



APAC RESOURCES

APAC Resources Limited
亞太資源有限公司*

(Incorporated in Bermuda with limited liability)
Stock Code: 1104



2010



SECOND INTERIM REPORT 2010

* For identification purpose only

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BOARD OF DIRECTORS

Executive Directors:

Ms. Chong Sok Un (*Chairman*)
Mr. Andrew Ferguson (*Chief Executive Officer*)
Mr. Yue Jialin
Mr. Kong Muk Yin

Non-Executive Directors:

Mr. Lee Seng Hui
Mr. So Kwok Hoo
Mr. Liu Yongshun
Mr. Peter Anthony Curry

Independent Non-Executive Directors:

Mr. Wong Wing Kuen, Albert
Mr. Chang Chu Fai, Johnson Francis
Mr. Robert Moyse Willcocks

AUDIT COMMITTEE

Mr. Wong Wing Kuen, Albert (*Chairman*)
Mr. Chang Chu Fai, Johnson Francis
Mr. Robert Moyse Willcocks
Mr. Lee Seng Hui

REMUNERATION COMMITTEE

Ms. Chong Sok Un (*Chairman*)
Mr. Lee Seng Hui
Mr. Wong Wing Kuen, Albert
Mr. Chang Chu Fai, Johnson Francis
Mr. Robert Moyse Willcocks

COMPANY SECRETARY

Ms. Fung Sam Ming

AUDITORS

Graham H.Y. Chan & Co

LEGAL ADVISERS

P.C. Woo & Co
Robertsons
Conyers Dill & Pearman

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Wanchai
Hong Kong

WEBSITE

www.apacresources.com
www.irasia.com/listco/hk/apac/index.htm

STOCK CODE

1104

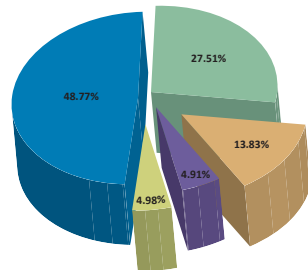
APAC Resources Limited (“APAC”) is an established natural resources investment and commodities trading company listed on the Hong Kong Stock Exchange (stock code: 1104). Focused on natural resources, our business lines comprise of primary investments; trading and investment in listed securities; and commodity trading. Our investment business is run from Hong Kong, with the commodity trading division operating from Hong Kong and Shanghai.



Minor investments  Major investments 

Shareholder Structure

-  COL Capital Limited
-  Fushan International Energy Group Limited
-  CCB International Asset Management Limited*
-  Penta Investment Advisers*
-  Others

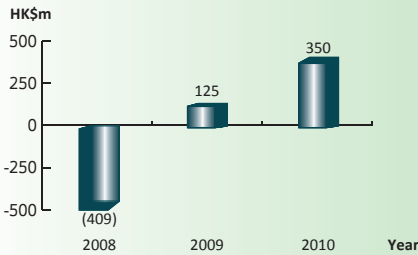
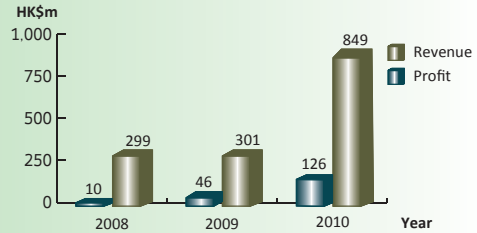


* Source: Bloomberg as at 25 February 2011

Major Investments

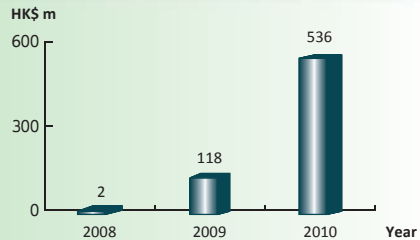
Company	Code	% Held	Focus
Metals X Limited	MLX.AX	29.08	Tin/Nickel
Mount Gibson Iron Limited	MGX.AX	25.61	Iron ore
Kalahari Minerals Plc	KAH.L	14.79	Uranium

Commodity trading

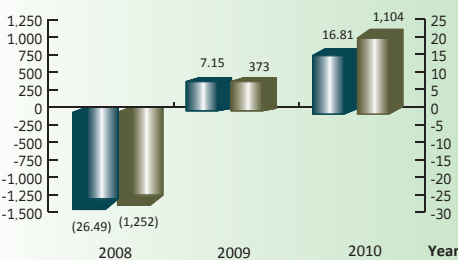


Net gain (loss) in trading and investment in listed securities

Share of profit of associates (after tax)



Net Profit



Net profit (loss) attributable to owners and EPS

2010 Highlights

December:

Full year profits are HK\$1,104 million

December:

Earnings per share (basic) is 16.81 HK Cents

December:

APAC increases its interest in Kalahari Minerals to 14.79%

November:

APAC commences the buy back of shares

June:

APAC increases its interest in Kalahari Minerals to 9.99%

April:

APAC completes placement of 1,100,000 shares raising HK\$550 million (gross proceeds)

January:

Mr. Andrew Ferguson joins APAC as Chief Executive Officer

Dear Investor,

Thank you for your interest in APAC Resources (“APAC”).

This is my first year with APAC. As a transitional year for APAC, I take pleasure in reporting maiden results with a number of significant achievements under new management which provide a solid foundation for APAC’s future growth.

Upon my joining APAC, I inherited two primary investments – Mount Gibson and Metals X. The first question the board asked was – do we dispose of these investments? My instinct was to maintain both of them. Mount Gibson, Australia’s fourth largest iron producer, is able to benefit from rising iron ore prices and well positioned to grow. Metals X, Australia’s largest tin producer, currently benefits from the structural tightness in supply and demand fundamentals which in turn has taken the tin price to an all time high.



As a resource investment and commodity trading house, earnings and growth of our net assets are key indicators to APAC’s performance. The 2010 year saw our company achieving a 196% increase in net profit to circa HK\$1.1 billion, an all time high and earnings per share of 16.81 HK cents, from 7.15 HK cents in 2009. To provide greater transparency to the market, we started announcing our net asset value (“NAV”) based on market value from August 2010. With Mount Gibson as the main driver of our investment portfolio, our NAV rose by 47% to HK\$1.09 per share in the year to December 2010.

Our primary investments have been strong contributors, based on solid operational performances and improving commodity prices. For the 2010 year, Mount Gibson reported record net profit of A\$233 million, up 239% year-on-year, due to a combination of steady production and sales, and the strengthening of iron ore prices. With a net cash position of A\$351 million plus a third mine, Extension Hill, due to start production in the second half of 2011, the outlook for Mount Gibson and iron ore remains very positive. We have also been very pleased with the results from Metals X, which has increased tin production from its Renison mine and progressed the Wingellina nickel project.

In conjunction with our primary investments in Mount Gibson and Metals X, we also run an investment portfolio comprising various global resource companies. These can include shorter term trading opportunities as well as positions we believe, one day, could become another primary investment. The largest position is a 14.79% interest in Kalahari Minerals, which controls the world's fifth largest uranium deposit, Husab, via its 41.12% stake in Extract Resources ("**Extract**"). Extract is on track to receive its mining licence and commence its mine construction in 2011. For 2010, we report a net gain from our trading and investment in listed securities of HK\$350 million, up 181% from the previous year.

With iron ore prices posting new highs in 2010, our commodities team in Shanghai also had a good year, reporting a record profit of HK\$126 million on gross turnover of HK\$849 million. We also successfully renegotiated our iron ore offtake with Mount Gibson following the breakdown of the iron ore benchmark pricing system.

