APAC RESOURCES

APAC RESOURCES LIMITED

亞 太 資 源 有 限 公 司 *

(Incorporated in Bermuda with limited liability)

(Stock Code: 1104)

ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

The board of directors (the "**Board**") of APAC Resources Limited (the "**Company**" or "**APAC**") announces the unaudited interim results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 31 December 2016, which has been reviewed by the auditor of the Group and the audit committee of the Company (the "**Audit Committee**").

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 31 December 2016

		Six months ended	
	Notes	**31.12.2016** *HK$'000* **(unaudited)**	31.12.2015 *HK$'000* (unaudited)
Revenue from sales of goods	*2*	**26,098**	58,000
Cost of sales		**(24,876)**	(46,939)
Gross profit		**1,222**	11,061
Other gains and losses	*3*	**329,650**	(147,754)
Other income		**35,720**	49,375
Administrative expenses		**(18,283)**	(18,856)
Finance costs	*4*	**—**	(135)
Share of results of associates		**40,085**	(21,779)
Profit (loss) before taxation	*5*	**388,394**	(128,088)
Income tax expense	*6*	**(60,491)**	(556)
Profit (loss) for the period attributable to owners of the Company		**327,903**	(128,644)
Earnings (loss) per share (expressed in HK cents)			
— Basic	*8*	**3.57**	(1.43)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2016

	Six months ended	
	31.12.2016	31.12.2015
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit (loss) for the period	**327,903**	(128,644)
Other comprehensive income (expense), net of tax		
Items that may be subsequently reclassified to profit or loss:		
Exchange difference arising from translation of associates	**(15,069)**	(57,927)
Exchange difference arising from translation of other foreign operations	**(2,980)**	(4,192)
Reclassification adjustment upon deemed disposal of partial interests in associates	**(144)**	1,734
Reclassification adjustment upon derecognition of interests in an associate	**65,515**	—
Net fair value change on available-for-sale investments	**(19,088)**	—
Share of investment revaluation reserve of associates	**424**	5,791
	28,658	(54,594)
Total comprehensive income (expense) for the period attributable to owners of the Company	**356,561**	(183,238)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	31.12.2016 HK$'000 (unaudited)	30.6.2016 HK$'000 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**1,323**	486
Interests in associates	*9*	**671,536**	1,145,649
Available-for-sale investments	*10*	**670,098**	49,492
Loan notes	*11*	**194,980**	31,161
Deferred tax asset		**3,245**	—
		1,541,182	1,226,788
Current assets			
Inventories		**—**	24,823
Loan notes	*11*	**—**	314,304
Other receivables and deposits		**14,489**	15,078
Investments held for trading	*12*	**257,764**	286,881
Loans receivable	*13*	**140,381**	131,899
Pledged bank deposits		**80,100**	79,955
Bank balances and cash		**580,355**	149,251
		1,073,089	1,002,191
Total assets		**2,614,271**	2,228,979

	Notes	**31.12.2016**	30.6.2016
		HK$'000	*HK$'000*
		(unaudited)	(audited)
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	*15*	**919,165**	919,165
Reserves		**320,533**	291,875
Accumulated profits		**1,325,229**	997,326
		2,564,927	2,208,366
Non-current liability			
Deferred tax liability		**25,726**	—
Current liabilities			
Trade and other payables	*14*	**4,028**	19,215
Tax payable		**19,590**	1,398
		23,618	20,613
Total equity and liabilities		**2,614,271**	2,228,979
Net current assets		**1,049,471**	981,578
Total assets less current liabilities		**2,590,653**	2,208,366

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

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

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

Except for the newly adopted accounting policies which have become applicable to the Group in the current interim period as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 December 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2016.

Investments in associates

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of Hong Kong Accounting Standard 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

Current and deferred tax for the period

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA that are mandatorily effective for the current interim period.

The application of the amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

2. SEGMENT INFORMATION

Information regularly reviewed by the chief operating decision maker (the "**CODM**"), represented by the executive directors of the Company, for the purpose of allocating resources to segments and assessing their performance focuses on the nature of the Group's business and operations. The Group's reportable and operating segments are therefore as follows:

(i) Commodity business (trading of commodities); and

(ii) Resource investment (trading of and investment in listed and unlisted securities, excluding interests in associates).

Segment results represent the profit (loss) earned by each segment without allocation of central administration costs, directors' salaries, share of results of associates, gain/loss on deemed disposal of partial interests in an associate, gains arising from derecognition of interests in associates, impairment loss on interests in associates, reversal of impairment loss on interests in an associate, adjustment to carrying amount of loans receivable, unallocated corporate income and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Information regarding the Group's reportable and operating segments is presented below.

