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APAC RESOURCES

**APAC RESOURCES LIMITED**

**亞太資源有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1104) (Warrant Code: 324)**

**ANNOUNCEMENT OF THE ANNUAL RESULTS  
FOR THE YEAR ENDED 31 DECEMBER 2008**

**AUDITED RESULTS OF THE GROUP**

The Board of Directors (the “**Directors**”) of APAC Resources Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2008 together with last year’s comparative figures as follows:

**CONSOLIDATED INCOME STATEMENT**  
*FOR THE YEAR ENDED 31 DECEMBER 2008*

	<i>Notes</i>	<b>2008</b> <b>HK\$’000</b>	2007 <i>HK\$’000</i> <i>(reclassified)</i>
Revenue	2	<b>298,613</b>	24,751
<b>Continuing operations</b>			
Revenue from sales of goods	2	<b>298,613</b>	–
Net gain from sale of trading securities		<b>35,079</b>	–
Gain on disposal of available-for-sale investments		<b>23,011</b>	19,646
Change in fair value of trading securities		<b>(468,862)</b>	566,796
Interest income		<b>6,956</b>	13,319
Other operating income		<b>4,382</b>	248
Purchases		<b>(283,145)</b>	–
Equity-settled share option expenses		<b>(53,700)</b>	(214,889)
Salaries and allowances		<b>(17,836)</b>	(8,041)
Operating lease rental on buildings		<b>(2,917)</b>	(1,584)
Gain on disposal of a subsidiary		–	1,536
Provision for doubtful debt		<b>(50,000)</b>	–
Impairment losses on available-for-sale investments		<b>(241,495)</b>	–
Share of profit of an associate		<b>2,435</b>	–
Loss on deemed disposal of partial interests in an associate		<b>(7,544)</b>	–
Impairment loss on interest in an associate		<b>(466,553)</b>	–
Other operating expenses		<b>(30,137)</b>	(21,617)
Finance costs		<b>(675)</b>	(11,340)

		2008	2007
	<i>Notes</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
(Loss)/profit before taxation	5	(1,252,388)	344,074
Income tax expense	6	<u>(616)</u>	<u>–</u>
(Loss)/profit for the year from continuing operations		(1,253,004)	344,074
<b>Discontinued operation</b>			
Profit for the year from discontinued operation	3	<u>675</u>	<u>1,239</u>
<b>(Loss)/profit for the year</b>		<b><u>(1,252,329)</u></b>	<b><u>345,313</u></b>
Attributable to:			
Equity shareholders of the Company		<b><u>(1,252,329)</u></b>	<b><u>345,313</u></b>
Dividends	7	<u>–</u>	<u>–</u>
(Loss)/earnings per share	8		
From continuing and discontinued operations			
– basic ( <i>HK cents per share</i> )		<b><u>(26.49)</u></b>	<b><u>9.78</u></b>
– diluted ( <i>HK cents per share</i> )		<b><u>(25.87)</u></b>	<b><u>9.39</u></b>
From continuing operations			
– basic ( <i>HK cents per share</i> )		<b><u>(26.50)</u></b>	<b><u>9.74</u></b>
– diluted ( <i>HK cents per share</i> )		<b><u>(25.88)</u></b>	<b><u>9.36</u></b>

# CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2008

	<i>Notes</i>	<b>2008</b> <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		<b>1,643</b>	2,198
Available-for-sale investments		<b>84,585</b>	2,993,426
Interests in associates	<i>9</i>	<b>591,817</b>	–
		<b>678,045</b>	2,995,624
Current assets			
Trade and other receivables	<i>10</i>	<b>470,732</b>	233,296
Trading securities		<b>113,898</b>	814,957
Pledged bank deposits		<b>90,004</b>	10,526
Cash and cash equivalents		<b>131,019</b>	694,945
		<b>805,653</b>	1,753,724
Current liabilities			
Other payables		<b>15,123</b>	9,018
Bills payable		<b>35,934</b>	–
Margin financing		<b>161,043</b>	1,797
Tax payable		<b>337</b>	237
		<b>212,437</b>	11,052
Net current assets		<b>593,216</b>	1,742,672
Net assets		<b>1,271,261</b>	4,738,296
Capital and reserves			
Share capital		<b>472,866</b>	472,629
Reserves		<b>798,395</b>	4,265,667
Total equity attributable to equity holders of the Company		<b>1,271,261</b>	4,738,296

Notes:

**(1) Basis of preparation of the financial statements**

The consolidated financial statements for the year ended 31 December 2008 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of these financial statements is the historical cost basis except that financial instruments classified as trading securities and available-for-sale investments, which are measured at their fair value.

