



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

INTERIM REPORT

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

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## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

**INTERIM RESULTS**

The Board of Directors of Magnesium Resources Corporation of China Limited (the “Company”) presents the unaudited condensed interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2008 as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT**

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

		<b>Six months ended 30 September</b>	
	<i>Note</i>	<b>2008 (Unaudited) HK\$'000</b>	2007 (Unaudited and restated) HK\$'000
<b>CONTINUING OPERATIONS</b>			
Turnover	6	<b>67,424</b>	45,296
Cost of sales		<b>(61,233)</b>	(37,999)
		<hr/>	<hr/>
<b>Gross profit</b>		<b>6,191</b>	7,297
Other revenue	6	<b>2,450</b>	5,997
Selling and distribution costs		<b>(1,751)</b>	(399)
Administrative expenses		<b>(14,349)</b>	(14,768)
Other operating expenses	7(a)	<b>(83,518)</b>	–
		<hr/>	<hr/>
<b>Loss from operations</b>		<b>(90,977)</b>	(1,873)
Finance costs	7(b)	<b>(36,879)</b>	(14)
		<hr/>	<hr/>
<b>Loss before taxation</b>	7	<b>(127,856)</b>	(1,887)
Income tax	8	<b>(516)</b>	(1,012)
		<hr/>	<hr/>
<b>Loss for the period from continuing operations</b>		<b>(128,372)</b>	(2,899)

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

		<b>Six months ended 30 September</b>	
		<b>2008 (Unaudited) HK\$'000</b>	2007 (Unaudited and restated) HK\$'000
		<i>Note</i>	
<b>DISCONTINUED OPERATIONS</b>			
Loss for the period from discontinued operations	9	<b>(13,642)</b>	(45,855)
<b>LOSS FOR THE PERIOD</b>		<b>(142,014)</b>	(48,754)
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>(123,357)</b>	(50,249)
Minority interests		<b>(18,657)</b>	1,495
		<b>(142,014)</b>	(48,754)
<b>Loss per share</b>			
Basic	11 (a)		
– Continuing operations		<b>(3.74 cents)</b>	(0.25 cents)
– Discontinued operations		<b>(0.47 cents)</b>	(2.62 cents)
		<b>(4.21 cents)</b>	(2.87 cents)
Diluted	11 (b)	<b>N/A</b>	N/A

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

**CONDENSED CONSOLIDATED BALANCE SHEET**

AS AT 30 SEPTEMBER 2008

		At 30 September 2008 (Unaudited) HK\$'000	At 31 March 2008 (Audited) HK\$'000
	Note		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	12	3,426	46,519
Interest in leasehold land held for own use under operating leases		268	2,244
Intangible assets	13	1,959,006	2,022,541
		<u>1,962,700</u>	<u>2,071,304</u>
<b>CURRENT ASSETS</b>			
Inventories		39,565	58,341
Interest in leasehold land held for own use under operating leases		5	66
Trade and other receivables	14	73,769	82,272
Pledged deposits		36,091	30,211
Cash and cash equivalents		80,940	119,338
		<u>230,370</u>	<u>290,228</u>
<b>CURRENT LIABILITIES</b>			
Bank loans and overdrafts		13,664	39,552
Trade and other payables	15	49,534	46,681
Finance lease payables		-	58
Provision for taxation		2,440	2,845
		<u>65,638</u>	<u>89,136</u>
<b>NET CURRENT ASSETS</b>		<u>164,732</u>	<u>201,092</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>2,127,432</u>	<u>2,272,396</u>

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

		<b>At</b>	At
		<b>30 September</b>	31 March
		<b>2008</b>	2008
		<b>(Unaudited)</b>	(Audited)
	<i>Note</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		<b>10,814</b>	19,579
Convertible notes	16	<b>878,849</b>	855,213
Promissory notes	17	<b>320,000</b>	320,000
		<hr/>	<hr/>
		<b>1,209,663</b>	1,194,792
		<hr/>	<hr/>
<b>NET ASSETS</b>			
		<b>917,769</b>	1,077,604
		<hr/>	<hr/>
<b>CAPITAL AND RESERVES</b>			
Share capital	19	<b>295,107</b>	289,885
Reserves	19	<b>221,703</b>	368,302
		<hr/>	<hr/>
<b>Total equity attributable to equity</b>			
<b>shareholders of the Company</b>			
		<b>516,810</b>	658,187
<b>Minority interests</b>			
		<b>400,959</b>	419,417
		<hr/>	<hr/>
<b>TOTAL EQUITY</b>			
		<b>917,769</b>	1,077,604
		<hr/>	<hr/>

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

	Attributable to equity shareholder of the Company											
	Share capital	Share premium	Contributed surplus	Distributable reserve	Property revaluation reserve	Fair value reserve	Equity component reserve	Exchange fluctuation reserve	Accumulated losses	Sub-total	Minority interest	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2008	289,885	248,828	2,789	2,216	23,762	8,783	236,787	2,765	(157,628)	658,187	419,417	1,077,604
Share issued under bonus warrants	5,222	-	-	-	-	-	-	-	-	5,222	-	5,222
Revaluation reserve released on disposal	-	-	-	-	(23,699)	-	-	-	-	(23,699)	-	(23,699)
Surplus on revaluation	-	-	-	-	7	-	-	-	-	7	-	7
Loss for the period	-	-	-	-	-	-	-	-	(123,357)	(123,357)	(18,657)	(142,014)
Exchange realignment	-	-	-	-	-	-	-	450	-	450	199	649
At 30 September 2008	295,107	248,828	2,789	2,216	70	8,783	236,787	3,215	(280,985)	516,810	400,959	917,769
At 1 April 2007	154,492	-	2,789	2,216	22,567	8,783	-	565	(47,173)	144,239	13,900	158,139
Placement of shares	30,700	122,800	-	-	-	-	-	-	-	153,500	-	153,500
Share issued expenses	-	(5,972)	-	-	-	-	-	-	-	(5,972)	-	(5,972)
Shares issued under bonus warrants	10,806	-	-	-	-	-	-	-	-	10,806	-	10,806
Revaluation reserve released on disposal	-	-	-	-	(1,370)	-	-	-	1,370	-	-	-
Loss for the period	-	-	-	-	-	-	-	-	(50,249)	(50,249)	1,495	(48,754)
Exchange realignment	-	-	-	-	-	-	-	889	-	889	335	1,224
At 30 September 2007	195,998	116,828	2,789	2,216	21,197	8,783	-	1,454	(96,052)	253,213	15,730	268,943



## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)**

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

	<b>Six months ended 30 September</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Net cash used in operating activities	<b>(29,576)</b>	(48,824)
Net cash (used in)/generated from investing activities	<b>(6,562)</b>	5,919
Net cash generated from financing activities	<b>4,940</b>	157,448
(Decrease)/increase in cash and cash equivalents	<b>(31,198)</b>	114,543
Cash and cash equivalents at beginning of period	<b>105,557</b>	41,160
Effect of foreign exchange rate changes, net	<b>(27)</b>	837
Cash and cash equivalents at end of period	<b>74,332</b>	156,540
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>80,940</b>	159,078
Bank overdrafts	<b>(6,608)</b>	(2,538)
	<b>74,332</b>	156,540



## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008***1. CORPORATE INFORMATION**

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise real estate development; building materials supply and installation; and mining and processing of magnesite ore.

