agreement may agree in writing.

### **INFORMATION ON THE SALE GROUP**

The Subsidiary is wholly-owned by the Company and is an investment holding company with its only principal asset being the 80% equity interest in the PRC Company. The Subsidiary was incorporated in the British Virgin Islands in August 2007 with limited liability and was beneficially owned by PHL until March 2008 when the Company acquired the Subsidiary from PHL pursuant to the 2007 Agreement. Further information on the 2007 Agreement is set out in the paragraph headed “Background of and reasons for the Agreement” below.

In November 2007, PHL, through the Subsidiary, acquired an 80% equity interest in the PRC Company from the PRC Partner, as a consequence the PRC Company has been converted into a sino-foreign joint venture company owned as to 80% by the Subsidiary and as to 20% by the PRC Partner, which is a villagers autonomous organization (村民自治組織) set up in Haicheng City, Liaoning Province of the PRC. The PRC Company is principally engaged in magnesite mining at the Magnesite Mine known as “梨樹溝菱鎂礦 (Lishugou Magnesite Mine)” which is located approximately 18km southwest of Haicheng City and approximately 120km south of Shenyang, the capital city of Liaoning Province, covering a mining area of approximately 0.8643km<sup>2</sup>.

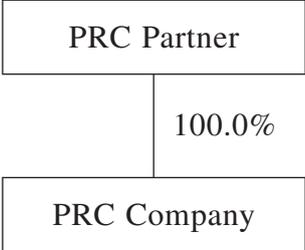
The Company acquired the entire issued share capital of the Subsidiary in March 2008 pursuant to the 2007 Agreement, as a result of which the PRC Company also became an indirect non-wholly-owned subsidiary of the Group. Save for its 20% shareholding in the PRC Company, the PRC Partner is otherwise an Independent Third Party of the Company.

Upon Completion, the Subsidiary and the PRC Company will cease to be a subsidiary of the Company.

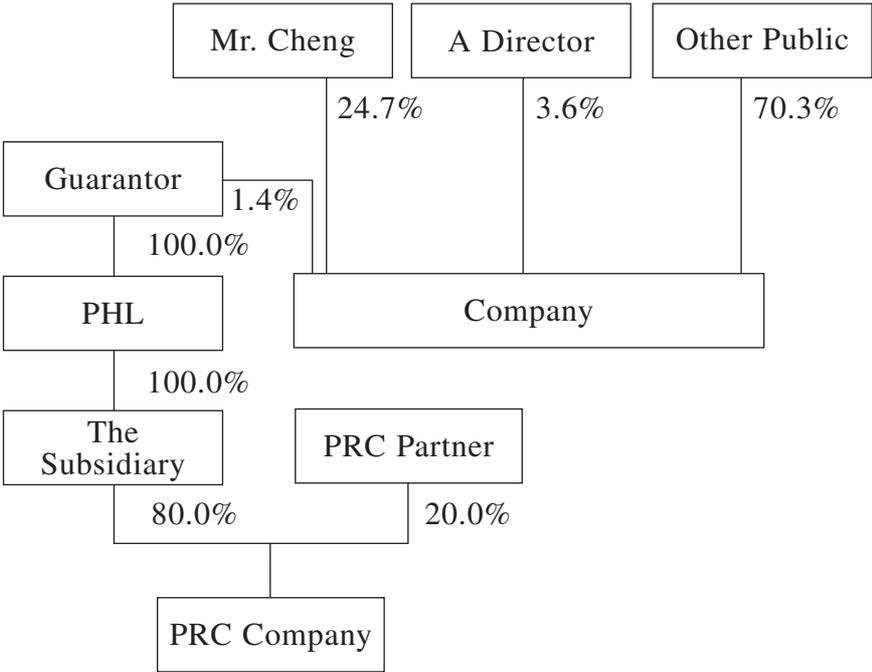
Set out below is the shareholding structures of the Subsidiary and the PRC Company (i) before the Guarantor, through the Subsidiary, acquired an 80% equity interest in the PRC Company on 9 November 2007; (ii) immediately before the completion of the acquisition by the Company pursuant to the 2007 Agreement (the “Subsidiary Acquisition”) on 6 March 2008; (iii) after the completion of the Subsidiary Acquisition

and immediately before completion of the Disposal; and (iv) immediately after completion of the Disposal assuming there is no other change in the issued share capital and shareholding structure of the Company from the date of this announcement:

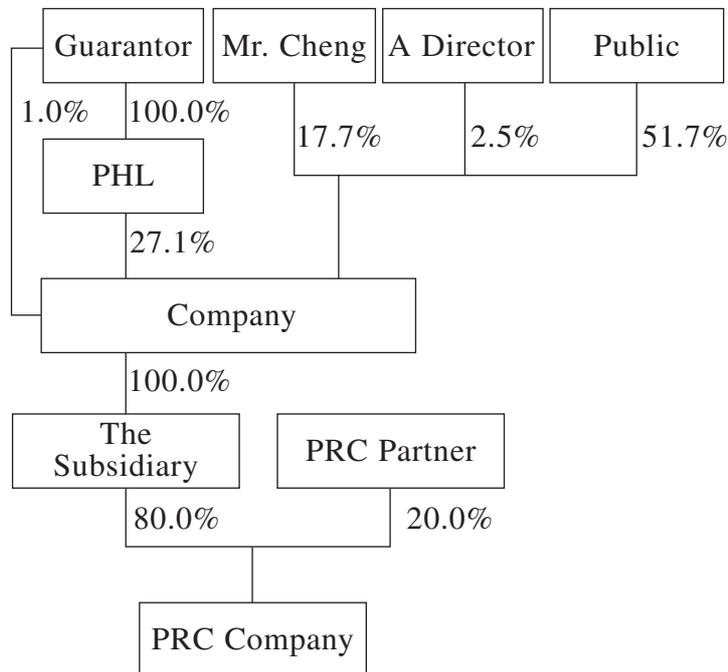
i) *Prior to the acquisition by the Guarantor, through the Subsidiary, of an 80% equity interest in the PRC Company on 9 November 2007:*



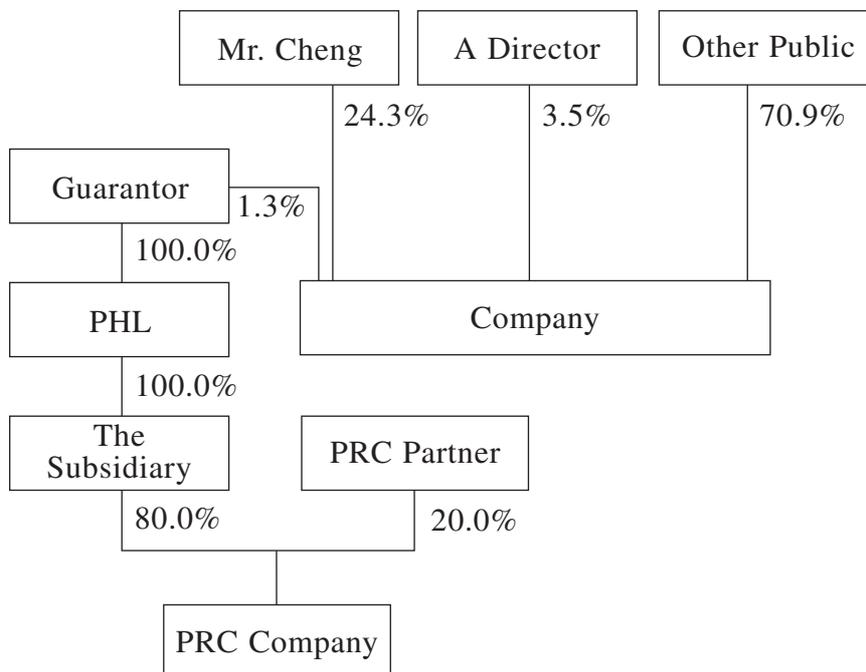
ii) *Immediately before completion of the Subsidiary Acquisition on 6 March 2008:*



iii) *After completion of the Subsidiary Acquisition on 6 March 2008 and immediately before the Disposal:*



iv) *Immediately after completion of the Disposal:*



### **Financial information**

Given the Subsidiary was incorporated on 20 August 2007, no consolidated financial information of the Sale Group for the year ended 31 March 2007 was available. Set out below is the relevant financial information of the Sale Group attributed to the Group based on the audited consolidated financial statements of the Group for the year ended 31 March 2008 as prepared under HK GAAP:

(HK\$'000)

Revenue	1,445
Net loss before taxation	8,503
Net loss after taxation	8,514

Revenue represented the revenue generated from the mining and processing of magnesite ore at the Magnesite Mine carried out by the PRC Company and the net loss after taxation of approximately HK\$8.5 million was mainly attributed to the amortization of intangible asset and negative goodwill arising from the completion of the 2007 Agreement. As at 31 March 2008, the Sale Group had net assets value attributable to the Company of approximately HK\$1,540 million (which has netted off the shareholder's loan due to the Company of approximately HK\$77.6 million). The principal business of the Sale Group is the mining business of the PRC Company. As the Sale Group was acquired by the Company in March 2008, no audited financial information of the PRC Company for the year ended 31 December 2007 was available to the Company and the Company has not conducted any audit on the PRC Company for the year ended 31 December 2007. The audited financial information of the PRC Company as prepared under HK GAAP for the financial year ended 31 December 2006 and for the ten months ended 31 October 2007 as extracted from the Company's circular dated 6 February 2008 is as follows. For the financial year ended 31 December 2006, the PRC Company recorded audited turnover from the mining and processing of magnesite ore at the Magnesite Mine of approximately RMB4.2 million (equivalent to approximately HK\$4.7 million) and loss before taxation of approximately RMB23,000 (equivalent to approximately HK\$26,000). There was no taxation for the PRC Company for the year ended 31 December 2006. For the ten months ended 31 October 2007, the PRC Company recorded audited turnover from the mining and processing of magnesite ore at the Magnesite Mine of approximately RMB7.4 million (equivalent to approximately HK\$8.2 million), profit before taxation of approximately RMB1.6 million (equivalent to approximately HK\$1.8 million) and profit after taxation of approximately RMB1.1 million (equivalent to approximately HK\$1.2 million).

## **BACKGROUND OF AND REASONS FOR THE AGREEMENT**

### **The 2007 Agreement**

On 7 December 2007, the Company, PHL and the Guarantor entered into the 2007 Agreement pursuant to which PHL agreed to sell and the Company agreed to acquire all the interests of PHL in the Subsidiary, including all the issued share capital of the Subsidiary (as represented by the Sale Shares) and all the debt owed by the Subsidiary to PHL at completion of the 2007 Agreement, for a total consideration of HK\$1,828 million. Such acquisition under the 2007 Agreement constituted a very substantial acquisition for the Company under the Listing Rules. The terms of the 2007 Agreement, including but not limited to the consideration amount, were determined by the parties on arm's length basis, with reference to, among other things, the inferred magnesite resources of the Magnesite Mine of approximately 27.6 million tonnes. Details of the 2007 Agreement were set out in the circular dated 6 February 2008 of the Company to the Shareholders. Completion of the 2007 Agreement took place on 6 March 2008, upon which the Company satisfied payment of the 2007 Consideration for the said acquisition in the manner as agreed in the 2007 Agreement as follows:

- (i) as to HK\$416 million by the issue of 800,000,000 new Shares to PHL;
- (ii) as to HK\$320 million by the issue of the Promissory Note to PHL at 100% of its face value; and
- (iii) as to HK\$1,092 million by the issue of the Convertible Note to PHL at 100% of its face value.

The Repurchase Shares, the Promissory Note and the Convertible Note subject to the Agreement are the same securities issued to PHL by the Company at completion of the 2007 Agreement.

### **Recent development**

The Group took over board control and management of the PRC Company following completion of the 2007 Agreement. Apart from the subsequent appointment of a chief operating officer and finance and accounting personnel to the PRC Company to represent the Company's interest and to oversee the day-to-day operation and financial management functions of the PRC Company, the Company has largely maintained the same operating team and workforce of the PRC Company as before with a view of ensuring smooth transition over the period when change in control and management took place.

