

On behalf of the board of directors (the “Board”, “Directors”) of APAC Resources Limited (the “Company”) (formerly known as Shanghai Merchants Holdings Limited with change of the Company’s name effective from 4 January 2007), I am pleased to present to the shareholders the financial results, operation and other aspect of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2006.

## FINANCIAL RESULTS

For the year ended 31 December 2006, the Group’s turnover decreased by 66.7% to HK\$22,773,000 (2005: HK\$68,393,000) while the net profit attributable to shareholders increased by 284.3% to HK\$24,982,000 (2005: HK\$6,501,000).

Earnings per share of the Company increased by a lesser amount of 97.5% to 3.10 HK Cents (2005: 1.57 HK Cents) as a result of the issue of shares following the Group’s rights issue carried out during the year.

As at 31 December 2006, the Group’s net asset value per share increased to HK\$0.10 (2005: HK\$0.05).

## DIVIDEND

The Board does not recommend the payment of a dividend for the year ended 31 December 2006 (2005: Nil).

## REVIEW OF OPERATIONS

With the effort and commitment from the management and the staff and, together with the continued support from the shareholders, resumption of trading of the shares of the Company took effect on 14 July 2006.

During the year under review, the Group’s trading in base metals recorded a turnover of HK\$5,788,000 (2005: HK\$44,937,000) and a profit HK\$21,000 (2005: HK\$110,000). Further, the Group’s turnover and profit for fabric products and other merchandises trading business segment for year 2006 was HK\$14,132,000 (2005: HK\$23,456,000) and HK\$577,000 (2005: HK\$966,000). Decreases in turnover and profit in these business activities were mainly due to intense competition within this market sectors which further drove the profitability downward.

For the securities trading and investment, the Group recorded a turnover of HK\$2,853,000 (2005: Nil) and a profit of HK\$39,152,000 (2005: Nil) for the year ended 31 December 2006, attributed mainly to the unrealised gain from its trading portfolio. The Group commenced its securities trading and investment activities during this year in order to diversify its sources of income and enhance return on its capital.

On 9 November 2006, the Group announced (i) a very substantial acquisition of 48,373,197 ordinary shares in the issued share capital of Mount Gibson Iron Limited (“MG”) for a consideration of HK\$244,474,752, (ii) a rights issue at a price of HK\$0.3 each, on the basis of one rights share for every existing share then held, raising gross proceeds of HK\$377,700,000 (iii) issue of bonus warrant with exercise price of HK\$0.3 each exercisable for a period of three years commencing on 5 February 2007 to 4 February 2010, on the basis of one bonus warrant for every five rights shares subscribed, totaling 251,800,000 bonus warrants which were all completed on 1 February 2007. MG is a company incorporated in Australia with its share listed on the Australian Stock Exchange (“MG Shares”). Its principal business is mining of hematite iron ore at Talling Peak and Koolan Island and exploration and development of hematite iron ore deposits in midwest region of Western Australia. On 9 November 2006, the Group also announced the placing of 800,000,000 new shares at placing price of HK\$0.3 each, raising gross proceeds of HK\$240,000,000 which was completed on 28 February 2007.

## **FINANCIAL RESOURCES, BORROWINGS, CAPITAL STRUCTURE AND FOREIGN EXCHANGE EXPOSURES**

As at 31 December 2006, the Group’s non-current assets consisted of deposit for acquisition of available-for-sale investment of HK\$20,000,000 (2005: Nil) which was principally financed by shareholders’ funds. As at 31 December 2006, the Group had net current assets of HK\$109,976,000 (2005: HK\$21,881,000) and current ratio of 1.7 times (2005: 2.0 times) calculated on the basis of the Group’s current assets over current liabilities.

All the Group’s borrowings are arranged on a short term basis in Hong Kong Dollars, repayable within one year and secured by trading securities. As at 31 December 2006, the Group had borrowings of HK\$141,612,000 (2005: Nil) and a gearing ratio of 99.5% (2005: Nil), calculated on the basis of the Group’s net borrowings (after cash and cash equivalents) over shareholders’ fund.

The issued share capital of the Company was increased in 2006 from HK\$41,300,000 to HK\$125,900,000 following the issuances of rights shares and conversion of convertible bond. Subsequent to 31 December 2006, the authorised share capital of the Company increased from HK\$200,000,000 divided into 2,000,000,000 shares of HK\$0.1 each to HK\$800,000,000 divided into 8,000,000,000 shares of HK\$0.1 each.

During the year under review, the Group’s assets, liabilities and transactions were mainly denominated in Hong Kong Dollar, Australian Dollar, and US Dollar. Because of its short term nature, the Group had not actively hedged risks arising from the Australian Dollar and US Dollar.

