APAC RESOURCES

APAC RESOURCES LIMITED

亞太資源有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 1104)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

The board of directors ("the Board") of APAC Resources Limited ("the Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2007, which has been reviewed by the auditors of the Group and the audit committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

	Notes	Six months ended 30 June **2007** HK$'000 **(unaudited)**	2006 HK$'000 (unaudited)
Turnover	3	**18,725**	5,788
Cost of sales		**(18,188)**	(5,774)
Gross profit		**537**	14
Gain on disposal of a subsidiary	4	**1,536**	—
Gain on disposal of available-for-sale investments		**16,535**	—
Unrealised gain on trading securities		**141,022**	—
Other income		**1,044**	183
Administrative expenses	5	**(10,448)**	(5,331)
Finance costs		**(8,089)**	(958)
Profit/(loss) before taxation		**142,137**	(6,092)
Taxation	6	**—**	(2)
Profit/(loss) for the period		**142,137**	(6,094)
Earnings/(loss) per share	7		
— Basic		**4.99 HK cents**	(1.48) HK cents
— Diluted		**4.78 HK cents**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2007

	Notes	30 June 2007 HK$'000 (unaudited)	31 December 2006 HK$'000 (audited)
Non-current assets			
Property, plant and equipments		**1,420**	—
Available-for-sale investments	8	**1,189,787**	—
Deposit for acquisition of available-for-sale investment		—	20,000
		1,191,207	20,000
Current assets			
Inventories		**1,427**	1,494
Trade and other receivables	9	**5,940**	8,460
Trading securities	10	**368,564**	227,039
Pledged bank deposits		**10,300**	10,098
Cash and cash equivalents		**19,190**	12,282
		405,421	259,373
Current liabilities			
Trade and other payables	11	**11,411**	7,585
Secured other loan		**148,980**	—
Margin financing loan		**68,380**	141,612
Tax payable		**187**	200
		228,958	149,397
Net current assets		**176,463**	109,976
Total assets less current liabilities		**1,367,670**	129,976
Capital and reserves			
Share capital		**335,906**	125,900
Reserves		**1,031,764**	4,076
Total equity attributable to equity holders of the Company		**1,367,670**	129,976
Minority interests		—	—
Total equity		**1,367,670**	129,976

Notes :

1. **Basis of Preparation**

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. **Principal accounting policies**

The condensed consolidated financial statements have been prepared under the historical cost basis except that financial instruments classified as trading securities and available-for-sale investments are stated as fair value.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006.

In the current period, the Group has applied, for the first time, the following new standards, amendments and interpretations (hereinafter collectively referred to as ''new HKFRSs''), issued by the HKICPA, which are effective for the Group's accounting period beginning on 1 January 2007.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: disclosures[1]
HK(IFRIC)-Int 7	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies[2]
HK(IFRIC)-Int 8	Scope of HKFRS 2[3]
HK(IFRIC)-Int 9	Reassessment of embedded derivatives[4]
HK(IFRIC)-Int 10	Interim financial reporting and impairment[5]

[1] Effective for annual periods beginning on or after 1 January 2007

[2] Effective for annual periods beginning on or after 1 March 2006

[3] Effective for annual periods beginning on or after 1 May 2006

[4] Effective for annual periods beginning on or after 1 June 2006

[5] Effective for annual periods beginning on or after 1 November 2006

The application of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods.

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments and interpretations will have no material impact on the financial position of the Group.

HKAS 23 (Revised)	Borrowing costs[1]
HKFRS 8	Operating segments[1]
HK(IFRIC) — Int 11	HKFRS 2 — group and treasure share transactions[2]
HK(IFRIC) — Int 12	Service concession arrangements[3]

[1] Effective for annual periods beginning on or after 1 January 2009

[2] Effective for annual periods beginning on or after 1 March 2007

[3] Effective for annual periods beginning on or after 1 January 2008

3. **Segment Information**

Business segments

For management purposes, the Group is currently organised into three operating divisions — trading in base metals, trading in fabric products and other merchandises and trading and investment of listed securities. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

	Trading in base metals *HK$'000*	Trading in fabric products and other merchandises *HK$'000*	Trading and investment of listed securities *HK$'000*	Consolidated *HK$'000*
Six months ended 30 June 2007				
Turnover				
External sales	—	18,725	—	18,725
Results				
Segment profit	—	557	157,557	158,114
Unallocated corporate expenses				(9,424)
Gain on disposal of a subsidiary				1,536
Finance costs - interest on other loans				(8,089)
Profit before taxation				142,137
Taxation				—
Profit for the period				142,137
Six months ended 30 June 2006				
Turnover				
External sales	5,788	—	—	5,788
Results				
Segment profit	15	65	—	80
Unallocated corporate expenses				(5,214)
Finance costs - interest on other loans				(958)
Loss before taxation				(6,092)
Taxation				(2)
Loss for the period				(6,094)