In mid July 2008, the PRC Company encountered some interruption in its operation of the Magnesite Mine. A number of villagers gathered around the work places on the Magnesite Mine and blocked the pathways on the Magnesite Mine site, causing disturbance to the progress of the work on the Magnesite Mine. In August 2008, the interruption to the day to day operation of the PRC Company has been accelerated and the mining operation of the PRC Company has been halted on several occasions as the

operating mining site of the PRC Company was occupied by a large disorderly crowd of people of about 300 people unrelated to the PRC Company, which has caused serious interruption to the PRC Company and its management.

The Company was unable to identify (and is not in a position to speculate) those person or persons who organized the initial interruptions and the subsequent acceleration of the interruption. Based on the information available to the management of the Company, the interruptions could be linked to a dispute (the “Dispute”) between the Guarantor, the sole beneficial owner of the Purchaser, and a former representative of the PRC Partner (“Party A”) who is an Independent Third Party over a sum of money in the amount below HK\$10 million. The Dispute was followed by some rumours spreading locally among the villagers against the Guarantor that he has made windfall profit on disposing his 80% equity interest in the PRC Company to the Company pursuant to the 2007 Agreement. The Company has sought legal advice on the matter and is advised that the Dispute would not affect the validity and legality of the Subsidiary’s shareholding interest in the PRC Company, nor would the Dispute affect the Subsidiary’s rights and interests in the PRC Company. The Directors were also informed by the Guarantor that he is seeking legal advice on the appropriate actions to resolve the Dispute.

The Directors understand that the local authorities have been notified of the incident and has already been involved in settling the Dispute. Given that the Dispute is now being dealt with by the local authorities and the Company is not directly involved in nor privy to the Dispute at all, the Company is not able to disclose further details about the Dispute. Furthermore, the Company had no direct and solid evidence of the matters being disputed and allegations of the parties in the Dispute. As advised by the Company’s legal adviser, in the absence of such evidence, disclosure by the Company and the Directors authorizing such disclosure of the related details in public could inadvertent expose them to legal liabilities directly in case the disclosures are found to be defamatory. Since the Subsidiary was recently acquired by the Company in March 2008, the Board does not wish to get involved in the Dispute which involves matters between the Guarantor, the PRC Partner and Party A only. The Company considers the matter would not be within the Company’s ability to help or to end.

The Company has sent certain of its senior management to visit the Magnesite Mine site on a weekly basis to physically inspect the disorderly situation and tried to resolve the interruption by requesting the crowd to leave the site and has reported the interruption to the local police bureau but found that the situation was beyond the Company’s control or ability to resolve as explained above. Considering the factors including (i) the current disorderly situation on the Magnesite Mine as caused by the crowd gatherings on site, which has resulted in the operation of the Magnesite Mine coming to a halt; (ii) the Company is not directly involved in the Dispute and therefore is not in a position to assess when and how the interruption would end or be settled, and what the effect of the interruption, financially and otherwise, to the future operation of the Magnesite Mine would be; (iii) the Magnesite Mine operates in a small township of population of around 80,000 people and the operation relies on the support of the local people. In

the circumstances, the hostility of the local people may have profound adverse impact on the future relationships between the PRC Company and the local people and local authorities and on the operation of the PRC Company in the future. The Company is apprehensive that it is not in a position to control or contain the risk of damages and its management does not have the confidence in continuing its joint venture partnership in the PRC Company; (iv) the unsettled conditions of the PRC Company would make it very difficult for the Company to carry out full speed fund raising activities to fulfill its investment intention of US\$100 million in the PRC Company as originally planned given the current capital market condition; (v) the fact that the Company has only made small advances of HK\$464,456.5 in total to the Sale Group since completion of the 2007 Agreement as the operation of the Sale Group has largely been self-sufficient to-date; and (vi) PHL has agreed to buy back the Sale Group at cost to the Company, the Directors consider that it would be in the interests of the Company to sell back all its interests in the Sale Group to PHL in order to protect the Company from any losses that it may suffer as a result of a prolonged suspension in operation of the PRC Company due to disturbances beyond the control of the Group.