**2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES**

The condensed consolidated financial statements for the six months ended 30 September 2008 have been prepared in accordance with the applicable disclosure provision of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The preparation of the condensed consolidated financial statements is in conformity with HKAS 34 requiring management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The preparation of the condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 March 2008, except for the adoption of the new Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") as disclosed in note 3 below. The condensed consolidated financial statements do not include all the information and disclosures required for an annual financial statements, and should be read in conjunction with the financial statements of the Group for the year ended 31 March 2008.

**3. CHANGES IN ACCOUNTING POLICIES****(a) Impact of new and amended HKFRSs and HKASs**

The Group has adopted, for the first time, the following new interpretations which are effective for the Group's financial year beginning on 1 April 2008.

HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Adoption of the above new interpretations does not have significant impact on the Group's operating results or financial position.

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

**3. CHANGES IN ACCOUNTING POLICIES (Continued)****(b) Impact of issued but not yet effective HKFRSs and HKASs**

The Group has not applied the following new and revised HKFRSs and HKASs, that have been issued but are not yet effective, in these interim financial statements:

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Cost <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – Int 13	Customer Loyalty Programmes <sup>3</sup>
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate <sup>1</sup>
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation <sup>4</sup>

<sup>1</sup> Effect for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effect for annual periods beginning on or after 1 January 2008

<sup>3</sup> Effect for annual periods beginning on or after 1 July 2008

<sup>4</sup> Effect for annual periods beginning on or after 1 October 2008

The Group is in the process of making an assessment of what the impact of these new amendments, new standards and new interpretation is expected to be in the period of initial application. So far, it has concluded that the adoption of the above policies may result in new or amended disclosures, they are unlikely to have a significant impact on the Group's results of operations and financial position.

**4. SEGMENT INFORMATION**

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

**Business segments**

During the year ended 31 March 2008, the Group discontinued by way of disposal of subsidiaries (see note 9) the home appliances segment which included the design and manufacture of home appliances and trading of merchandise.

The Group comprises the following main business segments:

Real estate: the development and sale of commercial premises and residential properties.

Building materials: the construction work of building and construction project of building material.

Mining: the mining and processing of magnesite ore.

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

## 4. SEGMENT INFORMATION (Continued)

## Business segments (Continued)

Six months ended 30 September (Unaudited)

	Continuing operations								Discontinued operations		Consolidated	
	Real estate		Building materials		Mining		Sub-total		Home appliances		2008 HK\$'000	2007 HK\$'000
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000		
<b>Segment revenue</b>												
Revenue from external customers	-	-	57,293	45,296	10,131	-	67,424	45,296	-	62,309	67,424	107,605
Segment result	(21,041)	(1,907)	(228)	6,374	(61,962)	-	(83,231)	4,467	-	(43,026)	(83,231)	(38,559)
Interest income							720	1,466	-	160	720	1,626
Unallocated operating income and expenses							(8,466)	(7,806)	1	(2,052)	(8,465)	(9,858)
Loss from operations							(90,977)	(1,873)	1	(44,918)	(90,976)	(46,791)
Finance costs							(36,879)	(14)	-	(937)	(36,879)	(951)
Loss on disposal of subsidiaries							-	-	(13,643)	-	(13,643)	-
Income tax							(516)	(1,012)	-	-	(516)	(1,012)
Loss for the period							(128,372)	(2,899)	(13,642)	(45,855)	(142,014)	(48,754)
<b>ASSETS</b>												
Segment assets	47,635	40,691	65,937	27,364	1,966,041	-	2,079,613	68,055	-	111,094	2,079,613	179,149
Unallocated corporate assets											113,457	200,943
Consolidated total assets											2,193,070	380,092
<b>LIABILITIES</b>												
Segment liabilities	21,260	15,916	32,446	18,629	6,311	-	60,017	34,545	-	62,864	60,017	97,409
Unallocated corporate liabilities											1,215,284	13,740
Consolidated total liabilities											1,275,301	111,149

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

## 4. SEGMENT INFORMATION (Continued)

## Business segments (Continued)

Six months ended 30 September (Unaudited)

	Continuing operations								Discontinued operations		Consolidated	
	Real estate		Building materials		Mining		Sub-total		Home appliances			
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
OTHER INFORMATION												
Depreciation and amortisation for the period	45	27	16	13	63,590	-	63,651	40	-	5,000	63,651	5,040
Unallocated corporate expenses											186	127
											<b>63,837</b>	<b>5,167</b>
Impairment of												
- trade and other receivables	-	-	-	-	903	-	903	-	-	2,499	903	2,499
- property, plant and equipment	-	-	-	-	-	-	-	-	-	19,768	-	19,768
- moulds deposits	-	-	-	-	-	-	-	-	-	5,513	-	5,513
- inventories – real estate	19,753	-	-	-	-	-	19,753	-	-	-	19,753	-
Capital expenditure incurred during the period	-	82	16	9	128	-	144	91	-	1,465	144	1,556
Unallocated corporate capital expenditure											1,080	8
											<b>1,224</b>	<b>1,564</b>

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

## 4. SEGMENT INFORMATION (Continued)

**Geographical segments**

The following table presents revenue for the Group's geographical segment based on the location of external customers.

	Six months ended 30 September (Unaudited)					
	2008			2007		
	Continuing operations HK\$'000	Discontinued operations HK\$'000	Total HK\$'000	Continuing operations HK\$'000	Discontinued operations HK\$'000	Total HK\$'000
<b>Revenue from external customers:</b>						
Europe	-	-	-	-	24,944	24,944
North America	-	-	-	-	18,264	18,264
South America	-	-	-	-	5,367	5,367
Asia Pacific	67,424	-	67,424	45,296	5,123	50,419
Middle East	-	-	-	-	6,321	6,321
Oceania	-	-	-	-	2,290	2,290
	<b>67,424</b>	<b>-</b>	<b>67,424</b>	<b>45,296</b>	<b>62,309</b>	<b>107,605</b>

Carrying amount of segment assets and capital expenditure by location of assets are as follows:

	Six months ended 30 September (Unaudited)					
	2008			2007		
	Continuing operations HK\$'000	Discontinued operations HK\$'000	Total HK\$'000	Continuing operations HK\$'000	Discontinued operations HK\$'000	Total HK\$'000
<b>Segment assets:</b>						
Europe	-	-	-	-	10,931	10,931
North America	-	-	-	-	-	-
South America	-	-	-	-	1,181	1,181
Asia Pacific	2,193,070	-	2,193,070	268,998	97,092	366,090
Middle East	-	-	-	-	1,890	1,890
Oceania	-	-	-	-	-	-
	<b>2,193,070</b>	<b>-</b>	<b>2,193,070</b>	<b>268,998</b>	<b>111,094</b>	<b>380,092</b>

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

## 4. SEGMENT INFORMATION (Continued)

Six months ended 30 September (Unaudited)

	2008			2007		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Capital expenditure:</b>						
Europe	-	-	-	-	-	-
North America	-	-	-	-	-	-
South America	-	-	-	-	-	-
Asia Pacific	1,224	-	1,224	99	1,465	1,564
Middle East	-	-	-	-	-	-
Oceania	-	-	-	-	-	-
	<b>1,224</b>	<b>-</b>	<b>1,224</b>	<b>99</b>	<b>1,465</b>	<b>1,564</b>

## 5. SEASONALITY OF OPERATIONS

The Group's three divisions, building materials division, real estate division and mining division, have no specific seasonality factor.