The HKICPA has issued the following new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group.

HKAS 39 and HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC) – INT 11	HKFRS 2: Group and treasury share transactions
HK(IFRIC) – INT 12	Service concession arrangements
HK(IFRIC) – INT 14	Minimum funding requirements and their interaction

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

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.

HKAS 1 (Revised)	Presentation of financial statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and separate financial statements <sup>3</sup>
HKAS 32 and 1 (Amendments)	Puttable financial instruments and obligation arising on liquidation <sup>1</sup>
HKAS 39 (Amendment)	Eligible hedged items <sup>3</sup>
HKFRS 1 and HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate <sup>1</sup>
HKFRS 2 (Amendment)	Share-based payment – vesting conditions and cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business combinations <sup>3</sup>
HKFRS 7 (Amendment)	Improving disclosures about financial instruments <sup>1</sup>
HKFRS 8	Operating segments <sup>1</sup>
HK(IFRIC) – INT 9 and HKAS 39 (Amendment)	Embedded derivatives <sup>5</sup>
HK(IFRIC) – INT 13	Customer loyalty programmes <sup>2</sup>
HK(IFRIC) – INT 15	Agreements for the construction of real estate <sup>1</sup>
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation <sup>4</sup>
HK(IFRIC) – INT 17	Distribution of non-cash assets to owners <sup>3</sup>
HK(IFRIC) – INT 18	Transfer of assets from customers <sup>6</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2009

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

<sup>5</sup> Effective for annual periods beginning on or after 30 June 2008

<sup>6</sup> Effective for transfer on or after 1 July 2009

The directors of the Company anticipate that the application of the new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

## (2) Revenue

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
		<i>(reclassified)</i>
<b>Continuing operations</b>		
Revenue from sales of base metals	<b>298,613</b>	–
<b>Discontinued operation</b>		
Revenue from sales of fabric products and other merchandises	–	24,751
	<b>298,613</b>	<b>24,751</b>

The operation of sales of fabric products and other merchandises has been reclassified as discontinued operation.

### (3) Discontinued operation

The Group ceased the business operation of trading in fabric and other merchandises in year 2008.

The results of the discontinued operation being included in the consolidated income statement are as follows. The comparative profit from discontinued operation have been re-presented to include those operations classified as discontinued in current year.

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
<b>Profit for the year from discontinued operation</b>		
Turnover	–	24,751
Cost of sales	–	(24,055)
Gross profit	–	696
Other income	<b>677</b>	872
Distribution costs	–	(48)
Administrative expenses	<b>(2)</b>	(12)
Finance costs	–	(269)
Profit before taxation	<b>675</b>	1,239
Income tax expense	–	–
Profit for the year from discontinued operation	<b><u>675</u></b>	<b><u>1,239</u></b>

### (4) Segmental information

#### *Primary reporting format – business segments*

As at 31 December 2008, the Group comprises the following main business segments:

- (i) trading in base metals; and
- (ii) trading and investment of listed securities

The Group also involved in the business of trading in fabric products and other merchandises which was discontinued during the year ended 31 December 2008 (*note 3*).

The following tables represent revenue and (loss)/profit information on each of the above business segments for the years ended 31 December 2007 and 2008, and certain assets and liabilities information regarding business segments as at 31 December 2007 and 2008.

**For the year ended 31 December 2008**

	Continuing operations			Discontinued operation	Consolidated <i>HK\$'000</i>
	Trading in base metals <i>HK\$'000</i>	Trading and investment of listed securities <i>HK\$'000</i>	Total <i>HK\$'000</i>	Trading in fabric products and other merchandises <i>HK\$'000</i>	
Revenue	<u>298,613</u>	<u>–</u>	<u>298,613</u>	<u>–</u>	<u>298,613</u>
Gross sales proceeds from trading and investment in listed securities	<u>–</u>	<u>231,444</u>	<u>231,444</u>	<u>–</u>	<u>231,444</u>
Segment result	9,671	(408,582)	(398,911)	675	(398,236)
Share of profit of an associate					2,435
Provision for doubtful debts	(50,000)	–	(50,000)	–	(50,000)
Impairment loss of available-for- sale investments					(241,495)
Loss on deemed disposal of partial interests in an associate					(7,544)
Impairment loss on interest in an associate					(466,553)
Unallocated corporate expenses					(89,645)
Finance costs					<u>(675)</u>
Loss before taxation					(1,251,713)
Income tax expense					<u>(616)</u>
Loss for the year					<u>(1,252,329)</u>
Segment assets	375,919	198,649	574,568	–	574,568
Interest in associates					591,817
Unallocated corporate assets					<u>317,313</u>
Consolidated total assets					<u>1,483,698</u>
Segment liabilities	42,135	161,490	203,625	–	203,625
Unallocated corporate liabilities					<u>8,812</u>
Consolidated total liabilities					<u>212,437</u>