Over the past year, the outlook for the global economy has improved, based on a strong recovery in emerging markets and government stimulus led stabilisation in the developed world. The IMF is now forecasting global growth of 4.3% in 2011. Given Chinese and other emerging economies' demand and continued supply constraints, we remain positive on the commodities space, though it is not without risks and we expect volatility to remain high. We continue to look for opportunities for direct mine investments and to add to our portfolio of strategic investments. With a contracted off-take with Mount Gibson and significant trading expertise, we are also actively looking to extend and diversify our commodity trading business.

APAC's strengths are its people behind the scenes. Without their skill set, dedication, support and trust, we would not have been able to deliver such a successful year. I would like to thank our shareholders, directors and the team for their continued support.

Best Wishes,

Andrew Ferguson
Chief Executive Officer



Financial Results

For the twelve months ended 31 December 2010 (the “**2010 Period**”), we achieved record turnover of HK\$848,699,000 (2009: HK\$301,420,000) representing an increase of 182% over 2009. The main driver was the significant growth in the commodity trading business which benefitted from continuing strength in the iron ore market. We also took advantage of buoyant equity market conditions to post a net gain of HK\$350,025,000 (2009: HK\$124,702,000) in its equity portfolio, representing an increase of 181% year on year. Overall, net profit attributable to owners of HK\$1,104,447,000 (2009: HK\$372,603,000) was achieved, translating to a 135% improvement in earnings per share (basic) of 16.81 HK cents (2009: 7.15 HK cents) and a 40% increase in the (equity accounted) net asset value per share to HK\$0.73 (2009: HK\$0.52) as at 31 December 2010.

Business Review

Trading and Investment in Listed Securities

The fragile global economic environment which had adversely affected equity markets in the first half of 2010, had improved in the second half of 2010, underpinning strong gains from trading and investments in listed securities. This resulted in the Group reversing the reported net loss of HK\$106,334,000 for the first half of 2010 into a profit of HK\$350,025,000 (2009: HK\$124,702,000) for the full year. The 181% improvement in profit over 2009, was largely reflecting unrealised gains in relation to trading securities which amounted to HK\$334,267,000 (2009: HK\$6,389,000).

As at 31 December 2010, we maintained a long term investment portfolio of HK\$115,860,000 (2009: HK\$96,376,000) and a short term investment portfolio of HK\$1,371,802,000 (2009: HK\$71,899,000) focused on listed natural resource companies. The portfolio of trading securities is dominated by a 14.79% interest in the AIM listed Kalahari Minerals Plc (“**Kalahari**”), with interests in uranium, gold, copper and other base metals in Namibia. The remaining portfolio comprises mostly minor holdings in various natural resource companies listed on major stock exchanges including Australia, Canada, Hong Kong and United Kingdom.

Trading in Commodities

Commodity prices, including iron ore, dipped in the second quarter of 2010 but rebounded and sustained a strong upward move in the second half of the year. Accordingly, we enjoyed generally favourable conditions for our commodity trading business and reported a profit of HK\$125,772,000 (2009: HK\$46,092,000), representing a 173% increase over the 2009 period, on gross turnover of HK\$848,699,000 (2009: HK\$301,420,000), up 182% from the previous year. In November 2010, we entered into new long term purchase agreements with Mount Gibson Iron Limited (“**Mount Gibson**”) for the purchase of hematite iron ore from its Koolan Island and the Talling Peak mines. These replaced the previous benchmark-related contracts and are now based on the Platts Iron Ore index using monthly pricing.

PRINCIPAL ASSOCIATED COMPANIES

The Group's two principal associated companies are Mount Gibson and Metals X Limited ("**Metals X**"). The share of profit of associates (after tax) of the Group for the year ended 31 December 2010 was HK\$536,379,000. (2009: HK\$118,028,000), representing a 354% increase over the previous year. As at 31 December 2010, the Group's interest in associates amounted to HK\$3,272,253,000 (2009: HK\$2,357,583,000).

Mount Gibson

Mount Gibson, an Australian listed mining company, currently producing iron ore from Koolan Island and the Tallering Peak mines in Western Australia, with combined production of circa 7 million tonnes per year. The Extension Hill mine is due to start production during the second half of 2011. Mount Gibson's production should increase to circa 10 million tonnes per year. Company reserves were 56 million tonnes at a grade of 62.0% Fe with a total resource of 109 million tonnes as of 30 June 2010.

For the 2010 Period, Mount Gibson reported a total production of circa 7 million tonnes, with the record financial results driven by large increases in realised prices, reflecting the strong demand within the iron ore market. Accordingly, the Mount Gibson results included total revenue of A\$701,071,000 (circa HK\$5,571,061,000) (2009: A\$445,531,000, circa HK\$3,100,562,000), representing a 57% increase on the 2009 period, and a net profit of A\$233,000,000 (circa HK\$1,851,535,000) (2009: A\$68,700,000, circa HK\$478,100,000), representing a 239% increase on the 2009 period. Mount Gibson's financial position has strengthened further, with a reported net asset value of A\$1,072,095,000 and net cash position of A\$351,000,000 as at 31 December 2010.

The excellent results of Mount Gibson validate our original investment strategy.

Metals X

Metals X, an Australian-based emerging diversified resource group with a primary focus on tin via its 50% interest in the producing Renison mine in Tasmania, Australia, and nickel via its world class and wholly owned Wingellina nickel deposit. The company also has a portfolio of strategic investments, namely Westgold Resources (31.8%), Aragon Resources (28.8%) and Agaton Phosphate (75.0%).

During the 2010 Period, Renison production increased to circa 6,500 tonnes of tin in concentrate while mining reserves were upgraded twice during the year to 119,207 tonnes of 0.57% tin. Significantly, the company also received its Native Title Approvals for the Wingellina project.

OTHER MAJOR INVESTMENTS

Kalahari

Kalahari's key assets are its holdings of approximately 41% in the ASX listed Extract Resources Limited ("**Extract**") and its 45% interest in AIM listed North River Resources Plc. Extract is developing the Husab Uranium Project in Namibia, the fifth largest primary uranium deposit in the world, based on updated JORC resources of 367 million pounds of uranium (U3O8).

During 2010, the outlook for uranium improved significantly, with the spot price increasing over 59% from US\$44 to almost US\$70 by year-end. With China purchasing around a quarter of 2010 supply to build stockpiles and Russia acquiring a number of globally significant uranium companies, security of supply has become an issue for various nations. In 2011, Extract will focus on finalising the definitive feasibility study for Husab, permitting and financing this globally significant uranium mine development.

Financial Review

Liquidity, Financial Resources and Capital Structure

As at 31 December 2010, our non-current assets amounted to HK\$3,389,762,000 (2009: HK\$2,454,951,000) and net current assets amounted to HK\$1,678,947,000 (2009: HK\$507,063,000) with a current ratio of 9.2 times (2009: 17.0 times) calculated on the basis of its current assets over current liabilities.

As at 31 December 2010, we had borrowings of HK\$156,382,000 (2009: nil) and had undrawn banking facilities amounting to HK\$834,618,000 secured against its investments in listed associates, available-for-sale investments, trading securities, the Company's corporate guarantee and term deposits. As at 31 December 2010, we had a gearing ratio of 0.03 (2009: Nil), calculated on the basis of total borrowings over equity attributable to owners of the Company as at 31 December 2010.

During the 2010 Period, we successfully placed 1,100,000,000 shares at HK\$0.50 per share to new investors, raising gross proceeds of HK\$550,000,000 and thereby increasing our working capital base to enable us to take advantage of market opportunities as they arise. As a result of this placement, the exercise of warrants and buy back of shares by the Company, the issued share capital of the Company increased from 5,690,343,455 to 6,910,567,990 during the 2010 Period.