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

## 6. TURNOVER AND OTHER REVENUE

Turnover represents the net invoiced value of good sold, after allowances for returns and trade discounts and revenue from construction contracts.

An analysis of turnover and other revenue is as follows:

	Continuing operations		Discontinued operations		Consolidated	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Turnover						
Sales of goods	12,794	-	-	62,309	12,794	62,309
Revenue from construction contracts	54,630	45,296	-	-	54,630	45,296
	<b>67,424</b>	45,296	-	62,309	<b>67,424</b>	107,605
Other revenue						
Interest income *	720	1,466	-	160	720	1,626
Sale of scrap materials	-	-	-	859	-	859
Others	1,730	43	4	2,017	1,734	2,060
	<b>2,450</b>	1,509	<b>4</b>	3,036	<b>2,454</b>	4,545
Other net income						
Net gain on deemed disposal of inventories	-	186	-	-	-	186
Gain on disposal of property, plant and equipment	-	4,302	-	2,772	-	7,074
	-	4,488	-	2,772	-	7,260
Other revenue and net income	<b>2,450</b>	5,997	<b>4</b>	5,808	<b>2,454</b>	11,805
	<b>69,874</b>	51,293	<b>4</b>	68,117	<b>69,878</b>	119,410

\* It represented total interest income on financial assets not at fair value through profit or loss.



## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

## 7. LOSS BEFORE TAXATION

The Group's loss from operations are arrived at after charging/(crediting):

	Continuing operations		Discontinued operations		Consolidated	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
a) Other operating expenses						
Loss on disposal of property, plant and equipment	230	-	-	-	230	-
Impairment losses on inventories - real estate	19,753	-	-	-	19,753	-
Amortisation of intangible assets	63,535	-	-	-	63,535	-
Impairment losses on mould deposits	-	-	-	5,513	-	5,513
Impairment losses on property, plant and equipment	-	-	-	19,768	-	19,768
Other	-	-	-	139	-	139
	<b>83,518</b>	-	<b>-</b>	<b>25,420</b>	<b>83,518</b>	<b>25,420</b>
b) Finance costs						
Interest on bank loans and other loans wholly repayable within five years	246	5	-	883	246	888
Interest on convertible notes and promissory notes	36,626	-	-	-	36,626	-
Finance charges on obligations under finance leases	7	9	-	54	7	63
Total interest expenses on financial liabilities not at fair value through profit or loss	<b>36,879</b>	14	<b>-</b>	<b>937</b>	<b>36,879</b>	951

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

## 7. LOSS BEFORE TAXATION (Continued)

	Continuing operations		Discontinued operations		Consolidated	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
c) Other items						
Cost of inventories sold*	7,414	-	-	68,989	7,414	68,989
Staff costs (including directors' remuneration)	5,339	7,772	-	12,531	5,339	20,303
Depreciation	299	132	-	4,969	299	5,101
Amortisation of land lease premium	3	35	-	31	3	66
Minimum lease payments under operating leases for land and buildings (including directors' quarters)	1,079	172	-	320	1,079	492
Auditor's remuneration	320	216	-	-	320	216
Impairment losses on trade receivables	903	-	-	2,499	903	2,499

\* Cost of inventories sold includes depreciation of HK\$Nil (2007: HK\$1,447,000) and staff costs of HK\$Nil (2007: HK\$7,880,000), the amount of which is also included in the respective total amounts disclosed separately above.

## 8. INCOME TAX

Income tax in the consolidated income statement represents:

	Continuing operations		Discontinued operations		Consolidated	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Current tax						
- Hong Kong	387	438	-	-	387	438
- Overseas	774	574	-	-	774	574
Over provision	(645)	-	-	-	(645)	-
Tax expense	516	1,012	-	-	516	1,012

The provision for Hong Kong Profits Tax is calculated at 17.5% (2007: 17.5%) of the assessable profits arising in Hong Kong for the period. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

**9. DISCONTINUED OPERATIONS**

On 8 December 2007, the Company entered into a sales and purchase agreement with Ocean Alliance (HK) Limited, an independent third party, to dispose of the entire equity interest in Antec Appliance Limited and Anex Electrical Company Limited and the entire amounts owing by Antec Appliance Limited and its subsidiaries (collectively "Antec Group") and Anex Electrical Company Limited and its subsidiaries (collectively "AECL Group") to the Group. Antec Group and AECL Group are principally engaged in the home appliances business. The disposal was completed on 31 January 2008.

On 24 September 2008, the Company entered into a sales and purchase agreement with Rich Kind Investment Development Limited, an independent third party, to dispose of the entire equity interest in Anco Industrial Company Limited and its subsidiaries (collectively "Anco Group"). The Anco Group are principally engaged in the property holding for home appliances business. The disposal was completed on 30 September 2008.

Therefore, the operations of Antec Group, AECL Group and Anco Group are classified as discontinued operations and the loss arising from discontinued operations is analysed as follows:

	<b>For the six months ended 30 September</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Gain/(loss) on discontinued operations for the period	<b>1</b>	(45,855)
Loss on disposal of discontinued operations ( <i>Note 20</i> )	<b>(13,643)</b>	–
	<b>(13,642)</b>	(45,855)

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

**9. DISCONTINUED OPERATIONS (Continued)**

The results of the discontinued operations which have been included in the consolidated income statement for six months ended 30 September 2007 and 2008 are as follows:

	<b>For the six months ended 30 September</b>	
	<b>2008 HK\$'000 (Unaudited)</b>	2007 HK\$'000 (Unaudited)
Turnover	-	62,309
Cost of sales	-	(68,989)
	<hr/>	<hr/>
Gross loss	-	(6,680)
Other revenue	<b>4</b>	5,808
Selling and distribution costs	-	(5,686)
Administrative expenses	<b>(3)</b>	(12,940)
Other operating expenses	-	(25,420)
	<hr/>	<hr/>
Gain/(loss) from operations	<b>1</b>	(44,918)
Finance costs	-	(937)
	<hr/>	<hr/>
Loss before tax	<b>1</b>	(45,855)
Income tax	-	-
	<hr/>	<hr/>
	<b>1</b>	(45,855)
	<hr/>	<hr/>
Attributable to:		
Equity shareholders of the Company	<b>1</b>	(45,863)
Minority interest	-	8
	<hr/>	<hr/>
	<b>1</b>	(45,855)
	<hr/>	<hr/>

During the period, Antec Group, AECL Group and Anco Group contributed HK\$Nil (2007: HK\$2,836,000) to the Group's net operating cash flows, contributed HK\$Nil (2007: HK\$2,200,000), in respect of investing activities and HK\$Nil (2007: HK\$1,782,000), in respect of financing activities.