In coming to this decision, the Directors have also considered other possible options including keeping its interest in the PRC Company, or selling its interest in the PRC Company to independent third parties, but have come to the view that the Disposal would be the best alternative as it is likely that the disorderly situation surrounding the Magnesite Mine possibly over a prolong period if the Dispute cannot be resolved within a short period of time, would adversely affect the fair value of the Company's interest in the PRC Company. Completion of the Agreement will effectively restore the business and operation of the Group to the same position as before completion of the 2007 Agreement. As the Consideration for the Agreement is about the same as the carrying value of the Sale Shares and the Sale Loan in the books of the Company, it is expected that the Completion would not give rise to any significant gain or loss to the Group. The financial effects of the Disposal are more particularly discussed in the paragraph headed "Financial effects of the Agreement" below.

As stated in the Company's circular dated 6 February 2008, at the time of the entering into of the 2007 Agreement, the Directors had considered that the magnesite mining industry in the PRC has good business potential and the acquisition would enable the Group to participate in the industry and broaden the Group's revenue base by diversifying into the mining and processing of magnesite ore, after having taken into consideration the factors including (i) the PRC is the largest magnesia refractory producer and exporter in the world and has the world's largest reserves of magnesite resources; (ii) Haicheng City of Liaoning Province contains the largest resources of magnesite in the PRC; (iii) the selling price of the magnesite ore and the magnesia refractory products have been on an upward trend spurred by rising demand in recent years; and (iv) demand for electrically-fused granular powder, sintered magnesite powder, magnesium oxide slagging ball and magnesium oxide dolomite sand in the PRC has been strong due to fast development of the steel industry in the PRC. It was planned that the PRC Company would construct and install new facilities and infrastructure

for the processing of magnesite ore mined at the Magnesite Mine to produce such products. To this end, the Board had, in conjunction with other professional parties such as financial adviser, Hong Kong and PRC legal advisers, performed necessary due diligence on the acquisition which included, among other things, reviewing the financial information of the Subsidiary and the PRC Company, conducting legal due diligence on the Subsidiary and the PRC Company, reviewing the technical report of the Magnesite Mine, and performing research on the prospects of the magnesite mining industry.

As the interruption did not occur until recently, the Company could not have been aware of the matter during its due diligence on the magnesite mining industry or the PRC Company. The change in circumstances is entirely beyond the Board's expectation. In order to safeguard the Group's position, the Board considers that it would be the best alternative for the Company to minimize the damages which may cause to the Group by disposing of its interest in the Subsidiary given the Guarantor is presently willing to repurchase the Sale Shares and the Sale Loan with reference to their carrying values and it is expected that no gain or loss of any significant amount would be recorded by the Company on the Disposal as explained more in the paragraph headed "Financial effects of the Agreement" below. In coming to the decision on the Disposal, the Board has acted honestly and in good faith in the interest of the Company as a whole in compliance with Rule 3.08 of the Listing Rules.

The Directors (excluding members of the Independent Board Committee who will be advised by the Independent Financial Adviser in due course) consider that the terms and conditions of the Agreements are fair and reasonable so far as the Disinterested Shareholders are concerned and that Agreement is in the interests of the Company and the Shareholders as a whole.

#### **FINANCIAL EFFECTS OF THE AGREEMENT**

As referred to above and subject to the review by the Company's auditors, based on (i) the net assets value of the Sale Group as at 31 March 2008 of approximately HK\$1,540.0 million (which has netted off the shareholder's loan due by the Sale Group to the Company of approximately HK\$77.6 million); (ii) the aggregate principal amount of the Sale Loan as at the date of this announcement of approximately HK\$78.1 million; and (iii) the Consideration of approximately HK\$1,624.5 million after taking into account of the estimated expenses incurred in relation to the Agreement of approximately HK\$4.3 million but without taking into account of the implication of any fair value adjustment, if any, to the value of the Repurchase Shares and Convertible Bonds on the date of Completion as may be required in accordance with the HK GAAP, it is expected that the Company may record an immaterial gain of approximately HK\$2.1 million as a result of the Disposal. The cash inflow from the cash portion of the Consideration is negligible. Subject to the review by the Company's auditors, it is estimated that as a result of completion of the Agreement and the transactions contemplated therein, including the repurchase and cancellation of the Repurchase Shares, the Convertible Note and the Promissory Note, the consolidated net assets of the Company would decrease principally due to the drop in share capital and reserve