Foreign Exchange Exposure

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

Pledge of Assets

As at 31 December 2010, certain of the Group's investment in listed associates, available-for-sale investments and trading securities of HK\$3,444,392,000 (2009: HK\$1,929,666,000) were pledged to a stock-broking firm to secure margin loan facilities made available to the Group. The Group's bank deposits of HK\$79,426,000 (2009: HK\$89,324,000) were pledged to banks to secure various trade 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 with its remuneration policies reviewed on a regular basis. All the employees are entitled to participate in the Company's benefit plans including medical insurance, share options scheme and Mandatory Provident Fund Scheme (subject to the applicable laws and regulations of the PRC for its employees in the PRC). Further details relating to the Company's share option scheme are set out on page 42 of this report under the section headed "SHARE OPTION SCHEME" and Note 17 to the condensed financial statements.

FORWARD LOOKING OBSERVATIONS

Over the past year, commodity prices have continued to strengthen as China's rapacious appetite for resources has been coupled with a steady recovery in demand from the developed nations. Barring external shocks and likely increased volatility, we remain upbeat on the natural resources sector given economic growth expectations in 2011.

Accordingly, we continue to evaluate opportunities to expand and diversify our commodity trading business as well as potential acquisitions of direct mine investments and strategic interests in natural resource companies. We believe this multi-pronged strategy, combined with our robust financial position and strong expertise disciplined approach to investments will provide a solid platform to maximise returns for you, our shareholders.

The board of directors (the “Board”) of APAC Resources Limited (the “Company”) is pleased to announce the unaudited second interim results of the Company and its subsidiaries (collectively the “Group”) for the twelve months ended 31 December 2010, which has been reviewed by the auditors of the Group and the audit committee of the Company. This second interim results is prepared due to the change of financial year end date from 31 December to 30 June, details of which are disclosed in the announcement of the Company dated 11 February 2011.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six and twelve months ended 31 December 2010

	Note	Six months ended 31 December		Twelve months ended 31 December	
		2010	2009	2010	2009
		HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Revenue	3	470,480	301,420	848,699	301,420
Revenue from sales of goods		470,480	301,420	848,699	301,420
Net gain from sales of trading securities		11,833	92,666	12,212	112,133
Change in fair value of trading securities		432,140	(109,503)	334,267	6,389
Change in fair value of other financial assets		3,669	–	343	–
Interest income		2,820	6,707	5,760	7,839
Reversal of impairment loss on interest in an associate	12	109,592	466,553	109,592	466,553
Other operating income	4	50,743	2,351	92,169	36,190
Purchases		(355,411)	(197,377)	(596,894)	(197,377)
Other cost of sales		(64,371)	(65,445)	(124,458)	(65,445)
Equity-settled share option expenses		(39,979)	(2,410)	(39,979)	(14,783)
Salaries and allowances		(7,943)	(7,601)	(14,977)	(15,622)
Operating lease rental on buildings		(1,140)	(1,221)	(2,584)	(2,765)
Impairment loss on available-for-sale investments		–	(28,174)	(20,630)	(28,174)
Impairment loss on other receivable		(3,781)	–	(3,781)	–
Share of profit less losses of associates		453,220	100,687	700,780	168,033
Impairment loss on interest in an associate		–	(304,024)	–	(304,024)
Exchange gain, net		9,864	293	3,816	1,431
Other operating expenses		(6,117)	(6,717)	(16,446)	(13,946)
Finance costs	5	(1,515)	(56)	(2,171)	(13,468)
Profit before taxation c/f	6	1,064,104	248,149	1,285,718	444,384

CONDENSED CONSOLIDATED INCOME STATEMENT (Continued)

For the six and twelve months ended 31 December 2010

	Note	Six months ended 31 December		Twelve months ended 31 December	
		2010	2009	2010	2009
		HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Profit before taxation b/f	6	1,064,104	248,149	1,285,718	444,384
Income tax expense	7	(103,039)	(38,917)	(181,271)	(71,781)
Profit for the period		961,065	209,232	1,104,447	372,603
Attributable to:					
Owners of the Company		961,065	209,232	1,104,447	372,603
Earnings per share	9				
— Basic (HK cents per share)		13.89	3.68	16.81	7.15
— Diluted (HK cents per share)		13.89	3.66	16.78	7.07

Details of dividend payable to owners of the Company are set out in note 8.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six and twelve months ended 31 December 2010

	Six months ended 31 December		Twelve months ended 31 December	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Audited)
Profit for the period	961,065	209,232	1,104,447	372,603
Other comprehensive income, net of tax				
Exchange differences arising on translation of foreign operations	8,255	1,136	8,072	2,319
Share of other comprehensive income of associates	64,873	38,982	47,966	144,692
Exchange difference from sharing of interest in associates	396,032	147,466	307,583	306,501
Change in equity of associates on previously held interest	–	(83,108)	–	(83,108)
Reversal previously recognised changes in fair value of investment held for trading	–	442,409	–	442,409
Fair value change of available-for-sale investments	71,235	(2,034)	40,115	31,120
Reclassification adjustment for the cumulative other comprehensive income to profit or loss upon disposal of partial interest in an associate	(5,017)	–	(11,276)	–
	<u>535,378</u>	<u>544,851</u>	<u>392,460</u>	<u>843,933</u>
Total comprehensive income for the period	1,496,443	754,083	1,496,907	1,216,536
Total comprehensive income attributable to:				
Owners of the Company	<u>1,496,443</u>	<u>754,083</u>	<u>1,496,907</u>	<u>1,216,536</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Note	Group	
		31 December 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Assets			
Non-current assets			
Property, plant and equipment	10	1,649	992
Available-for-sale investments	11	115,860	96,376
Interest in associates	12	3,272,253	2,357,583
Total non-current assets		<u>3,389,762</u>	<u>2,454,951</u>
Current assets			
Trade and other receivables	13	21,142	59,415
Other financial assets		343	–
Trading securities	14	1,371,802	71,899
Pledged bank deposits	15	79,426	89,324
Cash and cash equivalents	15	411,262	318,203
Total current assets		<u>1,883,975</u>	<u>538,841</u>
Total assets		<u>5,273,737</u>	<u>2,993,792</u>
Equity and Liabilities			
Capital and reserves			
Share capital	16	691,057	569,034
Reserves		3,572,625	2,885,162
Retained earnings/(accumulated losses)		805,027	(492,182)
Equity attributable to owners of the Company and total equity		<u>5,068,709</u>	<u>2,962,014</u>
Current liabilities			
Trade and other payables		22,398	10,020
Margin financing	20	156,382	–
Tax payable		26,248	21,758
Total liabilities		<u>205,028</u>	<u>31,778</u>
Total equity and liabilities		<u>5,273,737</u>	<u>2,993,792</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the twelve months ended 31 December 2010