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

**10. DIVIDENDS**

The directors do not recommend the payment or declaration of any dividend for both periods.

**11. LOSS PER SHARE****(a) Basic loss per share**

The calculation of basic loss per share is based on the loss attributable to equity shareholders of HK\$123,357,000 (2007: HK\$50,249,000) and the weighted average number of 2,927,716,000 (2007: 1,751,459,000) ordinary shares in issue during the period.

**(b) Diluted loss per share**

No diluted loss per share has been disclosed as the outstanding bonus warrants had an anti-dilutive effect on the basic loss per share for the six months ended 30 September 2008 and 2007.

**12. PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30 September 2008, the Group incurred approximately HK\$1,224,000 (2007: approximately HK\$1,564,000) on addition to furniture and fixtures, machinery, engineering and other equipment and moulds.

During the six months ended 30 September 2008, the Group disposed of Anco Group which held the properties for own use with net carrying amount of HK\$43,800,000 (2007: HK\$39,411,800).

During the six months ended 30 September 2007, the Group disposed of properties held for own use with net carrying amount of HK\$5,097,000.

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

## 13. INTANGIBLE ASSETS

	<i>HK\$'000</i>
<b>Cost</b>	
At 1 April 2007	–
Acquisition from subsidiaries	2,033,130
	<hr/>
At 31 March 2008 and 1 April 2008	2,033,130
Additions	–
	<hr/>
At 30 September 2008	2,033,130
	<hr/>
<b>Accumulated amortisation</b>	
At 1 April 2007	–
Charge for the period	10,589
	<hr/>
At 31 March 2008 and 1 April 2008	10,589
Charge for the period	63,535
	<hr/>
At 30 September 2008	74,124
	<hr/>
<b>Net book value</b>	
At 30 September 2008	1,959,006
	<hr/>
At 31 March 2008	2,022,541
	<hr/>

- a) Intangible assets represent the mining rights held by the Group.
- b) The mining rights are stated at cost less accumulated amortisation and any impairment losses. The mining rights are amortised in straight-line basis over its estimated useful lives of 16 years. The amortisation charge for the year is grouped under other operating expenses in the consolidated income statement.

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

**13. INTANGIBLE ASSETS (Continued)**

- c) The Group acquired the entire equity interest of Ling Kit Holding Limited (“Ling Kit”) in March 2008 which is solely engaged in holding of 80% equity interest in the Haicheng Dongxin Industry Limited (“Haicheng Dongxin”). Haicheng Dongxin is engaged in mining and processing of magnesite ore. The mining rights of the magnesite mine is covered by the mining licences summarised below:

<b>Licence number</b>	<b>Mining Areas (km<sup>2</sup>)</b>	<b>Expiry date</b>
2100000431318	0.3110	November 2009
2100000330769	0.2297	May 2004 (Note (i))
2100000421523	0.3535	September 2009 (Note (ii))
	0.8942	

*Notes:*

- i) As further explained in (d) below, the relevant government authority has approved the temporary extension of the mining right to October 2009.
- ii) The completion of the acquisition is subject to the approval by the relevant government authority.
- d) As advised by the Company’s PRC legal adviser, the relevant PRC local government authority has promulgated certain policies to consolidate mines in Liaoning Province for the purpose of, among others, improving the utilisation of mines and environmental protection. Pursuant to these policies, in September 2007, the relevant PRC authorities certified the three mining licences as mentioned in (c) above to be consolidated into one. As at 30 September 2008 and up to the date of the interim report 2008, the formal approval and certificate has not been completed and issued by the relevant authorities in mainland China.

To the best of the knowledge of the Company’s directors, the relevant PRC government authorities’ certified the mining areas in respect of the consolidated mining rights exclude certain minor areas, which represented approximately 3% of the aggregated mining areas of the mining licences as mentioned above, for the reason that the excluded areas do not contain any magnesite resources.

As further advised by the Company’s PRC legal advisor, Haicheng Dongxin had applied the consolidated mining licence for an area covering 0.8643 km<sup>2</sup>, and the application is in process, and there is no foreseeable legal impediments for Haicheng Dongxin to obtain the consolidated mining licence.



## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

**13. INTANGIBLE ASSETS (Continued)**

- e) The Group had entered into an agreement with Pure Hope Development Limited and the guarantor whereby the Group conditionally agreed to sell the 100% equity interest of Ling Kit Holding Limited at the consideration of approximately HK\$1,624,000,000. Ling Kit Holding Limited is an investment holding company and its principal asset is 80% interest in Haicheng Dongxin. Haicheng Dongxin is principally engaged in the mining of magnesite ore at the Magnesite Mine in the PRC.

The director considered that no impairment for the intangible assets as at 30 September 2008.

**14. TRADE AND OTHER RECEIVABLES**

The Group's trading terms with its customers are mainly on credit and letter of credit, except for new customers, where payment in advance and cash on delivery are normally required. Invoices are normally payable between 30 and 180 days after issuance. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

An aged analysis of the trade receivables as at the balance sheet date, based on invoice date and net of allowance for doubtful debts, is as follows:

	<b>At 30 September 2008 HK\$'000 (Unaudited)</b>	At 31 March 2008 HK\$'000 (Audited)
0 – 30 days	<b>14,552</b>	44,267
31 – 60 days	–	15,175
61 – 90 days	–	–
Over 90 days	<b>34</b>	2,278
	<hr/>	<hr/>
Trade receivables, net	<b>14,586</b>	61,720
	<hr/>	<hr/>
Prepayment, deposits and other receivables	<b>59,183</b>	20,552
	<hr/>	<hr/>
	<b>73,769</b>	82,272
	<hr/>	<hr/>

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

**15. TRADE AND OTHER PAYABLES**

An aged analysis of trade payables as at the balance sheet date, based on invoice date, is as follows:

	<b>At 30 September 2008 HK\$'000 (Unaudited)</b>	At 31 March 2008 HK\$'000 (Audited)
0 – 30 days	<b>3,377</b>	18,159
31 – 60 days	<b>2,519</b>	5
61 – 90 days	–	3
Over 90 days	<b>2,109</b>	532
	<hr/>	<hr/>
Total trade payables	<b>8,005</b>	18,699
	<hr/>	<hr/>
Other payables and accruals	<b>41,529</b>	27,982
	<hr/>	<hr/>
	<b>49,534</b>	46,681
	<hr/>	<hr/>

**16. CONVERTIBLE NOTES**

On 6 March 2008, the Company issued convertible notes in an aggregate principal amount of HK\$1,092,000,000 at 1.5% interest per annum payable on an annual basis. Subject to certain adjustments, the convertible notes will be convertible into the shares of the Company at an initial conversion price of HK\$0.52 per share. The Company will redeem the convertible notes on the maturity date (i.e. 5 March 2013) at 100% of its outstanding principal amount together with the accrued interest.