## **PLEDGE OF ASSETS**

As at 31 December 2006, the Group’s trading securities of HK\$225,229,000 (2005: Nil) were pledged to a stock-broking firm to secure short term credit facility granted to the Group and the Group’s bank deposits of HK\$10,098,000 (2005: HK\$4,012,000) were pledged to a bank to secure banking facilities granted to the Group.

## **EMPLOYEES AND REMUNERATION POLICY**

The Group ensured that its employees are remunerated according to the prevailing manpower market conditions and individual performance and the remuneration policies are reviewed on a regular basis.

## PROSPECT

On 6 February 2007, the Group further acquired 40,125,967 MG Shares, a major transaction, through a number of on-market transactions on the Australian Stock Exchange at an aggregate consideration of A\$33,501,170 (equivalent to approximately HK\$202,722,279). On 9 February 2007, the Group entered into a conditional acquisition agreement with a direct wholly-owned subsidiary of Shougang Holding (Hong Kong) Limited, one of its substantial shareholders, to acquire 19,754,646 MG Shares, at a consideration of HK\$102,427,840, constituting a very substantial acquisition and a connected transaction for the Company which was completed on 11 April 2007. As at the date of this report, the Group holds an aggregate of 19.05% in the issued share capital of MG.

Further, 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 issued share capital of China Mineral Resource Limited ("CMR"), a limited liability company incorporated in Hong Kong, for an aggregate consideration of HK\$450,000,000, constituting a very substantial acquisition of the Company. The Group understands from the vendor that CMR owns the rights of exploration and exploitation of an iron ore mine, located in north of Mongolia. The Group is now preparing for the circular for this conditional acquisition which, in turn, is subject to shareholders' approval in the forthcoming special general meeting of the Company.

The Group entered into a conditional subscription agreement with Australasian Resources Limited ("ARH") on 20 March 2007 in relation to the subscription of 28,000,000 ordinary shares in the issued share capital of ARH ("ARH Shares") at an aggregate consideration of A\$28,000,000 (equivalent to approximately HK\$174,846,000) and the grant by ARH to the Company of 14,000,000 options ("ARH Options") exercisable over the same number of 14,000,000 ARH Shares at nil consideration with an exercise price of A\$1.50 each, constituting a disclosable transaction of the Company. Completion of the subscription has taken place on 12 April 2007 and then the Company has the right to nominate and appoint a director of ARH. ARH is a company incorporated in Australia with its shares listed on the Australian Stock Exchange. Its principal activity is mineral exploration. Recent development of ARH includes the Balmoral South Iron Ore Project with respect to acquiring 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. ARH has advised the Company of its right to mine 1 billion tonnes of magnetite iron ore from Susan Palmer deposit within the larger Balmoral deposits in Pilbara region of Western Australia, announced a 346 million tonnes ore reserve estimate in accordance with JORC guidelines, and currently proposed a development plan involving the production and export as final products of 5 million tonnes of iron ore concentrate ("IOC"), 5 million tonnes of iron ore pellets ("IOP") and approximately 1.5 million tonnes of hot briquetted iron ("HBI", together with IOC and IOP, the "Products"). On 20 March 2007, the Company also entered into a commission agreement with ARH and International Minerals Pty Limited, a wholly owned subsidiary of ARH, which set out the intention of the parties thereto for the Group to procure the execution of offtake agreement(s) by relevant buyer(s) for the purchase of the Products in return for a commission of US\$1.00 per dry tonne of IOC or IOP or HBI.

The Group seeks to become a significant natural resources investment and trading group through the identification, evaluation and acquisition of strategic interests in quality natural resource assets by means of indirect investment in and support of resource corporations or by direct investment in mineral projects. The Group expects that favourable climate for global commodity prices, outlook and equity prices for global resource companies, in general, will continue for the foreseeable future with the sustained demand for commodities globally with a particular emphasis on the demand stemming from China and, more recently, India, though the Group is also conscious of the possible adverse impact from the austerity measures taken by the China's government to curb the heated China property market.

The fiscal year 2007 will be an important year for the Group since the management had substantially restructured the capital base and commenced building up the asset base of the Group. The Group will constantly search for investment opportunity in the Asia Pacific region so as to attain the Group's objective of pursuing natural resource sector related investment opportunities that will provide the Group with future growth and development prospect.

## **APPRECIATION**

On behalf of the Board, I would like to take this opportunity to extend my sincere appreciation for the contributions and endeavor of all the management and staff of the Group during the year.

**Yue Jialin**

*Chairman*

Hong Kong, 13 April 2007