	Attributable to Owners of the Company									
	Share Capital HK\$'000	Share Premium HK\$'000	Special Reserve HK\$'000	Investment Revaluation Reserve HK\$'000	Exchange Reserve HK\$'000	Share Option Reserve HK\$'000	Net Unrealised Gains/ (Losses) Reserve HK\$'000	Capital Redemption Reserve HK\$'000	Retained Profits/ (Accumulated Losses) HK\$'000	Total HK\$'000
At 1 January 2009 (audited)	472,866	1,988,220	(14,980)	(41,594)	(64,586)	262,627	(15,331)	-	(1,315,961)	1,271,261
Profit for the period	-	-	-	-	-	-	-	-	372,603	372,603
Other comprehensive income for the period	-	-	-	34,341	297,216	-	144,692	-	367,684	843,933
Total comprehensive income for the period	-	-	-	34,341	297,216	-	144,692	-	740,287	1,216,536
Issue of shares upon exercise of warrants	6,168	12,337	-	-	-	-	-	-	-	18,505
Issue of shares upon placement, net of expenses	90,000	350,929	-	-	-	-	-	-	-	440,929
Equity-settled share option expenses	-	-	-	-	-	14,783	-	-	-	14,783
Lapse of equity - settled share option	-	-	-	-	-	(83,492)	-	-	83,492	-
At 31 December 2009 (audited)	569,034	2,351,486	(14,980)	(7,253)	232,630	193,918	129,361	-	(492,182)	2,962,014
At 1 January 2010 (audited)	569,034	2,351,486	(14,980)	(7,253)	232,630	193,918	129,361	-	(492,182)	2,962,014
Profit for the period	-	-	-	-	-	-	-	-	1,104,447	1,104,447
Other comprehensive income for the period	-	-	-	41,866	307,127	-	43,467	-	-	392,460
Total comprehensive income for the period	-	-	-	41,866	307,127	-	43,467	-	1,104,447	1,496,907
Issue of shares upon exercise of warrants	13,179	26,357	-	-	-	-	-	-	-	39,536
Issue of shares upon placement, net of expenses	110,000	426,149	-	-	-	-	-	-	-	536,149
Repurchase of issued capital	(1,156)	(4,720)	-	-	-	-	-	1,156	(1,156)	(5,876)
Equity-settled share option expenses	-	-	-	-	-	39,979	-	-	-	39,979
Lapse of equity - settled share option	-	-	-	-	-	(193,918)	-	-	193,918	-
At 31 December 2010 (unaudited)	691,057	2,799,272	(14,980)	34,613	539,757	39,979	172,828	1,156	805,027	5,068,709

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the twelve months ended 31 December 2010

	Twelve months ended 31 December	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Audited)
Net Cash (Used in)/From Operating Activities	(819,902)	429,159
Net Cash From/(Used In) Investing Activities	180,871	(493,283)
Net Cash From Financing Activities	724,018	248,989
Net Increase in Cash and Cash Equivalents	84,987	184,865
Cash and Cash Equivalents at 1 January	318,203	131,019
Effect of foreign exchange rate changes	8,072	2,319
Cash and Cash Equivalents at 31 December	411,262	318,203

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2010

1. General

The Company is incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and the address of its principal office in Hong Kong is 32/F., China Online Centre, 333 Lockhart Road, Wanchai, Hong Kong.

The Company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in the (i) trading in commodities; and (ii) trading and investment in listed securities with a portfolio primarily focused on natural resources and related sector and related industries.

These unaudited condensed consolidated second interim financial statements (“**Second Interim Financial Statements**”) are presented in Hong Kong dollars (“**HK\$**”), which is the Company’s functional and presentation currency.

2. Basis of Preparation and Accounting Policies

Pursuant to a resolution of the Board of Directors dated 11 February 2011, the Company’s financial year end date has been changed from 31 December to 30 June so as to align the Company’s financial year end date with those of the Company’s principal overseas listed associates which are the Group’s substantial investments. Accordingly, the next audited final results will cover a period of eighteen months from 1 January 2010 to 30 June 2011. The first interim report which was issued on 25 August 2010 has covered the six-month period from 1 January 2010 to 30 June 2010. This second interim report covers the twelve-month period from 1 January 2010 to 31 December 2010. The comparative figures presented for the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and consolidated statement of cash flows and related notes cover the financial year from 1 January 2009 to 31 December 2009, as extracted from the audited financial statements for the year ended 31 December 2009.

These Second Interim Financial Statements are prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”), including compliance with Hong Kong Accounting Standard (“**HKAS**”) 34, “**Interim Financial Reporting**” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

2. Basis of Preparation and Accounting Policies (Continued)

These Second Interim Financial Statements should be read in conjunction with the 2009 annual report.

These Second Interim Financial Statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2009 annual report. The Second Interim Financial Statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”, which term collectively includes HKASs and Interpretations).

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 current accounting period of the Group.

HKAS 1 (Amendments)	Presentation of financial statements
HKAS 7 (Amendment)	Statement of cash flows
HKAS 27 (Revised)	Consolidated and separate financial statements
HKAS 28 (Revised)	Investments in associates
HKAS 38 (Amendment)	Intangible assets
HKAS 39 (Amendment)	Eligible hedged items
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs 2008
HKFRS 1 (Revised)	First-time adoption of Hong Kong Financial Reporting Standards
HKFRS 1 (Amendments)	Additional exemptions for first-time adopters
HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions
HKFRS 3 (Revised)	Business combinations
HKFRS 5 (Amendments)	Non-current assets held for sale and discontinued operations
HKFRS 7 (Amendment)	Financial instruments : disclosures
HK (IFRIC) – INT 17	Distribution of non-cash assets to owners
HK (IFRIC) – INT 18	Transfers of assets from customers

The adoption of the new HKFRSs had no material effect on how the results and financial position for the prior accounting period have been prepared and presented. Accordingly, no prior period adjustment has been required.

2. Basis of Preparation and Accounting Policies (Continued)

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ²
HKAS 24 (Revised)	Related party disclosures ⁴
HKAS 32 (Amendment)	Classification of rights issues ¹
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosure for first-time adopters ³
HKFRS 7 (Amendment)	Disclosures – transfers of financial assets ⁵
HKFRS 9	Financial instruments (relating to the classification and measurement of financial assets) ⁶
HK(IFRIC) – INT 14 (Amendment)	Prepayments of a minimum funding requirement ⁴
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments ³

¹ Effective for annual periods beginning on or after 1 February 2010

² Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

³ Effective for annual periods beginning on or after 1 July 2010

⁴ Effective for annual periods beginning on or after 1 January 2011

⁵ Effective for annual periods beginning on or after 1 July 2011

⁶ Effective for annual periods beginning on or after 1 January 2013

3. Segment Information

The Group's reportable segments under HKFRS 8 are as follows:

- (i) trading in commodities; and
- (ii) trading and investment in listed securities.

Segment revenue and result

The following is an analysis of the Group's revenue and results by reportable segment.

Twelve months ended 31 December 2010

	Trading in commodities HK\$'000 (Unaudited)	Trading and investment in listed securities HK\$'000 (Unaudited)	Group Total HK\$'000 (Unaudited)
Revenue	848,699	–	848,699
Gross sales proceeds from trading and investment in listed securities	–	90,151	90,151
Segment result	125,772	350,025	475,797
Share of profits less losses of associates			700,780
Gain on disposal of partial interest in an associate			90,894
Reversal of impairment loss on interest in an associate			109,592
Impairment loss on other receivable	(3,781)	–	(3,781)
Impairment loss on available-for-sale investments	–	(20,630)	(20,630)
Unallocated corporate income			3,908
Unallocated corporate expenses			(68,671)
Finance costs	(653)	(864)	(2,171)
Profit before taxation			1,285,718
Income tax expense	(16,820)	(335)	(181,271)
Profit for the period			1,104,447

3. Segment Information (Continued)

Segment revenue and result (Continued)

Twelve months ended 31 December 2009

	Trading in commodities HK\$'000 (Audited)	Trading and investment in listed securities HK\$'000 (Audited)	Group Total HK\$'000 (Audited)
Revenue	301,420	–	301,420
Gross sales proceeds from trading and investment in listed securities	–	268,671	268,671
Segment result	46,092	124,702	170,794
Share of profit less losses of associates Excess of the Group's interest in the net fair value of an associate's identifiable assets, liabilities and contingent liabilities over cost of investment			168,033
Impairment loss on available-for-sale investments	–	(28,174)	(28,174)
Reversal of impairment loss on interest in an associate			466,553
Impairment loss on interest in an associate			(304,024)
Unallocated corporate income			2,079
Unallocated corporate expenses			(38,653)
Finance costs	(8)	(13,460)	(13,468)
Profit before taxation			444,384
Income tax expense	(5,030)	(15,091)	(71,781)
Profit for the period			372,603

3. Segment Information (Continued)

Segment revenue and result (Continued)

Other segment items included in consolidated income statement for the twelve months ended 31 December 2010 are as follows :