Conversion may occur at any time between 6 March 2008 and 5 March 2013. However, the holder of the convertible notes 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 ordinary share capital of the Company in accordance with the Hong Kong Code on Takeovers and Mergers or (b) the Company in breach of any provision of the Listing Rules including the minimum 25% public float requirement.

The convertible notes may be assigned or transferred (in integral multiple of HK\$500,000) to any third party (whether such party is a connected person of the Company or not) subject to the Listing Rules and the applicable law. The Company undertakes to notify the Stock Exchange upon becoming aware of any dealings in the convertible notes by any connected persons of the Company as defined in the Listing Rules.

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

**16. CONVERTIBLE NOTES (Continued)**

The convertible notes contain two components, the liability and the equity components. The equity component is presented in equity as an "Equity component reserve". The effective interest rate of the liability component is approximately 6.75%.

The movement of the liability component of the convertible notes for the period is set out below:

	<b>At 30 September 2008 HK\$'000</b>	At 31 March 2008 HK\$'000
Proceeds from issuance of the convertible notes	<b>1,092,000</b>	1,092,000
Equity component	<b>(236,787)</b>	(236,787)
	<hr/>	<hr/>
Liability component at date of issue	<b>855,213</b>	855,213
	<hr/>	<hr/>
Liability component at date of issue	–	855,213
Balance brought forward	<b>855,213</b>	–
Interest charged	<b>31,826</b>	1,167
Interest payable	<b>(8,190)</b>	(1,167)
	<hr/>	<hr/>
Balance carried forward	<b>878,849</b>	855,213
	<hr/>	<hr/>

**17. PROMISSORY NOTES**

On 6 March 2008, the Company issued promissory notes in an aggregate principal amount of HK\$320,000,000. Interest shall accrue on the principle amount of the promissory note at 3% per annum and payable annually in arrears. The promissory notes may be assigned or transferred (in integral multiple of HK\$500,000) to any third party (whether such party is a connected person to the Company or not) subject to the Listing Rules and the applicable laws. The Company may repay all or part of the principle amount at any time prior to the maturity date (i.e. 5 March 2012) by giving the holder not less than seven days' prior written notice specifying the amount and date of repayment provided that the amount shall be at least HK\$500,000. Otherwise, the payment of principal and last interest payment of promissory notes shall be made in full upon the maturity date.

**18. SHARE OPTIONS**

During the six months ended 30 September 2008, no share option has been granted under the share option scheme.

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

## 19. SHARE CAPITAL AND RESERVES

	Attributable to equity shareholder of the Company									
	Share capital	Share premium	Contributed surplus	Distributable reserve	Property revaluation reserve	Fair value reserve	Equity component reserve	Exchange fluctuation reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2008	289,885	248,828	2,789	2,216	23,762	8,783	236,787	2,765	(157,628)	658,187
Share issued under bonus warrants (ii)	5,222	-	-	-	-	-	-	-	-	5,222
Revaluation reserve released on disposal	-	-	-	-	(23,699)	-	-	-	-	(23,699)
Surplus on revaluation	-	-	-	-	7	-	-	-	-	7
Loss for the period	-	-	-	-	-	-	-	-	(123,357)	(123,357)
Exchange realignment	-	-	-	-	-	-	-	450	-	450
<b>At 30 September 2008</b>	<b>295,107</b>	<b>248,828</b>	<b>2,789</b>	<b>2,216</b>	<b>70</b>	<b>8,783</b>	<b>236,787</b>	<b>3,215</b>	<b>(280,985)</b>	<b>516,810</b>
At 1 April 2007	154,492	-	2,789	2,216	22,567	8,783	-	565	(47,173)	144,239
Placement of shares (note i)	30,700	122,800	-	-	-	-	-	-	-	153,500
Shares issued expenses	-	(5,972)	-	-	-	-	-	-	-	(5,972)
Shares issued under bonus warrants (note ii)	10,806	-	-	-	-	-	-	-	-	10,806
Revaluation reserve released on disposal	-	-	-	-	(1,370)	-	-	-	1,370	-
Loss for the period	-	-	-	-	-	-	-	-	(50,249)	(50,249)
Exchange realignment	-	-	-	-	-	-	-	889	-	889
<b>At 30 September 2007</b>	<b>195,998</b>	<b>116,828</b>	<b>2,789</b>	<b>2,216</b>	<b>21,197</b>	<b>8,783</b>	<b>-</b>	<b>1,454</b>	<b>(96,052)</b>	<b>253,213</b>

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

**19. SHARE CAPITAL AND RESERVES (Continued)**

Notes:

- (i) On 22 June 2007, the Company, Mr. Cheng Tun Nei ("Mr. Cheng"), a former director of the Company, and Taiwan Securities (Hong Kong) Limited ("Placing Agent") entered into an agreement pursuant to which the Placing Agent has agreed to procure, on a best-effort basis, purchasers to purchase up to 307,000,000 existing shares, at the placing price of HK\$0.50 per share owned by Mr. Cheng.

Pursuant to the Agreement, Mr. Cheng has conditionally agreed to subscribe up to 307,000,000 new shares at the placing price of HK\$0.50 per share.

On 26 June 2007, the Placing Agent has successfully placed 307,000,000 existing shares at placing price of HK\$0.50 per share. In addition, the subscription of new shares to Mr. Cheng was completed on 6 July 2008. The net proceeds from top-up subscription were HK\$147.5 million.

- (ii) During the six months ended 30 September 2008, warrant-holders exercised the bonus warrants to subscribe for a total of 52,217,000 (2007: 108,059,600) ordinary shares in the Company at exercise price of HK\$0.10 each. The last day of subscription of the warrants was 4 July 2008.

**20. DISPOSAL OF SUBSIDIARIES**

The net liabilities of Anco Group at 30 September being the date of disposal were as follows:

	<i>HK\$'000</i>
Property, plant and equipment	43,800
Interest in leasehold land held for own use under operating leases	2,041
Cash and bank balances	178
Other receivables	88
Deferred tax liabilities	(8,765)
Amounts due to the Group	(66,242)
Revaluation reserve	(23,699)
	<hr/>
	(52,599)
Sale loan*	66,242
	<hr/>
	13,643
Loss on disposal of subsidiaries (Note 9)	(13,643)
	<hr/>
Total consideration	—*
	<hr/>
Satisfied by:	
Cash consideration	—*
	<hr/>

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

**20. DISPOSAL OF SUBSIDIARIES (Continued)**

Analysis of net outflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	<i>HK\$'000</i>
Cash received	–
Cash and bank balances disposed of	(178)
	<hr/>
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(178)
	<hr/>

\* Total consideration of the disposal is HK\$1.