For the year ended 31 December 2007

	Continuing operations			Discontinued operation	Consolidated <i>HK\$'000</i>
	Trading in base metals <i>HK\$'000</i>	Trading and investment of listed securities <i>HK\$'000</i>	Total <i>HK\$'000</i>	Trading in fabric products and other merchandises <i>HK\$'000</i>	
Revenue	<u>–</u>	<u>–</u>	<u>–</u>	<u>24,751</u>	<u>24,751</u>
Gross sales proceeds from trading and investment in listed securities	<u>–</u>	<u>40,597</u>	<u>40,597</u>	<u>–</u>	<u>40,597</u>
Segment result	(8)	585,437	585,429	1,508	586,937
Unallocated corporate expenses					(231,551)
Gain on disposal of a subsidiary					1,536
Finance costs					<u>(11,609)</u>
Profit before taxation					345,313
Income tax expense					<u>–</u>
Profit for the year					<u>345,313</u>
Segment assets	226,368	3,812,668	4,039,036	5,448	4,044,484
Unallocated corporate assets					<u>704,864</u>
Consolidated total assets					<u>4,749,348</u>
Segment liabilities	5	2,195	2,200	5	2,205
Unallocated corporate liabilities					<u>8,847</u>
Consolidated total liabilities					<u>11,052</u>

***Secondary reporting format – geographical segments***

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods.

	<b>2008</b>	2007
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Hong Kong and PRC	<b>231,354</b>	7,240
South East Asia	<b>67,259</b>	988
United States of America	–	5,789
Africa	–	10,734
	<b><u>298,613</u></b>	<b><u>24,751</u></b>

The following table provides an analysis of the Group's assets by geographical location of assets:

	<b>2008</b>	2007
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Hong Kong and PRC	<b>432,456</b>	411,003
Australia	<b>142,112</b>	3,628,045
United States of America	–	3,033
Africa	–	2,403
	<b><u>574,568</u></b>	<b><u>4,044,484</u></b>

Additions of property, plant and equipment to the amount of HK\$135,134 for the year ended 31 December 2008 (2007: HK\$2,377,000) are all located in Hong Kong and PRC.

(5) (Loss)/profit before taxation

(Loss)/profit before taxation has been arrived at after charging/(crediting) the following:

	Continuing operations		Discontinued operation		Consolidated	
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Auditor's remuneration	400	325	-	5	400	330
Depreciation for property, plant and equipment	732	179	-	-	732	179
Exchange (gain)/loss, (net)	(3,413)	1,885	39	169	(3,374)	2,054
Legal and professional fees	12,771	5,449	-	5	12,771	5,454
Loss on disposal of property, plant and equipment	1	-	-	-	1	-
	<u>1,597</u>	<u>6,886</u>	<u>-</u>	<u>-</u>	<u>1,597</u>	<u>6,886</u>
Consultancy fee						
- settled by cash	1,597	6,886	-	-	1,597	6,886
- equity-settled share option expenses	-	21,165	-	-	-	21,165
	<u>1,597</u>	<u>28,051</u>	<u>-</u>	<u>-</u>	<u>1,597</u>	<u>28,051</u>
Total consultancy fee						
	<u>1,597</u>	<u>28,051</u>	<u>-</u>	<u>-</u>	<u>1,597</u>	<u>28,051</u>
Staff costs, including directors' emoluments						
- salaries and allowance	17,048	8,041	-	-	17,048	8,041
- equity-settled share option expenses	53,700	193,724	-	-	53,700	193,724
- staff quarter	308	111	-	-	308	111
- retirement benefits scheme contributions, net of nil forfeited contributions	480	96	-	-	480	96
	<u>71,536</u>	<u>201,972</u>	<u>-</u>	<u>-</u>	<u>71,536</u>	<u>201,972</u>
Total staff costs						
	<u>71,536</u>	<u>201,972</u>	<u>-</u>	<u>-</u>	<u>71,536</u>	<u>201,972</u>

(6) Income tax expense

	Continuing operations		Discontinued operation		Consolidated	
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax:						
Hong Kong profits tax	-	-	-	-	-	-
PRC Enterprise Income Tax	616	-	-	-	616	-
	<u>616</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>616</u>	<u>-</u>

(7) Dividends

No dividends had been paid or declared by the Company during the year (2007: nil).