resulted from the cancellation of Repurchase Shares of approximately HK\$212 million and the equity portion of the Convertible Note of approximately HK\$236.8 million. As the Sale Group has not made much contribution to the turnover of the Group after it has become a member of the Group on 6 March 2008, it is expected that Completion will not have any material effect on the turnover of the Group. The estimated professional expenses incurred in relation to the Agreement of approximately HK\$4.3 million will be recorded as administrative expenses of the Company for the year ended 31 March 2009. Such amount of expenses equals to approximately 3.7% of the total net loss of the Group for the year ended 31 March 2008 of approximately HK\$114.7 million. The Company considers such expenses amount not material. In view of the fact that the Company had audited consolidated cash and cash equivalents of approximately HK\$119.3 million as at 31 March 2008 and audited consolidated net current assets of approximately HK\$201.1 million, the payment of such expenses would not have any material impact on the Company's working capital position.

The Company had incurred professional fees and other expenses related and incidental to the 2007 Agreement of approximately HK\$8.1 million which was recorded as administrative expenses for the year ended 31 March 2008 and equals to approximately 7.1% of the total net loss of the Group for the year ended 31 March 2008 of approximately HK\$114.7 million. The Company considers such expenses amount not material.

#### **USE OF PROCEEDS**

Nearly all of the Consideration will be settled by way of the repurchase or redemption (as the case may be) and cancellation of the Repurchase Shares, the Promissory Note and the Convertible Note. The cash portion of the Consideration amounts to a mere sum of HK\$464,456.5, which will be used for general working capital of the Remaining Group.

## EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

The following chart sets out the shareholding structure of the Company (i) as at the date of this announcement; and (ii) immediately after the Completion assuming there is no change in the issued share capital and shareholding structure of the Company from the date of this announcement.

	As at the date of this announcement		Immediately after Completion	
	Shares	%	Shares	%
PHL and parties acting in concert with it				
PHL	800,000,000	27.1	0	0.0
The Guarantor	28,500,000	1.0	28,500,000	1.3
	<hr/>		<hr/>	
Subtotal	828,500,000	28.1	28,500,000	1.3
Mr. Cheng	522,305,200	17.7	522,305,200	24.3
Ms. Chung Oi Ling, Stella ( <i>Note</i> )	75,000,000	2.5	75,000,000	3.5
Public	1,525,271,730	51.7	1,525,271,730	70.9
	<hr/>		<hr/>	
<b>Total</b>	<b>2,951,076,930</b>	<b>100.0</b>	<b>2,151,076,930</b>	<b>100.0</b>
	<hr/> <hr/>		<hr/> <hr/>	

*Note: A Director of the Company.*

Following Completion, the Repurchase Shares will be cancelled. As a result, the number of Shares in issue following the Securities Repurchase will be reduced from 2,951,076,930 (being the number of Shares currently in issue) to 2,151,076,930. PHL will hold no more Shares. The percentage shareholdings of all other Shareholders in the Company will be proportionately increased by approximately 37.2%. Based on the SFO register maintained by the Company as at the date hereof, the Directors are not aware of any person or group of persons acting in concert who, as a result of the Completion, will become obliged to make a general offer for all the issued Shares of the Company. Not less than 25% of the issued Shares will remain in public hands following Completion.

## REGULATORY REQUIREMENTS

### Repurchase Code

The Securities Repurchase constitutes off-market share repurchase by the Company under the Repurchase Code. The Company will make an application to the Executive for approval of the Securities Repurchase pursuant to Rule 2 of the Repurchase Code. The Executive's approval, if granted, will normally be conditional upon, among other things, approval of the Securities Repurchase by at least three-fourths of the votes cast on a poll by the Disinterested Shareholders present in person or by proxy at a meeting to be held for such purposes.

As approval of the Executive of the Securities Repurchase is a condition of the Agreement, the Company will not proceed to Completion unless the Executive approves the Securities Repurchase pursuant to Rule 2 of the Repurchase Code. However, there is no assurance that such approval will be granted or that all the conditions precedent to the Agreement will be fulfilled (or where applicable, waived).