Geographical segments

The following tables provide an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Six months ended 30 June	
	2007	2006
	HK$'000	*HK$'000*
Hong Kong	**7,240**	5,788
South East Asia	**988**	—
United States of America	**2,049**	—
Africa	**8,448**	—
	18,725	5,788

4. **Gain on Disposal of a Subsidiary**

Pursuant to an option agreement dated 14 June 2006, Rise Cheer Limited, a wholly owned subsidiary of the Company exercised the put option against Professional Trading Limited for the 60% interest in Chinaright Electronics Limited.

	HK$'000
Net liabilities disposed of :	
Inventories	1,494
Bank balance and cash	23
Trade and other payables	(2,253)
Net liabilities	(736)
Gain on disposal	1,536
Consideration received — cash	800

An analysis of the net inflow of cash and cash equivalents in respect of the disposals of a subsidiary is as follows:

	HK$'000
Cash consideration	800
Cash and cash equivalents disposed of	(23)
Net inflow of cash and cash equivalents	777

5. **Administrative Expenses**

The expenses of the six months period ended 30 June 2007 include depreciation and amortization amounted to approximately HK$26,000 (2006: nil).

6. **Taxation**

No Hong Kong profits tax has been provided for as the group had no assessable profit for the six months period ended 30 June 2007 (six months ended 30 June 2006 : nil).

The Group had no significant unprovided deferred taxation at the balance sheet date.

7. **Earnings/(loss) Per Share**

(a) The calculation of the basic earnings/(loss) per share is based on the profit for the period of approximately HK$142,137,000 (2006: loss of HK$6,094,000) and on the weighted average of 2,850,853,386 (2006: 413,000,000) shares in issue during the period.

(b) The calculation of diluted earnings per share for the six months period ended 30 June 2007 is based on the profit for the period and number of shares as used in the basic earnings per share calculation, adjusted for 124,284,222 shares assumed to have been issued since 5 February 2007 throughout the period ended 30 June 2007, at no consideration on the deemed exercise of all warrants. The share options do not have dilutive effect because the exercise price of the options exceeds the average market price of ordinary shares during the six months period ended 30 June 2007.

Diluted loss per share had not been presented for the six months period ended 30 June 2006 as there were no potential dilutive shares outstanding during the period.

8. **Available-for-sale investments**

	30 June 2007	31 December 2006
	HK$'000	*HK$'000*
	(Unaudited)	*(Audited)*
Listed equity securities, in overseas	**1,189,787**	—

9. **Trade and Other Receivables**

The Group allows an average credit period of 60 days to its trade customers.

The following is an aged analysis of trade receivables at the balance sheet date:

	30 June 2007	31 December 2006
	HK$'000	*HK$'000*
	(Unaudited)	*(Audited)*
Trade receivables		
0 to 30 days	**2,097**	3,076
31 to 60 days	**988**	2,048
61 to 90 days	**2,142**	2,124
91 to 365 days	**—**	418
Over 365 days	**—**	130
	5,227	7,796
Other receivables	**713**	664
	5,940	8,460

10. **Trading Securities**

	30 June 2007	31 December 2006
	HK$'000	*HK$'000*
	(Unaudited)	*(Audited)*
Trading securities, at fair value		
Listed equity securities, in Hong Kong	**1,839**	1,810
Listed equity securities, in overseas	**366,725**	225,229
	368,564	227,039

11. **Trade and Other Payables**

The following is an aged analysis of trade payables at the balance sheet date:

	30 June 2007 *HK$'000* *(Unaudited)*	31 December 2006 *HK$'000* *(Audited)*
Trade payables		
0 to 30 days	**3,469**	—
31 to 60 days	**963**	—
61 to 90 days	**2,085**	—
91 to 365 days	**—**	192
Over 365 days	**—**	1,754
	6,517	1,946
Other payables	**4,894**	5,639
	11,411	7,585

12. **Litigation and Contingent Liabilities**

At 30 June 2007, the Group had the following litigation and contingent liabilities:

Reference is made to the disclosure of litigation and contingent liabilities in the annual reports 2004, 2005 and 2006 of the Company.