(8) (Loss)/earnings per share

(a) *Basic loss/earnings per share*

The calculation of basic loss/earnings per share is based on the loss for the year of HK\$1,252,329,000 (2007: profit of HK\$345,313,000) and the weighted average number of 4,727,569,372 (2007: 3,532,282,202) ordinary shares in issue during the year.

(b) *Diluted loss/earnings per share*

The loss/earnings used in the calculation of diluted loss/earnings per share are the same as those for the basic loss/earnings per share, as set out above.

The weighted average number of ordinary shares for the purposes of diluted loss/earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic loss/earnings per share as follows:

	2008	2007
Weighted average number of ordinary shares for the purpose of basic loss/earnings per share	4,727,569,372	3,532,282,202
Effect of dilutive potential ordinary shares:		
– warrants	113,373,772	145,452,627
– share options	—	—
Weighted average number of ordinary shares for the purpose of diluted loss/earnings per share	<u>4,840,943,144</u>	<u>3,677,734,829</u>

The calculation of the diluted loss/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 for the year.

(9) Interest in associates

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Cost of investments in associates		
– Listed in Australia	1,045,338	–
– Unlisted	22,848	–
Decrease in share of net assets of associate upon deemed disposal of partial interests in an associate	(7,544)	–
Share of post acquisition profits, net of dividend received	2,435	–
Share of post acquisition change of retained earnings and reserves	76,147	–
Impairment loss on interest in an associate	(466,553)	–
Exchange difference	(80,854)	–
	<u>591,817</u>	<u>–</u>
Fair value of listed investments	<u>392,330</u>	<u>–</u>

Details of the Group's associate at 31 December 2008 are as follow:

Name of entity	Place of incorporation and principal place of operation	Class of share held	Proportion of nominal value of issued capital/ registered capital held	Proportion of voting power held	Principal activities
平港(上海)貿易有限公司 ("平港貿易")	People's Republic of China	N/A	40%	40%	Wholesales, import and export, agency service and relevant service for coal, coke, material for metallurgy, mineral products, chemical engineering products, mechanical and electrical equipment and spare parts, steel and steel products, construction material and related products and technology.
Mount Gibson Iron Limited ("MGX")	Australia	Ordinary	17.95% (note)	17.95%	Mining of hematite deposits at Talling Peak and Koolan Island; development of hematite mining operations at Extension Hill; and exploration of hematite deposits in Western Australia

*Note:*

Prior to 1 December 2008, the Group acquired equity interest in MGX through various subsidiaries for trading and long-term investment purpose. The Group considered that given the conditions as stipulated in Hong Kong Accounting Standard – Investments in Associates (“HKAS 28”), MGX was not an associate as defined in HKAS 28, the interest of its shareholdings can only be accounted for other than an associate. A certain portion of the equity interest in MGX was accounted for as trading securities and the rest portion was accounted for as available-for-sale investment. On 1 December 2008, following the appointment of the Group’s chairman to the board of MGX, MGX was then deemed as an associate as defined in HKAS 28. Accordingly, MGX was then treated as an associate of the Group. On 1 December 2008, the cumulative fair value changes of the Group’s 20.41% equity interest in MGX was accounted for in the financial statements.

On 31 December 2008, a placing transaction of 110,000,000 shares was completed by MGX. Though, the Group’s interest was diluted to approximately 17.95%, the Group still considers MGX as an associate as defined in HKAS 28. MGX is continued to be accounted for as an associate of the Group. The Group’s interest before the placement was 20.41%. A deemed disposal of the interest in associate was recognised and a loss of HK\$7,544,000 was recorded in profit or loss.