\* Sale loan represented the shareholder's loan owed by Anco Group to the Group on the completion date of the disposal.

**21. COMMITMENTS**

(a) The Group's capital commitments outstanding at 30 September 2008 not provide for in the financial statements were as follows:

	<b>At 30 September 2008 (Unaudited) HK\$'000</b>	At 31 March 2008 (Audited) HK\$'000
Contracted, but not provided for	<b>2,241</b>	6,271
	<hr/>	<hr/>

(b) At the balance sheet date, the group had total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>At 30 September 2008 (Unaudited) HK\$'000</b>	At 31 March 2008 (Audited) HK\$'000
Within one year	<b>2,105</b>	2,322
In the second to fifth years, inclusive	<b>812</b>	1,920
	<hr/>	<hr/>
	<b>2,917</b>	4,242
	<hr/>	<hr/>



## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

**22. CONTINGENT LIABILITIES****Financial guarantee issued**

A subsidiary of the Company undertook the obligation under a buy-back undertaking entered with a bank of RMB15,795,000 (equivalent to HK\$17,956,000) (2007: RMB20,046,000 (equivalent to HK\$20,647,000)) relating to the mortgage loans arranged for certain purchasers of the Group's properties sold. Pursuant to the terms of the undertaking, in the event of any default in mortgage payments by any of these purchasers, the subsidiary of the Company is responsible to repay the outstanding mortgage principal balances together with accrued interest and penalties owed by the defaulted purchasers and the subsidiary of the Company is entitled to take over the legal title and possession of the related properties. The subsidiary of the Company's guarantee period commences from the dates of the drawdown of the relevant mortgage loans and ends when the subsidiary of the Company obtains the "property title certificate" for the mortgagees.

A deposit of RMB2,279,000 (equivalent to HK\$2,591,000) (2007: RMB2,406,000 (equivalent to HK\$2,478,000)) was pledged to a bank as security for the Group's obligation under the above undertaking.

The Group provided the corporate guarantees of HK\$15,500,000 (2007: HK\$3,000,000) and the deposit pledged of HK\$15,500,000 (2007: HK\$3,000,000), to a bank for the issuance of the performance bonds, in favour of the independent third parties relating to the construction contract, amounting to HK\$15,500,000 (2007: HK\$3,000,000).

No recognition was made because the fair value of the undertaking or guarantee as above was insignificant and that the directors did not consider it probable that a claim would be made against the Group under the undertaking or guarantee. The maximum liability of the subsidiary of the Company at the balance sheet date under the undertaking was HK\$33,456,000 (2007: HK\$23,647,000).



## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

**23. MATERIAL RELATED PARTY TRANSACTIONS**

The Group had the following transactions with related parties during the six months ended 30 September 2008.

**(a) Key management personnel remuneration**

The key management personnel of the Group are the directors of the Company. The remuneration of directors during the six months ended 30 September 2008 was as follows:

	<b>Six months ended 30 September</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Salaries and other benefits	<b>1,303</b>	4,717
Contribution to retirement benefit scheme	<b>18</b>	37
	<hr/>	<hr/>
	<b>1,321</b>	4,754
	<hr/>	<hr/>

**(b) Other related party transactions**

		<b>Six months ended 30 September</b>	
		<b>2008</b>	2007
		<b>HK\$'000</b>	HK\$'000
		<b>(Unaudited)</b>	(Unaudited)
Management fee paid and payable to a minority shareholder	(i)	<b>384</b>	–
Service fee paid and payable to a minority Shareholder	(ii)	<b>489</b>	–
Service fee paid and payable to a related company	(iii)	<b>456</b>	–
Rental of a director's quarter paid to a related company	(iv)	–	270
Rental of office premises paid to a related company	(v)	–	440
Rental of car park paid to a related company	(vi)	<b>19</b>	–
Motor vehicle sold to a director	(vii)	<b>29</b>	–
		<hr/>	<hr/>

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

**23. MATERIAL RELATED PARTY TRANSACTIONS (Continued)****(b) Other related party transactions (Continued)**

*Notes:*

- i) Two subsidiaries of the Group entered into two agreements with a minority shareholder, United Marble Company Limited, who provided project management services for the building material business to two subsidiaries at aggregated monthly management fee of HK\$64,000 commencing on 1 April 2007. HK\$384,000 was outstanding as at 30 September 2008.
- ii) During the period, a minority shareholder, United Marble Company Limited, provided staff services to the subsidiary of the Company at monthly fee of HK\$81,500 commencing on 1 April 2008. HK\$420,000 was outstanding as at 30 September 2008.
- iii) During the period, a subsidiary of the Group entered into an agreement with a related company, Ever Think Technology Development Limited, a company controlled by a minority shareholder, which provide administrative and accounting services to the subsidiary at monthly fee of HK\$104,000 commencing on 20 May 2008. No outstanding balance as at 30 September 2008.
- iv) The Company entered into a lease agreement with a related company, Mountain Dew Limited, a company controlled by Mr. Kwok Hon Lam, a former director of the Company who resigned on 31 August 2007, to lease a director's quarter for a period of 33 months commencing on 1 March 2006 at monthly rental of HK\$45,000. The lease has been terminated on 31 January 2008. No outstanding balance as at 30 September 2008.
- v) The Company entered into a lease agreement with a related company, Gold Regent International Limited, a company controlled by Mr. Cheng, a former director of the Company, to lease an office premises for a period of two years commencing on 1 March 2006 at monthly rental of HK\$73,000. The lease was expired on 28 February 2008. No outstanding balances as at 30 September 2008.
- vi) The Company entered into a lease agreement with a related company, Gold Regent International Limited, a company controlled by Mr. Cheng, to lease a car park commencing on 1 December 2007 at monthly rental of HK\$3,850. The lease has been terminated on 31 August 2008. No outstanding balance as at 30 September 2008.
- vii) The Company entered into a transfer agreement with Mr. Cheng. Under the agreement, a motor vehicle was transferred from the Company to Mr. Cheng on 1 September 2008 for a consideration HK\$29,000. The consideration was settled by the transfer of the outstanding balance of a finance lease to Mr. Cheng.

**24. COMPARATIVE FIGURES**

Due to the termination of the home appliances business, which constituted a discontinued operation under HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", certain comparative figures have been reclassified to conform with current period's presentation.

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

**INDEPENDENT INTERIM REVIEW REPORT****CCIF****CCIF CPA LIMITED**20/F Sunning Plaza  
10 Hysan Avenue  
Causeway Bay Hong Kong**INDEPENDENT REVIEW REPORT  
TO THE BOARD OF DIRECTORS OF  
MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED***(Incorporated in Bermuda with limited liability)***Introduction**

We have reviewed the interim financial report set out on pages 2 to 30, which comprises the condensed consolidated balance sheet of the Company as at 30 September 2008 and the related condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flows statements for the six-month period then ended, and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial report in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial report based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to another person for the contents of this report.