	Trading in commodities HK\$'000 (Unaudited)	Trading and investment in listed securities HK\$'000 (Unaudited)	Unallocated HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Depreciation	(3)	–	(709)	(712)
Interest income	3,167	1,155	1,438	5,760
Change in fair value of trading securities	–	334,267	–	334,267

Other segment items included in consolidated income statement for the twelve months ended 31 December 2009 are as follows :

	Trading in commodities HK\$'000 (Audited)	Trading and investment in listed securities HK\$'000 (Audited)	Unallocated HK\$'000 (Audited)	Total HK\$'000 (Audited)
Depreciation	(3)	–	(655)	(658)
Interest income	6,962	762	115	7,839
Change in fair value of trading securities	–	6,389	–	6,389

Segment assets

An analysis of the Group's assets by operating segment is set out below:

	31 December 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Trading in commodities	439,525	424,729
Trading and investment in listed securities	1,515,281	168,631
	1,954,806	593,360
Interest in associates	3,272,253	2,357,583
Unallocated assets	46,678	42,849
Total assets	5,273,737	2,993,792

4. Other Operating Income

	Group		Group	
	Six months ended 31 December		Twelve months ended 31 December	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Dividend income	564	779	1,037	796
Excess of the Group's interest in the net fair value of an associate's identifiable assets, liabilities and contingent liabilities over cost of investment	–	–	–	21,244
Underwriting fee recovered	–	–	–	8,641
Gain on disposal of partial interest in an associate	50,288	–	90,894	–
Sundry income	(109)	1,572	238	5,509
	<u>50,743</u>	<u>2,351</u>	<u>92,169</u>	<u>36,190</u>

5. Finance Costs

	Group		Group	
	Six months ended 31 December		Twelve months ended 31 December	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Interest on margin financing	208	55	864	8,266
Interest on short-term loan	–	–	–	5,193
Interest on bank borrowings	1,307	1	1,307	9
	<u>1,515</u>	<u>56</u>	<u>2,171</u>	<u>13,468</u>

6. Profit Before Taxation

	Group		Group	
	Six months ended		Twelve months ended	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Profit before taxation has been arrived at after charging/ (crediting) the following :				
Depreciation	291	329	712	658
Legal and professional fees	1,837	1,823	3,746	45
Loss on disposal of property, plant and equipment	—	1	—	1
Consultancy fee				
— settled by cash	1,320	1,078	2,392	2,005
— equity-settled share option expenses	6,525	—	6,525	—
Total consultancy fee	7,845	1,078	8,917	2,005
Staff costs, including directors' emoluments				
— salaries and allowances	6,951	7,585	13,094	15,221
— equity-settled share option expenses	33,454	2,410	33,454	14,783
— directors' quarters	640	101	1,283	220
— retirement benefits scheme contributions, net of nil forfeited contributions	352	(85)	600	181
Total staff costs	41,397	10,011	48,431	30,405

7. Income Tax Expense

	Group Six months ended 31 December		Group Twelve months ended 31 December	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Audited)
Income tax expense for the period				
Hong Kong profits tax	11,693	7,774	16,228	20,543
The PRC enterprise income tax	642	979	642	1,233
	12,335	8,753	16,870	21,776
Overseas tax provided	90,704	30,164	164,401	50,005
Total income tax expense	103,039	38,917	181,271	71,781

Hong Kong profits tax has been provided for at the rate of 16.5% on the Group's estimated assessable profit for the twelve months ended 31 December 2010 and 2009.

The PRC subsidiaries are subject to the PRC enterprise income tax at 25%.

The Group's share of associates' tax charge for the twelve months ended 31 December 2010 is included in the overseas tax provided for the period above.

The Group has no significant unprovided deferred taxation at the reporting date.

8. Dividend

No dividends had been paid or declared by the Company during the period (2009: nil).

9. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	Group Six months ended 31 December		Group Twelve months ended 31 December	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Audited)
Profit for the purpose of basic and diluted earnings per share	<u>961,065</u>	<u>209,232</u>	<u>1,104,447</u>	<u>372,603</u>
	Number of shares			
Weighted average number of ordinary shares used in the calculation of basic earnings per share	<u>6,919,971,795</u>	5,678,907,037	<u>6,571,413,781</u>	5,212,630,859
Effect of dilutive potential ordinary shares in respect of :				
— warrants	—	30,550,099	<u>11,055,727</u>	55,272,054
— share options	—	—	—	—
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	<u>6,919,971,795</u>	<u>5,709,457,136</u>	<u>6,582,469,508</u>	<u>5,267,902,913</u>

The calculation of the diluted earnings per share did not assume the exercise of the Company's outstanding share options as their exercise prices were higher than the average market price of the Company's shares during the period.

The warrants lapsed on 4 February 2010. There was no dilutive effect for the six months ended 31 December 2010.

10. Property, Plant and Equipment

During the period, the Group incurred approximately HK\$1,350,000 (twelve months ended 31 December 2009: HK\$15,000) on acquisition of property, plant and equipment.

11. Available-for-sale Investments

	Group	
	31 December 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Non-current		
Listed equity securities, Hong Kong, at fair value	24,722	23,816
Listed equity securities, overseas, at fair value	91,138	72,560
	<u>115,860</u>	<u>96,376</u>

12. Interest in Associates

	Group	
	31 December 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Cost of investment in associates		
Listed, overseas	2,097,387	2,141,216
Unlisted in the PRC	22,848	22,848
Share of post- acquisition profits and other comprehensive income, net of dividends received	1,346,450	497,543
Less : impairment loss	<u>(194,432)</u>	<u>(304,024)</u>
	<u>3,272,253</u>	<u>2,357,583</u>
Fair value of listed investments	<u>5,712,159</u>	<u>3,573,413</u>

At 31 December 2009, the Group held 26.75% interest in Mount Gibson Iron Limited (“**MGX**”). At 31 December 2010, the Group’s interest in MGX was reduced to 25.61%.

At 31 December 2010 and 2009, the Group held 29.08% and 40% interest in Metals X Limited (“**MLX**”) and 平港上海貿易有限公司, respectively. MLX has released its audited results for the year ended 30 June 2010 but its unaudited results for the six months ended 31 December 2010 have not yet been released. Accordingly results of MLX for the six months ended 31 December 2010 have been included based on management accounts of MLX.

12. Interest in Associates (Continued)

In determining the recoverable amount of MLX, having taken into account of the difference in characteristics of mining business and securities market, the Group considered it to be more prudent to temporarily adopt the net asset value of MLX as at 31 December 2010 instead of its securities trading value, a basis referred to by the HKAS 36 to adopt. The Group considered this would better reflect the business value of the associate and would reassess the recoverable amount of MLX when the Group's audited final results for the eighteen months from 1 January 2010 to 30 June 2011 are prepared.

13. Trade and Other Receivables

	Group	
	31 December 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Trade receivables	3,200	48,660
Interest receivables	–	5,685
Other receivables	–	1
Other deposits and prepayments	17,942	5,069
	<u>21,142</u>	<u>59,415</u>

The Group allows an average credit period of 0 – 90 days to its trade customers.

All the trade receivables are not considered to be impaired and had not past due.