The summarised financial information in respect of the Group’s associate is set out below:

	<b>2008</b>	2007
	<b><i>HK\$’000</i></b>	<i>HK\$’000</i>
Total assets	<b>5,609,242</b>	–
Total liabilities	<b>2,382,403</b>	–
Net assets	<b>3,226,839</b>	–
Share of net assets of associates	<b>591,817</b>	–
Revenue	<b>1,236,635</b>	–
Profit since acquisition of relevant associates	<b>111,932</b>	–
Share of results of associates for the period since acquisition	<b>2,435</b>	–

**(10) Trade and other receivables**

The Group allows an average credit period of 0 – 90 days to its trade customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

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

	<b>2008</b>	2007
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Trade receivables		
0 to 90 days	<b>35,933</b>	4,559
91 to 365 days	–	611
	<b>35,933</b>	5,170
Other receivables	<b>110</b>	646
Purchase deposits	<b>168,896</b>	226,368
Deposit for underwritten right issue of an associate	<b>260,985</b>	–
Other deposits and prepayment	<b>4,808</b>	1,112
	<b>470,732</b>	233,296

The aged analysis of trade receivables that are not considered to be impaired is as follows:

	<b>2008</b>	2007
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Neither past due nor impaired:		
Current	<b>35,933</b>	–
Past due but not impaired:		
0 to 30 days	–	–
31 to 60 days	–	4,559
61 to 90 days	–	611
	<b>35,933</b>	5,170

Receivables that were past due but not impaired relate to customers that have a good track record with the Group. The Group did not hold any collateral over these balances.

## **(11) Comparative figures**

Certain comparative figures for year 2007 have been reclassified to conform with current year presentations.

## **FINANCIAL RESULTS**

Although the Group's revenue increased by 1,106% to HK\$298,613,000 (2007: HK\$24,751,000), the Group recorded a net loss attributable to shareholders of HK\$1,252,329,000 compared to a net profit of HK\$345,313,000 of last year amidst the global financial and economic turmoil.

Loss per share (basic) for the year ended 31 December 2008 was 26.49 HK cents (2007: earnings per share of 9.78 HK cents) and the net asset value per share as at 31 December 2008 was HK\$0.27 (2007: HK\$1.0).

## **DIVIDEND**

The Directors do not recommend the payment of a dividend for the year ended 31 December 2008 (2007: nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Review of Operations**

#### ***Trading and investment of listed securities***

For the businesses of securities trading and investment, the Group recorded a gross sales proceeds of HK\$231,444,000 (2007: HK\$40,597,000) and a loss of HK\$408,582,000 (2007: profit of HK\$585,437,000) mainly due to the mark-to-market unrealised loss of HK\$468,862,000 (2007: unrealised gain of HK\$566,796,000) from its trading securities which was partially offset by the realized gain of HK\$35,079,000 (2007: nil) from sale of trading securities and realised gain of HK\$23,011,000 (2007: HK\$19,646,000) from disposal of available-for-sale investments.

The second half of 2008 saw a sudden and dramatic drop in demand for iron ore and other commodities caused by the unprecedented global financial crisis and the consequent global economic uncertainty. As a whole, 2008 was a difficult year for investors in the global equity market, in particular, the natural resources sector. As such, the Group took a prudent approach by making a mark-to-market impairment charge of HK\$241,495,000 (2007: nil) on its long term investment portfolio of available-for-sale investments.

As at 31 December 2008, the Group maintained a long term investment portfolio of available-for-sale investments of HK\$84,585,000 (2007: 2,993,426,000) and a short term portfolio of trading securities of HK\$113,898,000 (2007: HK\$814,957,000).

### ***Trading in base metals***

As a result of the strengthening of its business in trading of base metals, the Group achieved a turnover of HK\$298,613,000 (2007: nil) and a profit of 9,671,000 (2007: loss of HK\$8,000) for the year under review.

During the year under review, the Group entered into an agreement with certain independent third parties (“Suppliers”) to supply for a term of three years nickel ore from Philippines for the Group’s business of trading of base metals. A purchase deposit of HK\$50 million had been paid. However, up to the date of this announcement, the Suppliers were unable to supply any nickel ore to the Group. Consequently, certain undertakings, representations and warranties under the agreement had been breached by the Suppliers and legal letters had been issued to the Suppliers accordingly. For prudent sake, a provision of doubtful debts of HK\$50,000,000 (2007: nil) has been made, however, the Group will continue with every legal action in order to recover such deposit paid.