(a) After taking legal advice, the receivers of the Company, Mr. Alan Chung Wah Tang and Ms. Alison Wong Lee Fung Ying, both from Grant Thornton, Certified Public Accountants (the "Receivers"), commenced legal proceedings on 2 July 2003 against Great Center Limited ("Great Center") for the repayment of two sums totaling US$4.5 million (or approximately HK$35.1 million), remitted on or about 21 May 2003 with no apparent justification, from the bank account of Merchants (Hong Kong) Limited, to a bank account maintained in the name of Great Center, and interest thereon, damages and costs of the legal proceedings (the "Great Center Action").

(b) The writ of summons issued on 2 July 2003 in relation to the claim against Great Center for the repayment of US$4.5 million was amended on 10 July 2004 (the "Amended Writ") to include the claims for (i) the repayment of HK$12.8 million remitted from a bank account of the Company to a bank account in the name of Great Center on or about 17 April 2003; and (ii) the repayment of HK$22.0 million remitted from a bank account of the Company to a bank account in the name of Modern Shine Enterprises Limited ("Modern Shine"), a company incorporated in the British Virgin Islands, on or about 22 April 2003, interest thereon, damages and costs of legal proceedings. The sum of claims under the Amended Writ amounts to approximately HK$69.9 million. At last, the court entered judgment against Modern Shine on 7 November 2005 for the sum of HK$22,000,000 plus interest and damages for conversion and interest thereon. Regarding the claim against Great Center, the Company has reached an amicable settlement with Great Center's liquidators.

The settlement was approved by the court on 6 November 2006. The Company received the settlement sum of US$2,637,000 plus interest in the sum of US$114,210.30 from Great Center's liquidators on 20 November 2006. The Company has not obtained the judgment sum of HK$22,000,000. Since Modern Shine is a company incorporated in the British Virgin Islands, it makes the enforcement extremely costly. Further, the Company has no information on the financial status and asset position of Modern Shine. As advised by the legal advisers to the Company, the viable course of action includes the petitioning for winding up of Modern Shine, which is also a very costly process.

(c) On 23 August 2003, the Receivers commenced legal proceedings against Win Victory Holdings Limited ("Win Victory"), a company incorporated in Hong Kong, for the repayment of a sum of HK$37.0 million, together with interest thereon, damages and costs of the legal proceedings. Further, the Receivers, on behalf of the Company, petitioned for the winding-up of Win Victory on the grounds, inter alia, that Win Victory is unable to pay its debts and provisional liquidators were appointed. Due to the lack of funds in Win Victory, the provisional liquidators have not undertaken an extensive investigation and have recently made an application to the court for the discharge of their appointment and their application is fixed to be heard on 20 April 2006. The continuation of the winding-up petition was to enable a more thorough investigation of the flow of funds in and out of Win Victory. In view of the application by the provisional liquidators, the official receiver made an application to restore the winding-up petition, which has been adjourned to 24 April 2006 for hearing. The court had on the hearing of 24 April 2006 ordered that Win Victory be wound-up on the petition of the Company. The Company is making arrangement to prove its debts and to recover its costs of the winding up proceedings in the liquidation of Win Victory.

13. **Pledge of Assets**

	30 June 2007 *HK\$'000* ***(Unaudited)***	31 December 2006 *HK\$'000* *(Audited)*
(a) Margin financing loan facilities secured by:		
— available-for-sale investments	**964,988**	—
— trading securities	**368,564**	225,229
	1,333,552	225,229
(b) Banking facilities of HK$10 million (2006: HK$10 million) granted by a bank and secured by bank deposits of the Group	**10,300**	10,098
	1,343,852	235,327

14. **Post Balance Sheet Events**

(a) On 4 July 2007, Sun Hung Kai International Limited and 3V Capital Limited (the "Joint Placing Agents") and the Company, entered into a placing agreement (the "Placing Agreement"). Pursuant to the Placing Agreement, the Company has agreed to place through the Joint Placing Agents 665,000,000 new shares (the "Placing Shares") to independent investors at a price of HK$1.29 per share. The Placing Shares represent approximately 19.80 per cent of the issued share capital of the Company at the same date. The transaction was completed on 20 July 2007.

(b) Share options were proposed to grant to Mr. Liu Yongshun to subscribe for 150,000,000 ordinary shares of the Company at an exercise price of HK$1.20 per share on 29 May 2007. An ordinary resolution for the grant of options to Mr. Liu Yongshun has been passed on a special general meeting held on 27 July 2007.