14. Trading Securities

	Group	
	31 December 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Trading securities, at fair value		
Listed equity securities, in Hong Kong	22,599	7,839
Listed equity securities, overseas	1,349,203	64,060
	<u>1,371,802</u>	<u>71,899</u>

15. Cash and Cash Equivalents

	Group	
	31 December 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Pledged bank deposits	79,426	89,324
Cash at bank and in hand	400,121	318,036
Cash held in securities accounts maintained in securities companies	<u>11,141</u>	<u>167</u>
	490,688	407,527
Less : pledged bank deposits	<u>(79,426)</u>	<u>(89,324)</u>
Cash and cash equivalents	<u>411,262</u>	<u>318,203</u>

16. Share Capital

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 January 2010	8,000,000,000	800,000
Increase during the period	<u>12,000,000,000</u>	<u>1,200,000</u>
At 31 December 2010	<u>20,000,000,000</u>	<u>2,000,000</u>
Issued and fully paid:		
At 1 January 2010	5,690,343,455	569,034
Issue of shares upon exercise of warrants	131,784,535	13,179
Issue of shares under placement	1,100,000,000	110,000
Repurchase of issued shares	<u>(11,560,000)</u>	<u>(1,156)</u>
At 31 December 2010	<u>6,910,567,990</u>	<u>691,057</u>

16. Share Capital (*Continued*)

Details of the major changes in the Company's share capital during the twelve months ended 31 December 2010 are as follows:

- (a) Pursuant to an ordinary resolution passed on 29 June 2010, the authorised share capital of the Company was increased to 20,000,000,000 shares by the creation of 12,000,000,000 shares of HK\$0.10 each.
- (b) On 23 April 2010, the Company completed a placing of 1,100,000,000 new shares at the price of HK\$0.50 per share, which raised gross proceeds of HK\$550,000,000.

17. Share Option Scheme

The Company operates a share option scheme (the "**Scheme**") for the purpose of providing incentives or rewards to selected persons (including the Company's directors, employees of the Group and other eligible participants as defined under the Scheme) who contribute to the Group. The Scheme was adopted on 22 September 2004 and will remain in force for 10 years from the date of adoption until 21 September 2014.

During the twelve months period ended 31 December 2010, 334,000,000 share options (twelve months ended 31 December 2009 (audited) : 166,000,000 share options) were lapsed or expired. As at 31 December 2010, there were 567,000,000 (as at 31 December 2009 (audited) : 334,000,000) share options outstanding.

Pursuant to the announcement of the Company dated 4 May 2010, 567,000,000 share options were proposed to be granted to grantees to subscribe for a total of 567,000,000 shares at the exercise price of HK\$1.00 per share. The grant of directors' share options under the Scheme to two executive directors were conditional upon approval of independent shareholders at the annual general meeting on 29 June 2010, which was obtained accordingly.

17. Share Option Scheme (Continued)

Details of the share options outstanding as at 31 December 2010 under the Scheme are as follows :

Grantee	Date of grant	Exercisable period	Exercise price	Outstanding as at	No. of share options lapsed or expired during the period	No. of share options granted during the period	Outstanding as at	Closing price immediate before date of grant/ date of approval by shareholders
			per share	1 January 2010		(note a and note c)	31 December 2010	
			HK\$					HK\$
Directors								
Ms. Chong Sok Un	15 August 2007	15 August 2007 to 5 July 2010	1.50	110,000,000	110,000,000	–	–	1.02
	29 June 2010 (note b)	7 July 2010 to 6 July 2013	1.00	–	–	150,000,000	150,000,000	0.55
Mr. Andrew Ferguson	29 June 2010 (note b)	7 July 2010 to 6 July 2013	1.00	–	–	250,000,000	250,000,000	0.55
Mr. Kong Muk Yin	4 May 2010	7 July 2010 to 6 July 2013	1.00	–	–	20,000,000	20,000,000	0.71
Mr. Yue Jialin	4 May 2010	7 July 2010 to 6 July 2013	1.00	–	–	2,000,000	2,000,000	0.71
Mr. So Kwok Hoo	4 May 2010	7 July 2010 to 6 July 2013	1.00	–	–	2,000,000	2,000,000	0.71
Mr. Liu Yongshun	27 July 2007	27 July 2007 to 28 May 2010	1.20	150,000,000	150,000,000	–	–	1.45
	4 May 2010	7 July 2010 to 6 July 2013	1.00	–	–	2,000,000	2,000,000	0.71
Mr. Peter Anthony Curry	4 May 2010	7 July 2010 to 6 July 2013	1.00	–	–	60,000,000	60,000,000	0.71

17. Share Option Scheme (Continued)

Grantee	Date of grant	Exercisable period	Exercise price per share	Outstanding as at 1 January 2010	No. of share options lapsed or expired during the period	No. of share options granted during the period <i>(note a and note c)</i>	Outstanding as at 31 December 2010	Closing price immediate before date of grant/ date of approval by shareholders
								HK\$
Directors (Continued)								
Mr. Wong Wing Kuen, Albert	6 July 2007	6 July 2007 to 5 July 2010	1.50	3,000,000	3,000,000	–	–	1.47
	4 May 2010	7 July 2010 to 6 July 2013	1.00	–	–	2,000,000	2,000,000	0.71
Mr. Chang Chu Fai, Johnson Francis	6 July 2007	6 July 2007 to 5 July 2010	1.50	2,000,000	2,000,000	–	–	1.47
	4 May 2010	7 July 2010 to 6 July 2013	1.00	–	–	2,000,000	2,000,000	0.71
Mr. Robert Moyses Willcocks	4 May 2010	7 July 2010 to 6 July 2013	1.00	–	–	2,000,000	2,000,000	0.71
Others								
Employees	29 May 2007	29 May 2007 to 28 May 2010	1.20	33,000,000	33,000,000	–	–	1.09
	6 July 2007	6 July 2007 to 5 July 2010	1.50	1,000,000	1,000,000	–	–	1.47
	4 May 2010 <i>(note f)</i>	7 July 2010 to 6 July 2013	1.00	–	–	25,000,000	25,000,000	0.71
Consultants	6 July 2007	6 July 2007 to 5 July 2010	1.50	10,000,000	10,000,000	–	–	1.47
	3 October 2007	3 October 2007 to 2 October 2010	1.40	25,000,000	25,000,000	–	–	1.22
	4 May 2010	7 July 2010 to 6 July 2013	1.00	–	–	50,000,000	50,000,000	0.71
				<u>334,000,000</u>	<u>334,000,000</u>	<u>567,000,000</u>	<u>567,000,000</u>	

17. Share Option Scheme (Continued)

Notes :

- (a) The relevant share options are exercisable subject to the vesting conditions as detailed in the announcement of the Company dated 4 May 2010.
- (b) The share options were granted on 4 May 2010 conditional upon approval at annual general meeting which were eventually obtained on 29 June 2010.
- (c) The share options are measured using the Black-Scholes Model. The inputs into the Model are summarised as follows:

Date of grant	4 May 2010	29 June 2010
Expected volatility	85.31%	83.45%
Risk-free interest rate	1.21%	1.10%
Expected annual dividend yield	0%	0%
Fair value per option (HK\$)	HK\$0.27 – HK\$0.33	HK\$0.15 – HK\$0.21

- (d) The expected volatility was determined by using the historical volatility of the Company's share price over the previous three years.
- (e) The risk-free rate is being yield of 3-year Exchange Fund Note at the date of grant.
- (f) The share options granted by the Company on 4 May 2010 included 10,000,000 share options to a consultant who became an employee of the Group from 1 October 2010. The respective share options granted was disclosed under category of "Employees". The respective equity-settled share option expenses are included in consultancy fee.
- (g) The Group recognised approximately HK\$39,979,000 expense for the twelve months ended 31 December 2010 (twelve months ended 31 December 2009 : HK\$14,783,000) in relation to share options granted by the Company.

18. Warrants

On 5 February 2007, the Company issued a total of 251,800,000 bonus warrants (the "Warrants"), as a result of the rights issue completed on 1 February 2007, with an aggregate subscription amount of HK\$75,540,000. Each of the Warrants entitled the warrant-holder to subscribe for one ordinary share of the Company of HK\$0.10 each at the initial subscription price of HK\$0.30 (subject to adjustment (if any) during the period from 5 February 2007 until 4 February 2010 (both dates inclusive).