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

Six months ended 31 December 2016

	Commodity business *HK$'000*	Resource investment *HK$'000*	Total *HK$'000*
Revenue	26,098	—	26,098
Gross sales proceeds from resource investment	—	226,210	226,210
Segment (loss) profit	(647)	25,277	24,630
Share of results of associates			40,085
Gains arising from derecognition of interests in associates			189,599
Loss on deemed disposal of partial interests in an associate			(3,164)
Reversal of impairment loss on interests in an associate			128,335
Adjustment to carrying amount of loans receivable			4,626
Unallocated corporate income			20,433
Unallocated corporate expenses			(16,150)
Profit before taxation			388,394

Six months ended 31 December 2015

	Commodity business *HK$'000*	Resource investment *HK$'000*	Total *HK$'000*
Revenue	58,000	—	58,000
Gross sales proceeds from resource investment	—	65,799	65,799
Segment profit (loss)	11,267	(96,845)	(85,578)
Share of results of associates			(21,779)
Gain on deemed disposal of partial interests in an associate			20,811
Impairment loss on interests in associates			(65,365)
Unallocated corporate income			38,928
Unallocated corporate expenses			(14,970)
Finance costs			(135)
Loss before taxation			(128,088)

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales during both periods.

An analysis of the Group's assets and liabilities by reportable and operating segments is set out below:

	31.12.2016 ***HK$'000*** **(unaudited)**	30.6.2016 *HK$'000* (audited)
Commodity business	**197,785**	203,880
Resource investment	**1,122,345**	372,127
Total segment assets	**1,320,130**	576,007
Interests in associates	**671,536**	1,145,649
Loan notes	**194,980**	345,465
Loans receivable	**140,381**	131,899
Unallocated	**287,244**	29,959
Consolidated assets	**2,614,271**	2,228,979
Commodity business	**1,436**	17,975
Resource investment	**46,056**	47
Total segment liabilities	**47,492**	18,022
Unallocated	**1,852**	2,591
Consolidated liabilities	**49,344**	20,613

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than interests in associates, property, plant and equipment, loan notes, loans receivable, other receivables and certain bank balances and cash.

- all liabilities are allocated to reportable segments other than certain other payables and tax payable.

3. OTHER GAINS AND LOSSES

	Six months ended	
	31.12.2016	31.12.2015
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Fair value change of investments held for trading	**56,594**	(101,452)
Fair value change of derivative financial instruments	**—**	(1,939)
(Loss) gain on deemed disposal of partial interests in an associate	**(3,164)**	20,811
Adjustment to the carrying amount of loans receivable	**4,626**	—
Gains arising from derecognition of interests in associates *(Note 9)*	**189,599**	—
Impairment loss on interests in associates	**—**	(65,365)
Reversal of impairment loss on interests in an associate	**128,335**	—
Net foreign exchange (loss) gain	**(46,340)**	191
	329,650	(147,754)

4. FINANCE COSTS

	Six months ended	
	31.12.2016	31.12.2015
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interest on securities margin financing	**—**	135

5. PROFIT (LOSS) BEFORE TAXATION

	Six months ended	
	31.12.2016	31.12.2015
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit (loss) before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	**209**	210
Cost of goods recognised as an expense	**24,876**	38,692

6. INCOME TAX EXPENSE

	Six months ended	
	31.12.2016	31.12.2015
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax		
Hong Kong Profits Tax	**—**	556
Enterprise Income Tax ("**EIT**") in the People's Republic of China (the "**PRC**")	**—**	—
Provision for Australian capital gain tax	**18,192**	—
Overprovision of EIT in the PRC in previous years	**(65)**	—
	18,127	556
Deferred tax charge for the period	**42,364**	—
	60,491	556

7. DIVIDENDS

No dividend was paid, declared or proposed during the period, nor has any dividend been proposed since the end of the reporting period.

8. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share is based on the profit (loss) attributable to owners of the Company of HK$327,903,000 (six months ended 31 December 2015: loss of HK$128,644,000) and the weighted average number of 9,191,651,985 (six months ended 31 December 2015: weighted average number of 8,991,833,464) ordinary shares in issue during the six months ended 31 December 2016.

For the periods ended 31 December 2016 and 31 December 2015, no separate diluted earnings (loss) per share information has been presented as there was no potential ordinary shares outstanding.