(c) An ordinary resolution for the grant of options to Mr. Cao Zhong and Ms. Chong Sok Un to subscribe for 100,000,000 and 110,000,000 ordinary shares of the Company respectively at an exercise price of HK$1.50 per share pursuant to the share option scheme of the Company adopted on 22 September 2004 has been passed on a special general meeting held on 15 August 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For the six months ended 30 June 2007, the Group's turnover increased by 224% to HK$18,725,000 (2006: HK$5,788,000). Net profit attributable to shareholders of the Company was HK$142,137,000 versus a loss of HK$6,094,000 for the corresponding period of 2006. The substantial improvement in financial result was mainly due to the contribution from its investment in listed securities of natural resources sector. Earning per share (basic) of the Company was HK Cents 4.99 (six months period ended 2006: loss per share HK Cents 1.48).

As at 30 June 2007, the Group's net asset value per share was HK$0.41 (31 December 2006: HK$0.10)

BUSINESS REVIEW

Trading and investment of listed securities

For the first half of 2007, the Group's business of trading and investment of listed securities recorded a realized gain of HK$16,535,000 (2006: nil) from the partial realization of its long-term investment and an unrealized gain of HK$141,022,000 (2006: nil) from its portfolio of trading securities. This satisfactory performance was due to the Group's ability in securing good investment opportunities in the booming natural resources sector during the first half of the year.

During the period under review, the Group completed the respective acquisitions of (i) 108,253,810 shares in Mount Gibson Iron Limited ("MGX"), representing approximately 13.74% of the issued share capital of MGX, for an aggregate consideration of approximately HK$549,625,000 and (ii) 28,000,000 shares and 14,000,000 options (exercisable into the same number of shares) in Australasian Resources Limited ("ARH") representing approximately 7.29% of the issued share capital of ARH, for an aggregate consideration of approximately HK$174,846,000. Subsequent to the partial realization in its investment in ARH, the Group's shareholding in ARH decreased to 5.68% as at 30 June 2007. MGX and ARH are companies incorporated in Australia with their shares listed on the Australian Stock Exchange. MGX's principal businesses are mining of hematite iron ore at Tallering Peak and Koolan Island and exploration and development of hematite iron ore deposit in Midwest region of Western Australia. ARH's principal activity is mineral exploration. Recent development of ARH includes the Balmoral South Iron Ore Project with respect to the right to mine 1 billion tonnes of magnetite ore from part of the Balmoral South Project situated in the Pilbara region of Western Australia and the Sherlock Bay Nickel Project situated in the West Pilbara region of Western Australia with respect to exploiting the nickel sulphide deposit contained in that project area.

Trading in fabric products

For the first half year of 2007, there was an increase in turnover to HK$18,725,000 (2006: nil). Due to the keen competition within this business sector, the profit margin was relatively low and a segment profit of HK$557,000 (2006: HK$65,000) was recorded.

Trading in base metals

There was no trading in base metals (2006: HK$5,788,000) nor segment profit was recorded (2006: HK$15,000) in the period under review. With the positive outlook on the natural resources sector, the Group is actively seeking and identifying business opportunities in this business sector.

The acquisition of an iron ore mine in Mongolia

On 16 February 2007, the Group entered into a conditional acquisition agreement, subject to satisfaction of certain conditions precedent including financial, legal and technical due diligences, to acquire the entire share capital of China Mineral Resource Limited ("CMR") for an aggregate consideration of HK$450,000,000. The Group understands from the vendor that CMR through a wholly owned subsidiary incorporated in Mongolia owns the rights of exploration and exploitation of an iron ore mine in Mongolia. As advised by the technical adviser that more time is needed to conduct the site visit and inspection on the iron ore mine in Mongolia for preparation of the technical report, it is expected that a circular containing details of the acquisition will be dispatched to the shareholders of the Company by the end of December 2007.

The acquisition of interest in China Primary Resources Holding Limited

On 29 May 2007, the Group entered into various conditional acquisition agreements to acquire an aggregate of 862,912,520 shares in China Primary Resources Holdings Limited ("CPR") representing approximately 12.66% of the issued share capital of CPR for an aggregate consideration of approximately HK$327,907,000 ("Conditional Acquisitions"). The aggregate consideration will be settled by way of the issue of 287,637,505 new shares by the Company on completion of the Conditional Acquisitions. These Conditional Acquisitions are subject to the satisfaction of various conditions precedent, amongst other things, the approval by the shareholders of the CPR and the completion of a very substantial acquisition by CPR of a 22.28% interest in a mining company ("CPR's Acquisition"). On 27 July 2007, shareholders of the Company at a special general meeting had approved the Conditional Acquisitions. On 29 June 2007, CPR announced that as more time is needed for the preparation of the circular for CPR's Acquisition for its shareholders' approval, the despatch of such circular had been extended to on or before 30 September 2007. CPR is a company incorporated in Cayman Islands with its shares listed on the Growth Enterprise Market of the Hong Kong Stock Exchange. CPR's principal activities involved trading of fibre glass reinforced plastic pipes ("FRP Pipes"), raw materials and composite materials and production of FRP Pipes and polyethylene pipes ("PE Pipes") in the PRC.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2007, the Group maintained a healthy financial position. The Group's non-current assets consisted mainly of available-for-sale investments of HK$1,189,787,000 (31 December 2006: nil) and deposit for acquisition of available-for-sale investments of nil (31 December 2006: HK$20,000,000) and were principally financed by shareholder's funds. As at 30 June 2007, the Group had net current assets of HK$176,463,000 (31 December 2006: HK$109,976,000) with current ratio of 1.77 times (31 December 2006: 1.74 times), calculating on the basis of the Group's current assets over current liabilities.