**Scope of Review**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial report consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

**CCIF CPA Limited**

*Certified Public Accountants*

Hong Kong, 7 November 2008

**Kwok Cheuk Yuen**

Practising Certificate Number P02412

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

**MANAGEMENT DISCUSSION AND ANALYSIS****BUSINESS REVIEW****Magnesite Mining Business**

Mining and processing of magnesite ore at the Lishugou Magnesite Mine owned by Haicheng Dongxin Industry Limited, remained the principal activities of the mining division during the interim period. As stated in the annual report for the year ended 31 March 2008, the Company intended to invest up to RMB165 million for the construction of a refractory plant to better utilize the Magnesite Mine and provide better return to the Group. However, by mid-July 2008, Dongxin encountered some interruption in its operation as a number of villagers gathered around the work places and blocked the pathways to the Magnesite Mine. By August 2008, the mining operation has been halted on several occasions as the site was occupied by a large disorderly crowd and Dongxin has not been able to resume normal operation of the Magnesite Mine in the past few months.

On 15 August 2008, the Company entered into an Agreement with Pure Hope Development Limited ("Pure Hope") and Mr. Yam Tak Cheung, being the purchaser guarantor (the "Guarantor"), whereby the Company would sell its 100% interest in Ling Kit Holding Limited for HK\$1,624 million, effectively cancelling the 28 November 2007 Sales and Purchase Agreement. Ling Kit is an investment holding company and its principal asset being an 80% interest in Haicheng Dongxin Industry Limited. The disposal constituted a very substantial disposal for the Company under the Listing Rules. Please refer to the announcement published on 2 September 2008 for details. A circular containing further detail of the Agreement will be dispatched to shareholders before 30 November 2008. The consideration will be settled by Pure Hope by way of transferring to the Company at Completion the Repurchase Shares (800 million shares representing approximately 27.1% of the existing issued capital of the Company) for cancellation, and cancellation of the Convertible Notes and the Promissory Notes.

Although the Company was unable to identify those persons who organized the interruption, they could be linked to a dispute between the Guarantor and the former representative of its PRC Partner over a sum of money. The Company has sought legal advice on the matter and was advised that the dispute would not affect the validity and legality of the Company's shareholding in Dongxin. The local authorities have already been notified of the incident. The Company considers the matter would not be within its ability to help or to end. As the Company is not directly involved in the dispute, it is not in the position to assess when and how the interruption would end or be settled. In coming to the decision in cancelling the 2007 Agreement, the Company has also considered other possible options but has come to the view that the disposal would be the best alternative. It is expected that the disposal would not give rise to any significant impact to the Group's cash flow.



## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

### **Building Materials Business**

Since United Anex Engineering Limited and United Anex (Macau) Limited were incorporated in December 2006, our building material business has already accumulated projects on hand of over HK\$300 million. During the interim period, United Anex Engineering has successfully won the supply and installation contract for the Celestial Heights project in Homantin. Other projects on hand include the podium works of The Venetian Macau, the hotel portion of One Central Macau and a hotel in Discovery Bay.

Ever Think Technology Limited was a newly incorporated company in May 2008. During the period under review, it has performed behind budget and the Group will closely monitor the future prospects of this joint venture with its partner.

### **Property Development Business**

The Group's property development projects are in Dongguan, Guangdong Province, the PRC. The Group has submitted proposal to develop Jia Lake Mountain Villa Phase IV in Liaobu, Dongguan and is pending government approval. The leasing of the shopping mall has been slow due to lackluster market conditions.

### **BUSINESS OUTLOOK**

With rapid growth in the building materials sector, the Group will continue to allocate resources in this business. The Group will also seek for other investment opportunities which are beneficial to its long term development, with an aim to generate the best return for its shareholders.

### **FINANCIAL REVIEW**

For the six months ended 30 September 2008, the turnover of the Group was HK\$67.4 million. Contribution from the building materials and magnesite mining businesses amounted to HK\$57.3 million and HK\$10.1 million, respectively. The magnesite mine being a newly acquired business in March 2008.

For the six months ended 30 September 2007, the turnover of the Group was HK\$107.6 million. Contribution from the building materials and home appliances businesses amounted to HK\$45.3 million and HK\$62.3 million, respectively. Due to keen competition in the home appliances manufacturing industry, the substantial increases in raw material prices, the gradual rise in labor cost in the PRC and the appreciation of the Renminbi, the directors decided to dispose of its home appliances business. The disposal was completed on 31 January 2008, hence, no result was recorded for the home appliances business for the six months ended 30 September 2008.

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

Loss for the six months ended 30 September 2008 amounted to HK\$142.0 million, as compared to HK\$48.7 million recorded in the last corresponding period. The significant increase in losses was mainly due to the amortization charge for the mining rights, which amounted to HK\$63.5 million during the period. Other factors include the loss on disposal of Anco Industrial Company Limited and its subsidiaries of HK\$13.6 million, the impairment losses provided for the devaluation of the PRC properties of HK\$19.8 million, and interest expenses on convertible notes and promissory notes of HK\$36.6 million.

During the period under review, the Group had three business segments: property development, building materials and magnesite mine.

**Property Development Business**

Due to the slowdown of the property market in the PRC, the Jia Lake Shopping Mall in Dongguan was vacant and generated no income during the period under review. The Group has to continue to finance the property development business as the final phase of Jia Lake Mountain Villa was still under the development stage. As a result, this segment recorded a net loss of HK\$21.0 million (2007: HK\$1.9 million) mainly due to administrative expenses incurred during the period and impairment losses of HK\$19.8 million provided for the devaluation of the properties.

**Building Materials Business**

During the period under review, the building materials business recorded a mild improvement. Turnover for the six months ended 30 September 2008 was approximately HK\$57.3 million as compared to HK\$45.3 million recorded in last corresponding period, representing an increase of 26.5%. However, a slightly HK\$228,000 segment loss was recorded as compared to HK\$6.4 million segment profit recorded in last corresponding period as more contract costs were recognised during the period.

**Magnesite Mining Business**

The Group acquired 80% indirect interest of Haicheng Dongxin Industry Limited, which is principally engaged in the mining and processing of magnesite ore at the Lishugou Magnesite Mine. The acquisition was completed on 6 March 2008. Hence, no result was recorded in last corresponding period. During the period under review, the magnesite mining segment contributed HK\$10.1 million turnover to the Group. However, a HK\$62.0 million segment loss was recorded due to amortization of HK\$63.5 million being charged to the income statements for the six months ended 30 September 2008.



## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

### **LIQUIDITY AND FINANCIAL RESOURCES**

For the six months ended 30 September 2008, the Group has implemented a prudent financial management policy. As at 30 September 2008, the Group has cash and bank balances (including pledged bank deposits) amounting to approximately HK\$117.0 million (2007: HK\$174.4 million).

The Group's gearing ratio expressed as a percentage of total interest-bearing borrowings over equity attributable to the Company's equity holders, increased from 184.6% as at 1 April 2008 to 234.6% as at 30 September 2008, mainly due to increase of accrued interests on convertible notes and promissory notes.