### ***Trading in fabric products***

For 2008, there was no trading in fabric products (2007: HK\$24,751,000) and a segment profit of HK\$675,000 (2007: HK\$1,508,000) was recorded. Due to intense competition and dim outlook within this market, the Group has wound down the operation in this sector.

## **Termination of the Acquisition of a 49% Equity Interest in Lan Ping Xian Wei Yuan Mining Co. Ltd (灤平縣偉源礦業有限責任公司) (“Wei Yuan”)**

As announced on 3 October 2008, the conditional acquisition of the entire issued share capital of Good China Limited (“GCL”), beneficially owner of a 49% equity interests in Wei Yuan which engages in the business of iron ore mining and production of iron ore materials in the PRC, and a loan due by GCL to the vendor, for an aggregate consideration of HK\$1,200,000,000 was terminated since the Group has not been able to conduct legal, financial, valuation, business and technical due diligence reviews to its sole satisfaction.

## **PRINCIPAL ASSOCIATED COMPANIES**

The share of profit of associate of the Group for the year ended 31 December 2008 was HK\$2,435,000 (2007: nil).

In November 2008, in order to preserve its interest and secure long term supply for its trading in base metals, the Group entered into a heads of agreement with Mount Gibson Iron Limited (“MGX”) pursuant to which the Group would (i) take up its full entitlement under a rights issue of MGX (“MGX’s Rights Issue”) in respect of its then shareholding in MGX to subscribe for 32,829,629 new shares in MGX at an issue price of A\$0.60 per share (the “Shareholding Commitment”), (ii) underwrite in priority the shortfall shares in MGX’s Rights Issue of up to 82,900,000 new shares (the “Underwriting Commitment”) and (iii) secure long term offtake agreement with MGX for its available iron ore production.

Following the appointment of Mr. Cao Zhong, the Company’s chairman, into the board of MGX as non-executive director in December 2008 in pursuance to the heads of agreement, the Group considers MGX as an associate as defined under Hong Kong Accounting Standard 28 – Investments in Associates. As at 31 December 2008, the Group’s shareholding in MGX was 17.95%. In view of the prevailing economic uncertainty, the Group took a prudent view by making a goodwill impairment charge of HK\$466,553,000 (2007: nil) on its interest in MGX.

MGX is a pure iron ore exploration and mining company, which owns iron ore deposits and holds mining rights in Australia. According to MGX's interim report for the half-year period ended 31 December 2008, MGX recorded a turnover of A\$232.9 million (2007: A\$176.2 million) and a net profit of A\$13.3 million (2007: A\$32.1 million) for the six-month ended 31 December 2008. MGX pointed out that after a very strong result for the 1st quarter ended 30 September 2008, the 2nd quarter ended 31 December 2008 was negatively impacted by significantly reduced sale volumes as a result of defaults by some of its customers, reduced sale prices and a A\$54.8 million mark-to-market adjustment relating to foreign exchange hedging loss. In such a volatile and adverse market environment, MGX has secured offtake agreements for all its available iron ore production with large customers who are also shareholders of MGX. MGX considered that these offtake agreements coupled with the substantial capital injection from the MGX's Rights Issue and a share placement exercise would place MGX in a sound financial position.

Subsequent to the year-end date, the subscription of 32,829,630 new shares in respect of the Shareholding Commitment and 82,900,000 new shares in respect of the Underwriting Commitment in MGX were all taken up by the Group on 12 January 2009 at an aggregate consideration of A\$69,437,777 (equivalent to approximately HK\$366,389,175) which were funded by the Group's internal resources and borrowings. As a result, the Group's interest in MGX increased to 279,877,774 shares, representing approximately 26.03% of the issued share capital of MGX. Further, the Group has also secured the long term offtake with MGX for 20% of its available iron ore production.

## **FINANCIAL RESOURCES, BORROWINGS AND CAPITAL STRUCTURE**

As at 31 December 2008, the Group's non-current assets amounted to HK\$678,045,000 (2007: HK\$2,995,624,000) and net current assets amounted to HK\$593,216,000 (2007: HK\$1,742,672,000) with a current ratio of 3.8 times (2007: 158.7 times) calculated on the basis of the Group's current assets over current liabilities.