### **Listing Rules**

The transactions contemplated under the Agreement constitutes a very substantial disposal and connected transaction (by virtue of PHL being a Substantial Shareholder) for the Company under the Listing Rules and is therefore subject to the approval by the Disinterested Shareholders at the SGM.

### **Voting**

By reason of the requirements of the Repurchase Code and the Listing Rules described above, PHL, its associates (including the Guarantor) and parties acting in concert with it who together hold 828,500,000 Shares (representing approximately 28.1% of the existing issued share capital of the Company) as at the date of this announcement, and those who are interested in the Agreement, will abstain from voting in respect of the resolution to be proposed at the SGM to approve the Agreement and the transactions contemplated thereunder.

A circular containing further details of the Agreement, financial information relating to the Group and the Remaining Group, the letter from the Independent Board Committee giving its recommendation to the Disinterested Shareholders on the Agreement, the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee relating to the Agreement, the notice of the SGM and other information as required under the Listing Rules and the Repurchase Code will be dispatched to the Shareholders as soon as practicable.

### **GENERAL**

The Company is an investment holding company. The business of the Group comprises three business segments: building materials supply and installation, property development and magnesite mining. Following Completion, the Group will cease to have any business interests in magnesite mining, but will continue to look for other opportunities to diversify its business. Given the Group's mining business is carried out through the Sale Group, the Company intends to change its name after the disposal of the Sale Group. The Company will make a further announcement in relation to the change of name.

The Company has not repurchased any Shares (whether on the Stock Exchange or otherwise) in the six months preceding this announcement.

PHL and parties acting in concert with it have not dealt for value in any of the Shares in the six months preceding this announcement, except for the allotment and issue of 800,000,000 new Shares (which are the same Shares as the Repurchase Shares under the Agreement) to it by the Company as a result of completion of the 2007 Agreement as described above.

The Independent Board Committee comprising all the independent non-executive Directors has been established to advise and give recommendation to the Disinterested Shareholders on the Agreement, including the Disposal and the Securities Repurchase. An Independent Financial Adviser will be appointed to advise the Independent Board Committee thereon. An announcement will be made by the Company as soon as possible upon the appointment of the Independent Financial Adviser.

### **RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 2:30 p.m. on 15 August 2008 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 3 September 2008.

In the meantime, Shareholders are advised to exercise caution in dealing in the Shares.

### **DEFINITIONS**

In this announcement, unless the context otherwise requires, the following expressions shall have the following respective meaning:

“2007 Agreement”	the agreement dated 28 November 2007 entered into between the Company, PHL and the Guarantor in relation to the Subsidiary
“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“Agreement”	the conditional agreement dated 15 August 2008 entered into between the Company, PHL and the Guarantor in relation to the Disposal
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Magnesium Resources Corporation of China Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Stock Exchange

“Companies Act”	the Companies Act 1981 (as amended) of Bermuda
“Completion”	completion of the sale and purchase of the Sale Shares and the assignment of the Sale Loan in accordance with the Agreement
“Consideration”	the total consideration of HK\$1,624,464,456.5 payable by the Purchaser to be satisfied by the Repurchase Shares, the Convertible Note and the Promissory Note for the Sale Shares and the Sale Loan pursuant to the Agreement
“Convertible Note”	the Convertible Note issued by the Company in favour of PHL in an aggregate principal amount of HK\$1,092 million to be surrendered and discharged at Completion for cancellation pursuant to the terms of the Agreement
“Director(s)”	the director(s) of the Company
“Disinterested Shareholders”	Shareholders other than PHL, the Guarantor, their respective associates and parties acting in concert with them
“Disposal”	the proposed disposal of the Sale Shares and the Sale Loan by the Company to PHL pursuant to the Agreement
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any of his delegates
“Group”	the Company and its subsidiaries
“Guarantor”	Mr. Yam Tak Cheung, being the Purchaser guarantor for the purpose of the Agreement and the sole beneficial owner of the Purchaser, who is beneficially interested in approximately 28.1% of the issued Shares as at the date of this announcement by virtue of its holding of the Repurchase Shares
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HK GAAP”	the generally accepted accounting principles in Hong Kong