All the Group's borrowings were in Hong Kong Dollars repayable within one year and were secured by listed securities and mortgage of the share capital of a subsidiary. As at 30 June 2007, the Group reported a total borrowings of HK$217,360,000 (31 December 2006: HK$141,612,000) and a gearing ratio of 14.5% (31 December 2006: 99.5%), calculating on the basis of the Group's net borrowings (borrowings after deducting cash and cash equivalents) over total equity.

During the first half year of 2007, the Company by way of a rights issue issued 1,259,000,000 ordinary shares (at HK$0.3 per share) and 251,800,000 bonus warrants (with exercise price of HK$0.3 per warrant, exercisable from 5 February 2007 to 4 February 2010) and by way of placing of 800,000,000 ordinary shares (at HK$0.3 per share) by placing to raise equity fund of gross amounts of HK$377,700,000 and HK$240,000,000 respectively to finance various acquisitions relating to natural resources industry.

INTERIM DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2007 (2006: nil).

FOREIGN EXCHANGE EXPOSURE

For the period under review, the Group's assets were mainly denominated in Australian Dollar while the liabilities were all denominated in Hong Kong Dollar. As a substantial portion of the assets was held as long-term investments, there would be no material immediate effect on the cash flow of the Group. In light of this, the Group did not hedge for risk arising from the Australian Dollar denominated assets.

PROSPECT

On 20 July 2007, the Group completed a placing of 665,000,000 new shares at a price of HK$1.29 per share raising equity fund of gross amount of HK$857,850,000 to be principally applied for further investments in the resources industry, acquisition in shares in listed companies and general working capital of the Group.

With the sustained demand for commodities globally, in particular China and India, the Group believes the prevailing favourable outlooks on commodity prices and performances of resources companies will continue. However, the Group is also concerned about the possible negative impacts from the austerity measures taken by China to curb the over-heated China property market and the worries on the well being of the US economy. Nevertheless, embracing its goal to become a significant natural resources investment and trading group, the Group will continue to identify, evaluate and acquire strategic interests in quality natural resources assets by means of direct investment in mineral projects so as to enhance its shareholder value.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2007, the Group had 5 managerial, trading and administrative staffs in Hong Kong.

The Group remunerates its employees largely based on the prevailing industry practice.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance. Throughout the six months ended 30 June 2007, the Company had adopted practices which complied with the provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

AUDIT COMMITTEE REVIEW

The Audit Committee has reviewed with the management the accounting policies and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim financial report for the six months ended 30 June 2007. In carrying out this review, the Audit Committee has relied on a review conducted by the Group's external auditors in accordance with the Hong Kong Standard on Review Engagements 2410 issued by the HKICPA as well as obtaining reports from management. The Audit Committee has not undertaken independent audit checks.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 of the Listing Rules as the code (the "Code") for dealing in securities of the Company by the Directors and supervisors. Having made specific enquiry, the Company confirmed that all Directors and supervisors had complied with the required standard as set out in the Code for the six months ended 30 June 2007.

By Order of the Board
APAC RESOURCES LIMITED
Cao Zhong
Chairman

Hong Kong, 7 September 2007

As at the date of this announcement, the Directors are:-

Executive Directors:
Mr. Cao Zhong *(Chairman)*, Mr. Liu Yongshun *(Chief Executive Officer)*, Mr. Zhou Luyong *(Deputy Chief Executive Officer)*, Ms. Chong Sok Un, Mr. Lau Yau Cheung, Mr. Chen Zhaoqiang and Mr. Yue Jialin

Independent Non-Executive Directors:
Mr. Wong Wing Kuen, Albert, Mr. Tsui Robert Che Kwong, Mr. Chang Chu Fai, Johnson Francis, Mr. Alan Stephen Jones and Mr. Robert Moyse Willcocks

* *For identification purpose only*