9. INTERESTS IN ASSOCIATES

	31.12.2016	30.6.2016
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Cost of investment in associates		
Listed in Australia	**1,614,320**	2,269,736
Unlisted	**22,716**	54,708
Share of post-acquisition results and other comprehensive income, net of dividends received	**(518,605)**	(573,327)
Impairment losses recognised	**(446,895)**	(605,468)
	671,536	1,145,649
Fair value of listed investments	**636,310**	1,283,319

As at 31 December 2016, the Group has interest in one (30 June 2016: two) associate, Mount Gibson Iron Limited ("**MGX**") (30 June 2016: MGX and Metals X Limited ("**MLX**")) whose shares are listed on Australian Stock Exchange. The Group's shareholdings in MGX is 29.53% (30 June 2016: 29.67%). The Group's shareholdings in MGX decreased from 29.67% to 29.53% as a result of the issuance of 5,283,081 new shares by MGX during the six months ended 31 December 2016. A loss on deemed disposal of partial interests of approximately HK$3,164,000 was recognised in profit or loss for the period.

Derecognition of interests in associates

MLX

On 15 July 2016, the Group disposed of 21,500,000 shares in MLX in the market for a cash consideration of approximately Australian dollars ("**AUD**") 31,820,000 (equivalent to approximately HK$185,491,000) and the direct costs in relation to this transaction is approximately HK$371,000. Immediate after the disposal, the Group's interest in MLX's issued share capital decreased from 20.72% to 16.24% and the Group ceased to have significant influence over MLX. The Group discontinued the use of the equity method to account for the entire interest in MLX as an associate and the Group's retained interest in MLX was subsequently accounted for as an available-for-sale investment at fair value.

The gain arising from derecognition of interests in MLX as an associate is set out as follows:

	HK$'000
Net cash received	185,120
Fair value of retained interests in MLX *(note)*	682,053
Carrying amount of the interests in MLX derecognised as an associate	(624,580)
Reclassification of share of MLX's investment revaluation reserve previously included in the Group's other comprehensive income	28,695
Reclassification of share of MLX's exchange deficit previously included in the Group's other comprehensive income	(94,210)
	177,078

Note: The retained interests in MLX are determined based on 77,907,571 shares of MLX and the market price of AUD1.48 (equivalent to approximately HK$8.76) per MLX's share. The market price of MLX share is determined based on its closing price at the date of transaction.

Alufer Mining Limited ("Alufer")

During the six months ended 31 December 2016, the Group's shareholdings in Alufer, which was an associate of the Group and its carrying amount was fully impaired in the past due to its insolvent financial position and uncertainty in raising new funds to continue with the exploration of its projects, decreased from 26.72% to 7.68% as a result of issuance of US$21,388,889 preference shares of US$0.145 each by Alufer which carry 75% of the total voting rights of Alufer and the Group subscribed for US$285,398 (equivalent to approximately HK$2,215,000) preference shares. The Group ceased to have significant influence over Alufer. The Group discontinued the use of the equity method to account for the entire interest in Alufer as an associate. This transaction was accounted for as a deemed disposal of the entire interest in an associate and the Group's retained interest in Alufer was subsequently accounted for as an available-for-sale investment at fair value. The gain arising from the derecognition of interests in Alufer as an associate is approximately HK$12,521,000.

Impairment assessment for the six months ended 31 December 2016

As at 31 December 2016, management of the Group carried out review on impairment on the carrying amount of its interest in MGX by comparing its recoverable amount (higher of the value in use and fair value less cost of disposal) with its carrying amount. In determining the value in use of the investment, the Group estimated the present value of the estimated future cash flows expected to arise from the operations of MGX and from the ultimate disposal of its interest in MGX, by using a discount rate of 10% (30 June 2016: 10%) to discount the cash flow projection to the net present value. The fair value of MGX was determined based on the closing price at the end of each reporting period. As at 31 December 2016, the recoverable amount of the Group's interest in MGX which represented the fair value less cost of disposal was higher than its carrying amount, accordingly, a reversal of impairment loss of HK$128,335,000 was recognised in profit or loss during the period.

10. AVAILABLE-FOR-SALE INVESTMENTS

	31.12.2016	30.6.2016
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Equity securities:		
Unlisted, at cost	**37,501**	37,501
Less: impairment losses recognised	**(35,214)**	(35,214)
	2,287	2,287
Unlisted, at fair value	**61,941**	47,205
Listed in Australia, at fair value	**605,870**	—
	670,098	49,492

11. LOAN NOTES

On 26 November 2013, the Group subscribed loan notes from Mulpha SPV Limited ("**Mulpha**"), a limited liability company incorporated in Malaysia, with a nominal value of US$30,000,000 which bear 8.5% coupon interest per annum and would mature on 26 November 2016 (the "**Mulpha Notes 1**"). On 5 September 2014, the Group subscribed another loan notes from Mulpha with a nominal value of US$10,000,000 which bear 8.0% coupon interest per annum and would mature on 5 September 2016 (the "**Mulpha Notes 2**").