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the committee of the Board comprising all the independent non-executive Directors, namely Mr. William Lo Chi Ho, Mr. Peleus Chu Kin Wang, and Ms. Lau Wa Chun established for the purpose of advising and giving recommendation to the Disinterested Shareholders on the Agreement
“Independent Financial Adviser”	the independent financial adviser to the Independent Board Committee and Independent Shareholders regarding the terms of the Agreement
“Independent Third Party(ies)”	person(s) or company(s) who/which is/are not connected with the directors, chief executive or substantial shareholders (as defined under the Listing Rules) of the Company and its subsidiaries, or any of their respective associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Magnesite Mine”	the mine area containing Magnesite resources located approximately 18km southwest of Haicheng City of the Liaoning Province and approximately 120 km south of Shenyang, the capital city of Liaoning Province of the PRC, covering a mining area of approximately 0.8643 km <sup>2</sup>
“Mr. Cheng”	Mr. Cheng Tun Nei, a Substantial Shareholder of the Company and a former Director
“PHL”	Pure Hope Development Limited, a company incorporated in the British Virgin Islands with limited liability which is wholly-owned by the Guarantor
“PRC”	the People’s Republic of China which, for the purposes of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Company”	海城市東鑫實業有限公司 (Haicheng Dongxin Industry Limited#), a company established under the laws of the PRC with limited liability which is directly owned as to 80% by the Subsidiary and as to 20% by the PRC Partner

“PRC Partner”	海城市八里鎮東三道村民委員會 (Haicheng Bali County Dongsandao Villagers Committee#) which is a villagers autonomous organisation (村民自治組織) established in Haicheng City, the Liaoning Province of the PRC
“Promissory Note”	the promissory note issued by the Company in favour of PHL with principal amount of HK\$320 million to be surrendered and discharged at Completion pursuant to the terms of the Agreement
“Remaining Group”	the Group excluding the Sale Group
“Repurchase Code”	the Hong Kong Code on Share Repurchases
“Repurchase Shares”	800,000,000 Shares beneficially held by PHL and to be transferred to the Company at Completion for cancellation pursuant to the terms of the Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Group”	the Subsidiary and the PRC Company
“Sale Loan”	the shareholder’s loan owed by the Subsidiary to the Company on the date of Completion
“Sale Shares”	50,000 issued shares of the Subsidiary, being its entire issued share capital
“Securities Repurchase”	the proposed repurchase of the Repurchase Shares by the Company from PHL and cancellation of the Convertible Note as part of the Consideration payable by PHL to the Company under the Agreement, which constitute an off-market share repurchase by the Company pursuant to Rule 2 of the Repurchase Code
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SFO register”	the register of substantial shareholders required to be maintained by the Company pursuant to section 336 of the SFO

“SGM”	a special general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving the Agreement and the transactions contemplated thereunder
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary”	Ling Kit Holding Limited, a company established in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“Substantial Shareholder”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“US\$”	United States dollars, the lawful currency of the United States of America
“km”	kilometer(s)
“km <sup>2</sup> ”	square kilometer(s)
“%”	per cent

By order of the Board  
**Magnesium Resources Corporation of China Limited**  
**Teoh Tean Chai, Anthony**  
*Executive Director*

Hong Kong, 2 September 2008

As at the date of this announcement, the Directors are as follows:

*Executive Directors:*

Mr. Teoh Tean Chai, Anthony

Ms. Chung Oi Ling, Stella

*Independent non-executive Directors:*

Mr. Lo Chi Ho, William

Mr. Chu Kin Wang, Peleus

Ms. Lau Wa Chun

*The Directors of the Company jointly and severally accept responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinion expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement herein misleading.*

*For the purpose of illustration only, amounts denominated in RMB herein have been translated into HK\$ at the rate of RMB0.90 = HK\$1 and amounts denominated in US\$ have been translated into HK\$ at the rate of US\$1 = HK\$7.8. Such translation should not be construed as a representation that the amounts quoted could have been or could be or will be converted at the stated rate or at any other rates at all.*

\* *the Chinese name is for identification purpose only*

# *the English translation of the Chinese name is for identification purpose only*