As at 30 September 2008, the Group has HK\$1,212.5 million (2007: HK\$24.2 million) interest-bearing borrowings of HK\$6.6 million in bank overdrafts, HK\$1.7 million in secured trust receipt loans, HK\$5.4 million in trade loans, HK\$878.8 million in convertible notes and HK\$320.0 million in promissory notes. Except for the convertible notes and promissory notes, the aforesaid loans are repayable within one year. As at 30 September 2008, the Group's working capital was approximately HK\$164.7 million (2007: HK\$205.3 million).

### **CHARGE ON ASSETS AND PLEDGED DEPOSITS**

At 30 September 2008, general banking facilities granted to the Group were secured by time deposits of HK\$33.5 million.

### **CONTINGENT LIABILITIES**

At 30 September 2008, the Group's contingent liabilities are disclosed in note 22 to the condensed consolidated financial statements.

### **CHANGE OF COMPANY NAME**

The Company intends to change its name and will make a further announcement in due course.

### **EXPOSURE TO EXCHANGE RISK**

The Group mainly operates in Asia Pacific, including the PRC, Macau and Hong Kong. Most of the Group's transactions, assets and liabilities are denominated in Renminbi and Hong Kong Dollars.

Foreign exchange risk arises from fluctuations of exchange rates of foreign currencies. The management will monitor closely to ensure measures are taken against any adverse impact on the exchange risk associated with the appreciation of the Renminbi.

### **FINANCIAL INSTRUMENTS FOR HEDGING PURPOSES**

The Group had neither foreign currency hedging activities nor any financial instruments for hedging purposes during the period.

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

### **HUMAN RESOURCES AND REMUNERATION POLICY**

As at 30 September 2008, the Group has approximately 65 employees (2007: 999) in Hong Kong and the PRC. The total remuneration paid by the Group to its employees (including directors) for the interim period was approximately HK\$5.3 million (2007: HK\$20.3 million).

The Group rewards its employees according to prevailing market practices, individual experience and performance are reviewed regularly. In addition to the provision of annual bonus, provident fund scheme and medical insurance coverage, discretionary bonuses and share option are also available to employees based on their performance.

The Directors wish to express their gratitude to our business partners, shareholders and colleagues for their continuous support to the Group.

### **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES**

On 15 August 2008, the Company entered into an agreement for the disposal of its entire interest in Ling Kit Holding Limited to Pure Hope Development Limited for HK\$1,624 million. The Consideration will be settled by cancellation of 800 million Repurchase Shares, the Convertible Note and Promissory Note. The disposal is subject to shareholders' approval in a Special General Meeting after the dispatch of the circular.

On 30 September 2008, the Company sold its entire interest in Anco for a consideration of HK\$1.00. Anco is the holder of the land use rights of our former home appliances factory in Dongguan. It reported a loss of HK\$13.6 million for the six months ended and the disposal would eliminate future potential losses to the Group.

## **SHAREHOLDERS' INFORMATION AND CORPORATE GOVERNANCE**

### **INTERIM DIVIDEND**

The Board of the Company does not declare an interim dividend for the six months ended 30 September 2008 (2007: Nil).

### **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

During the six months ended 30 September 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### **SHARE OPTION SCHEME**

A share option scheme was adopted by the shareholders of the Company on 9 September 2002. Pursuant to the Share Option Scheme, the Company may grant options to the Company's directors and other employees of the Group to provide incentives or rewards for their contribution to the success of the Group's operation.

As at 30 September 2008, the total number of shares available for issue under the Share Option Scheme was 191,477,268 shares. No options were granted, exercised, cancelled or lapsed under the Share Option Scheme during the period under review and there were no outstanding share option as at 30 September 2008.

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

**DISCLOSURE OF INTEREST****DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES**

As at 30 September 2008, the interests and short positions of the Directors and the chief executive in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

<b>Name of Director</b>	<b>Capacity</b>	<b>Number of Issued Shares Held</b>	<b>Approximate Percentage of Issued Shares as at 30 September 2008</b>
Ms. Chung Oi Ling, Stella	Personal Interest	75,000,000	2.54%

Save as disclosed above, as at 30 September 2008, none of the Directors or the Company's chief executive, had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporation.

**SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN SHARES AND UNDERLYING SHARES**

As at 30 September 2008, so far as was known to any Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company), as recorded in the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO, had notified the Company of relevant interests in the issued share capital of the Company:

<b>Name of Substantial Shareholders</b>	<b>Capacity</b>	<b>Number of Issued Shares Held</b>	<b>Approximate Percentage of Issued Shares as at 30 September 2008</b>
Mr. Yam Tak Cheung ("Mr. Yam") (Note)	Personal Interest and Interest of Controlled Corporation	828,500,000	28.07%
Pure Hope Development Limited ("Pure Hope") (Note)	Corporate interest	800,000,000	27.11%

Note: Mr. Yam has 100% beneficial interest in Pure Hope. Accordingly, Mr. Yam is deemed to be interested in the ordinary shares owned by Pure Hope.

Save as disclosed above, as at 30 September 2008, the Company had not been notified of any other relevant interests or short positions in any shares or underlying shares of the Company.

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

### **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has complied with the Code and Provisions in the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules during the six months ended 30 September 2008, except for the following deviation:

- (1) The Independent Non-executive Directors of the Company were not appointed for specific terms. However, the Independent Non-executive Directors are subject to re-election, either by rotation in accordance with the provisions of the Bye-laws of the Company or on a voluntary basis, at least once every three years.
- (2) The Company has not established a Nomination Committee. The Board is empowered to appoint any person as a director at any time so as to fill a casual vacancy or as an addition to the Board. Appointment is made on the basis of the qualifications, experience and personality of the potential candidate.

### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as its own code for dealing in securities of the Company by the directors. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard as set out in the Model Code during the six months ended 30 September 2008.

### **AUDIT COMMITTEE**

The Audit Committee comprises three Independent Non-executive Directors namely Mr. Lo Chi Ho, William, Mr. Chu Kin Wang, Peleus and Ms. Lau Wa Chun. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls. The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements of the Group and the interim report for the six months ended 30 September 2008. After review and discussions, the Audit Committee recommended the Board's approval of the unaudited condensed consolidated interim financial statements for the six months ended 30 September 2008.

## MAGNESIUM RESOURCES CORPORATION OF CHINA LIMITED

**CORPORATE INFORMATION****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

**COMPANY SECRETARY AND QUALIFIED ACCOUNTANT**

Ms. Wong Fei Tat

**AUTHORIZED REPRESENTATIVES**

Mr. Teoh Tean Chai, Anthony  
Ms. Wong Fei Tat

**LEGAL ADVISERS TO THE COMPANY**

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As to Bermuda Law  
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**AUDITOR**

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Hong Kong

**PRINCIPAL BANKER**

Hang Seng Bank Limited

**SHARE REGISTRARS****Principal Registrar**

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**HONG KONG BRANCH REGISTRAR**

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**HONG KONG STOCK EXCHANGE CODE**

Ordinary Share  
723