The flexibility of the financial resources available to the Group was enhanced by both short term credit facilities granted by a stock-broking firm and trade finance facilities granted by banks to the Group. The short term credit facilities were secured by investment in a listed associate, available-for-sale investments and trading securities while the trade finance facilities were secured by bank deposits. All the Group's borrowings are arranged on a short-term basis in Hong Kong. As at 31 December 2008, the Group had borrowings of HK\$196,977,000 (2007: HK\$1,797,000) and a gearing ratio of 0% (2007: 0%), calculated on the basis of the Group's net borrowings (after pledged bank deposits, cash and cash equivalents) over shareholders' fund.

## **FOREIGN EXCHANGE EXPOSURE**

For the year under review, the Group's assets were mainly denominated in Australian Dollar, Renminbi and Hong Kong Dollars while the liabilities were mainly 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 actively hedge for the risk arising from the Australian Dollar denominated assets. The Group monitors its foreign exchange exposure and will consider hedging significant currency exposure should the needs arises.

## **PLEDGE OF ASSETS**

As at 31 December 2008, the Group's investment in a listed associate, available-for-sale investments and trading securities of HK\$473,223,000 (2007: HK\$3,628,045,000) were pledged to a stock-broking firm to secure short term credit facilities granted to the Group and the Group's bank deposits of HK\$90,004,000 (2007: HK\$10,526,000) were pledged to banks to secure trade finance 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.

## **PROSPECT**

The Group aims to establish itself as a significant natural resources trading and investment group by identification, evaluation and acquisition of strategic interests in quality natural resources assets (either indirectly through investment in, and support of, resources corporations or by direct investment in mineral projects) so as to build up a portfolio of long term cash generating investments that enhances the Company's value in the context of natural resources industry consolidation and rationalisation where it believes value can be maximized for all concerned stakeholders.

One of the strategies the Group employs is to work co-operatively with resources companies and management teams it identifies as reputable, trustworthy partners to achieve their corporate objectives where they are aligned with the Group. Another viable strategy is to bridge the gap between Western mining companies and Asian end-users to facilitate investment in, and fast-track development of, quality natural resource assets enabling the Group to undertake profitable investments in the resources sector and to secure reliable long term production offtake to the Group's strategic advantage.

The Group considers the increase in investment in MGX pursuant to the Shareholding Commitment and the Underwriting Commitment as a step to preserve the Group's interest in MGX and as a way in which to strengthen and support its investment in MGX. In particular, MGX's mining and exploration of hematite iron ore provides an opportunity to expand the Group's trading of base metals and the Group considers that the long term offtake agreement will give the Group a good opportunity to secure long term supply of hematite iron ore products for its trading activities.

Given the recent global financial turmoil and economic recession, the Group will be more cautious in its trading and investment activities in 2009. With a satisfactory financial position, however, the Group is well-placed to continue to identify, evaluate and acquire strategic interests in quality natural resources assets in order to maximize returns for shareholders.

## **PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

## **CORPORATE GOVERNANCE**

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) for the year ended 31 December 2008 except that all the independent non-executive directors of the Company were not appointed for a specific term since they are subject to retirement by rotation and re-election at least once every three years at the annual general meetings of the Company in accordance with the relevant provisions of the Company’s Bye-laws.

The Company has also adopted the Model Code for Securities Transactions by Directors (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules as the Company’s code of conduct regarding Directors’ securities transactions. Having made specific enquiries of all Directors, they have confirmed their compliance with the required standard as set out in the Model Code throughout the year ended 31 December 2008.

## **REVIEW OF RESULTS BY AUDIT COMMITTEE AND EXTERNAL AUDITORS**

The Group’s annual results for the year ended 31 December 2008 have been reviewed by the Audit Committee of the Company. The figures in respect of this announcement of the Group’s results for the year ended 31 December 2008 have been agreed by the Group’s external auditors, Messrs. Graham H.Y. Chan & Co., to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by Messrs. Graham H.Y. Chan & Co. in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Graham H.Y. Chan & Co. on this announcement.

## APPRECIATION

On behalf of the Board, I would like to take this opportunity to extend my sincere appreciation to our shareholders for their continued support and to my fellow directors, the management and staff for their contributions and endeavor and hard work. I am also grateful to our shareholders and institutional investors for their support of our business strategies, as well as the banking community for their confidence, encouragement and recognition.

By Order of the Board

**Cao Zhong**

*Chairman*

Hong Kong, 16 April 2009

As at the date of this announcement, the Directors of the Company 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. Chen Zhaoqiang and Mr. Yue Jialin

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

\* *For identification purpose only*