As at 31 December 2009, 132,094,050 Warrants were outstanding. During the twelve months period ended 31 December 2010, 131,784,535 Warrants were exercised for 131,784,535 ordinary shares (twelve months ended 31 December 2009 (audited): 61,684,400 Warrants were exercised for 61,684,400 ordinary shares) at a price of HK\$0.30 each. The rights attaching to the outstanding 309,515 Warrants expired on 4 February 2010.

19. Operating Lease Commitments

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises, which fall due as follows:

	Group	
	31 December 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Within one year	3,638	1,885
After one year but within five years	777	1,006
	4,415	2,891

Operating lease payments represent rental payable by the Group for its office premises, car parking space, director's quarters and a photocopying machine. Leases are negotiated for the terms between six months and five years.

20. Pledge of Assets

	Group	
	31 December 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
(a) Margin loan facilities secured by certain of Group's investment in listed associates, available-for-sale investments and trading securities	3,444,392	1,929,666
(b) Trade finance facilities of US\$ 60 million (2009: HK\$10 million and US\$60 million) granted by banks and secured by bank deposits of the Group	79,426	89,324
	3,523,818	2,018,990

21. Related Party Transactions

- (a) During the twelve months period, the Group entered into the following material related party transactions.

	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Audited)
Purchase from Mount Gibson Mining Limited and Koolan Island Ore Pty Limited (<i>note 1</i>)	576,902	197,377
Corporate service fee to Star Telecom Holding Limited (<i>note 2</i>)	442	–
Corporate consultancy service income from Fushan International Energy Group Limited (<i>note 3</i>)	–	924
Sales co-ordination service income from 首長鋼鐵國際貿易有限公司 (<i>note 4</i>)	–	3,388

Notes :

- (1) Both companies are subsidiaries of MGX, an associate of the Group.
 - (2) The company is a related company of the Company as Ms. Chong Sok Un and Mr. Kong Muk Yin are the common directors of both companies.
 - (3) The company is a substantial shareholder of the Company.
 - (4) The company was a related company of the Group as Mr. Cao Zhong, being a former director of the Company who resigned on 20 October 2009, was the common director of both companies.
- (b) Compensation of key management personnel

	Group Twelve months ended 31 December	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Audited)
Short-term employee benefits	6,990	7,746
Post-employment benefits	30	36
Share-based payment	29,629	14,783
	36,649	22,565

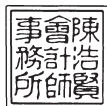
22. Events After the Reporting Period

There are no significant events subsequent to 31 December 2010 which would materially affect the Group's operating and financial position as of the date of this report.

23. Approval of the Second Interim Financial Statements

The Second Interim Financial Statements were approved by the board of directors on 25 February 2011.

INDEPENDENT REVIEW REPORT



GRAHAM H.Y. CHAN & CO.

CERTIFIED PUBLIC ACCOUNTANTS

HONG KONG

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF APAC RESOURCES LIMITED

(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the second interim financial information set out on pages 12 to 37, which comprises the condensed consolidated statement of financial position of APAC Resources Limited (the “**Company**”) and its subsidiaries (together the “**Group**”) as of 31 December 2010 and the related condensed consolidated income statement and condensed consolidated statements of comprehensive income, changes in equity and cash flows for the twelve-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on the interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“**HKAS**”) 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 information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information 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 any other 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 information 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Graham H. Y. Chan & Co.

Certified Public Accountants (Practising)

Hong Kong, 25 February 2011

INTERIM DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the twelve months ended 31 December 2010 (2009: nil) as the Company has the intention to repurchase its own shares as and when the market conditions are considered appropriate and the available cash flow and/or working capital facilities will be retained for such purpose.

OTHER INFORMATION

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, the interests and short positions held by each director and chief executive of the Company and their associates in the shares, underlying shares or debentures of the Company or any of its associated corporations, if any, (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)), as recorded in the register required to be kept by the Company under section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) contained in the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) were as follows:

Long positions in shares and underlying shares of the Company

Name of Director	Capacity in which interests are held	Number of shares/underlying shares held in the Company			Total interests as to % to the issued share capital of the Company as at 31 December 2010 (Note 1)
		Interests in shares	Interests under equity derivatives (Note 2)	Total interests	
Ms. Chong Sok Un	Beneficial owner and interest of controlled corporation	1,900,939,562 (Note 3)	150,000,000	2,050,939,562	29.68%
Mr. Andrew Ferguson	Beneficial owner	25,000,000	250,000,000	275,000,000	3.98%
Mr. Kong Muk Yin	Beneficial owner	—	20,000,000	20,000,000	0.29%
Mr. Yue Jialin	Beneficial owner	—	2,000,000	2,000,000	0.03%
Mr. Lee Seng Hui	Interest of controlled corporation (Note 5)	598,532,893	—	598,532,893 (Note 4)	8.66%
Mr. So Kwok Hoo	Beneficial owner	—	2,000,000	2,000,000	0.03%

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

Long positions in shares and underlying shares of the Company (Continued)

Name of Director	Capacity in which interests are held	Number of shares/underlying shares held in the Company			Total interests as to % to the issued share capital of the Company as at 31 December 2010 (Note 1)
		Interests in shares	Interests under equity derivatives (Note 2)	Total interests	
Mr. Liu Yongshun	Beneficial owner	—	2,000,000	2,000,000	0.03%
Mr. Peter Anthony Curry	Beneficial owner	—	60,000,000	60,000,000	0.87%
Mr. Wong Wing Kuen, Albert	Beneficial owner	—	2,000,000	2,000,000	0.03%
Mr. Chang Chu Fai, Johnson Francis	Beneficial owner	—	2,000,000	2,000,000	0.03%
Mr. Robert Moyses Willcocks	Beneficial owner	—	2,000,000	2,000,000	0.03%

Notes:

- The percentage of shareholding is calculated on the basis of the Company's issued share capital of 6,910,567,990 shares as at 31 December 2010.
- The relevant interests are share options granted pursuant to the Company's share option scheme adopted on 22 September 2004 (the "**Scheme**"). Upon exercise of the share options in accordance with the Scheme, ordinary shares of HK\$0.10 each in the share capital of the Company are issuable. The share options are personal to the respective Directors and the holders thereof are entitled to subscribe for shares of the Company. Further details of the share options are set out in Note 17 to the condensed financial statements.
- These shares are held by: (i) Rise Cheer Investments Limited ("**Rise Cheer**") as to 1,124,640,000 shares, and (ii) Taskwell Limited ("**Taskwell**") as to 776,299,562 shares, both of which are wholly-owned subsidiaries of COL Capital Limited ("**COL**"). Accordingly, COL is deemed to have interests in the shares in which Rise Cheer and Taskwell are interested. As at 31 December 2010, COL was 70.11% owned by Vigor Online Offshore Limited which in turn is a wholly-owned subsidiary of China Spirit Limited ("**China Spirit**") in which Ms. Chong Sok Un maintains 100% beneficial interest. Ms. Chong Sok Un is therefore deemed to have interests in the shares in which COL is interested through her 100% interest in China Spirit.
- This represents security interests held by: (i) Itso Limited as to 11,060,000 shares, and (ii) Sun Hung Kai Strategic Capital Limited as to 587,472,893 shares, both of which are indirect wholly-owned subsidiaries of Sun Hung Kai & Co. Limited ("**SHK**").

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

Long positions in shares and underlying shares of the Company (Continued)

Notes: (Continued)

5. SHK is an indirect non wholly-owned subsidiary of Allied Properties (H.K.) Limited ("APL") which in turn is a non wholly-owned subsidiary of Allied Group Limited ("AGL"). Accordingly, AGL is deemed to have the same long position as APL which in turn is deemed to have the same long position as SHK under the SFO. Lee and Lee Trust, a discretionary trust of which Mr. Lee Seng Hui is one of the trustees, owned approximately 53.32% interest in the issued share capital of AGL as at 31 December 2010. Accordingly, Lee and Lee Trust is deemed to have the same long position as AGL under the SFO and Mr. Lee Seng Hui, being a trustee of Lee and Lee Trust, is therefore deemed to have interests in the shares in which Lee and Lee Trust is interested. On 17 February 2011, SHK, APL, AGL and Lee and Lee Trust ceased to have an interest in these shares and thus Mr. Lee Seng Hui ceased to have any interests in the shares on 17 February 2011.

Save as disclosed above, as at 31 December 2010, none of the Company's directors, chief executive or their respective associates had any other personal, family, corporate and other interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

Other than those disclosed in this section, no right to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any Directors or chief executive (including their respective spouse or children under 18 years of age) during the twelve months ended 31 December 2010.

SHARE OPTION SCHEME

On 4 May 2010, a total of 567,000,000 share options were granted to certain eligible participants who are directors, employees and/or consultants of the Company and/or its subsidiaries to subscribe for shares of the Company at the exercise price of HK\$1.00. Further details of the share options granted to the Directors and other eligible participants of the Company are disclosed in the announcement of the Company dated 4 May 2010 and the circular dated 27 May 2010 and Note 17 to the condensed financial statements.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section headed "DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES" and Note 17 to the condensed financial statements, at no time during the period under review was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, the following persons, other than a director or chief executive of the Company or any of its subsidiaries, were interested or had short positions in more than 5% of the shares and underlying shares of the Company or its subsidiaries according to the register required to be kept under section 336 of the SFO in the respective amounts as follows:

Long positions in shares and underlying shares of the Company

Name of Shareholder	Capacity in which interests are held	Number of shares/underlying shares held in the Company			Total interests as to % to the issued share capital of the Company as at 31 December 2010 (Note 1)
		Interests in shares	Interests under equity derivatives	Total interests	
Fushan International Energy Group Limited	Interest of controlled corporation	956,000,000	—	956,000,000 (Note 2)	13.83%
Rise Cheer Investments Limited	Beneficial owner	1,124,640,000	—	1,124,640,000	16.27%
Taskwell Limited	Beneficial owner	776,299,562	—	776,299,562	11.23%
COL Capital Limited	Interest of controlled corporation	1,900,939,562	—	1,900,939,562 (Note 3)	27.51%
Sun Hung Kai & Co. Limited	Interest of controlled corporation (Notes 5 & 8)	598,532,893	—	598,532,893 (Note 4)	8.66%
Allied Properties (H.K.) Limited	Interest of controlled corporation (Notes 5 & 8)	598,532,893	—	598,532,893	8.66%
Allied Group Limited	Interest of controlled corporation (Notes 6 & 8)	598,532,893	—	598,532,893	8.66%
Lee and Lee Trust	Interest of controlled corporation (Notes 7 & 8)	598,532,893	—	598,532,893	8.66%

SUBSTANTIAL SHAREHOLDERS (Continued)

Long positions in shares and underlying shares of the Company (Continued)

Notes:

1. The percentage of shareholding was calculated on the basis of the Company's issued share capital of 6,910,567,990 shares as at 31 December 2010.
2. These shares are held by Benefit Rich Limited ("**Benefit Rich**"), a wholly-owned subsidiary of Fushan International Energy Group Limited ("**Fushan**"). Accordingly, Fushan is deemed to have the same long position as Benefit Rich under the SFO.
3. These shares are held by: (i) Rise Cheer Investments Limited ("**Rise Cheer**") as to 1,124,640,000 shares, and (ii) Taskwell Limited ("**Taskwell**") as to 776,299,562 shares, both of which are wholly-owned subsidiaries of COL Capital Limited ("**COL**"). Accordingly, COL is deemed to have the same long position as Rise Cheer and Taskwell under the SFO. As at 31 December 2010, COL was 70.11% owned by Vigor Online Offshore Limited which in turn is a wholly-owned subsidiary of China Spirit Limited in which Ms. Chong Sok Un maintains 100% beneficial interest.
4. This represents security interests held by: (i) Itso Limited ("**Itso**") as to 11,060,000 shares, and (ii) Sun Hung Kai Strategic Capital Limited ("**SHKSC**") as to 587,472,893 shares, both of which are indirect wholly-owned subsidiaries of Sun Hung Kai & Co. Limited ("**SHK**"). Accordingly, SHK is deemed to have the same long position as Itso and SHKSC under the SFO.
5. SHK is a non wholly-owned subsidiary of AP Emerald Limited ("**APE**"). APE is a wholly-owned subsidiary of AP Jade Limited ("**APJ**") which in turn is a wholly-owned subsidiary of Allied Properties (H.K.) Limited ("**APL**"). Accordingly, APL, APJ and APE are deemed to have the same long position as SHK under the SFO.
6. APL is a non wholly-owned subsidiary of Allied Group Limited ("**AGL**"). Accordingly, AGL is deemed to have the same long position as APL under the SFO.
7. Mr. Lee Seng Hui, Ms. Lee Su Hwei and Mr. Lee Seng Huang are the trustees ("**Trustees**") of Lee and Lee Trust, being a discretionary trust. They together owned approximately 53.32% interest in the issued share capital of AGL as at 31 December 2010. Accordingly, Lee and Lee Trust is deemed to have the same long position as AGL under the SFO.
8. By the announcement dated 31 December 2008 jointly made by SHK, APL and AGL, it was announced that on 24 December 2008, SHKSC and/or Itso (as vendors) entered into three separate sale and purchase agreements ("**SP Agreements**") with three respective purchasers for the sale and purchase of an aggregate of 598,532,893 shares ("**Sale Shares**") of the Company. Pursuant to the SP Agreements, payment obligations of each of the purchasers were secured by a share charge ("**Share Charge(s)**") executed in favour of the relevant vendors.

Pursuant to the SP Agreements and the Share Charges, SHK, APL, AGL and the Trustees are deemed to be interested in the Sale Shares by virtue of the Share Charges. On 17 February 2011, SHK, APL, AGL and the Trustees ceased to have any interest in the Sale Shares following the release of the Share Charges.

SUBSTANTIAL SHAREHOLDERS (Continued)

Save as disclosed above, no other person had interest or short position in the shares and underlying shares of the Company or its subsidiaries, which are recorded in the register required to be kept by the Company pursuant to section 336 of the SFO as at 31 December 2010.

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

During the twelve months ended 31 December 2010, the Company purchased 11,560,000 shares of HK\$0.10 each in the capital of the Company at prices ranging from HK\$0.48 to HK\$0.53 per share on the Stock Exchange.

Particulars of the purchase of shares are as follows:

Date	Number of shares repurchased	Highest price paid per share (HK\$)	Lowest price paid per share (HK\$)	Aggregate consideration paid (excluding expenses) (HK\$)
November 2010	9,840,000	0.530	0.480	5,005,400
December 2010	<u>1,720,000</u>	0.495	0.490	<u>850,500</u>
Total	<u>11,560,000</u>			<u>5,855,900</u>

The repurchased shares were cancelled and accordingly, the Company's issued share capital was diminished by the nominal value thereof. The premium payable on repurchases was charged against the Company's share premium account.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the twelve months ended 31 December 2010.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

For the twelve months ended 31 December 2010, the Company has complied with the code provisions of The Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Listing Rules, except for the deviation in respect of the specific term of non-executive Directors' appointment under code provision A.4.1 of the CG Code.

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 second interim financial report for the twelve months ended 31 December 2010. 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 as set out in Appendix 10 of the Listing Rules as 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 Model Code for the twelve months ended 31 December 2010.

By order of the Board

Chong Sok Un

Chairman

Hong Kong, 25 February 2011