On 15 July 2016, the Mulpha Notes 1, together with the accrued unpaid interest, was early redeemed by Mulpha.

On 5 September 2016, the Mulpha Notes 2, together with the accrued unpaid interest, was redeemed by Mulpha.

On 6 September 2016, the Group subscribed loan notes from Mulpha with a nominal value of US$20,000,000 which bear 6% coupon interest per annum and will mature on 6 September 2019.

These loan notes are guaranteed by Mulpha International Bhd., a company incorporated in Malaysia whose shares are listed on the Main Market of Bursa Malaysia Securities Berhad. These loan notes can be early redeemed by Mulpha before the maturity date at the nominal amount of the loan notes plus accrued unpaid interest up to the date of redemption. The early redemption option by Mulpha is closely related to the host debt and is therefore not separately accounted for.

On 24 May 2016, the Group subscribed loan notes with a nominal value of US$4,000,000 from Sun Hung Kai & Co. (BVI) Limited ("**SHK BVI**"), a limited liability company incorporated in the British Virgin Islands, which bear 4.75% coupon interest per annum and will mature on 31 May 2021.

These loan notes are guaranteed by Sun Hung Kai & Co. Limited, a limited liability company incorporated in Hong Kong whose shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited. These loan notes can be early redeemed by SHK BVI before the maturity date at the nominal amount of the loan notes plus accrued unpaid interest up to the date of redemption. The early redemption option by SHK BVI is closely related to the host debt and is therefore not separately accounted for.

12. INVESTMENTS HELD FOR TRADING

	31.12.2016	30.6.2016
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Listed securities:		
— Equity securities listed in Hong Kong	**90,299**	189,802
— Equity securities listed in United Kingdom	**5,523**	6,194
— Equity securities listed in Australia	**94,406**	82,700
— Equity securities listed in Canada	**53,083**	8,185
— Equity securities listed in United States of America	**10,632**	—
— Equity securities listed in Belgium	**3,821**	—
	257,764	286,881

13. LOANS RECEIVABLE

	31.12.2016	30.6.2016
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Carrying amount of fixed-rate loan	**140,381**	131,899

During the six months ended 31 December 2016, the Group recognised effective interest income of approximately HK$14,978,000 on the loans receivable based on the effective interest rate of 24% per annum. On 29 December 2016, the borrower through another entity (the "**Payer**") repaid RMB10,000,000 (equivalent to approximately HK$11,122,000) to the Group.

On 20 January 2017, a settlement agreement was entered into among the Group, the borrower and the guarantor with respect to the repayment arrangement of the loans receivable. Pursuant to the terms set out in settlement agreement, the interest rate on the principal of loans receivable would be reduced from 24% to 20% per annum for interest income during the period from 28 May 2015 to 19 January 2017 if the principal of the loans receivable and the interest receivable could be settled on or before 23 January 2017. On 22 January 2017, the borrower through the Payer has repaid the outstanding principal together with the outstanding interest under the revised interest rate amounting to approximately RMB216,170,000 in total.

14. TRADE AND OTHER PAYABLES

	31.12.2016	30.6.2016
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Trade payables	**—**	16,425
Other payables	**4,028**	2,790
	4,028	19,215

15. SHARE CAPITAL

	2016 Number of shares	**2016** Share capital *HK$'000*	2015 Number of shares	2015 Share capital *HK$'000*
Ordinary shares of HK$0.10 each				
Authorised	**20,000,000,000**	**2,000,000**	20,000,000,000	2,000,000
Issued and fully paid				
At beginning of the period	**9,191,651,985**	**919,165**	6,127,767,990	612,777
Issue of shares	**—**	**—**	3,063,883,995	306,388
At end of the period	**9,191,651,985**	**919,165**	9,191,651,985	919,165

On 13 July 2015, the Company completed an open offer on the basis of one new share of the Company for every two existing shares of the Company held on 17 June 2015 at a subscription price of HK$0.10 per share and issued 3,063,883,995 new shares.

The transaction costs in relation to issue of shares of approximately HK$5,752,000 was debited to equity under share premium account during the six months ended 31 December 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

APAC Resources Limited ("**APAC**" or the "**Company**") and its subsidiaries (collectively, the "**Group**") reported a net profit attributable to owners of HK$327,903,000 for the six months ended 31 December 2016 ("**1H 2017**"), compared with a net loss of HK$128,644,000 reported for the six months ended 31 December 2015 ("**1H 2016**"). The profit includes reversal of impairment loss on the carrying value of the Group's investment in Mount Gibson Iron Limited ("**Mount Gibson**") of HK$128,335,000 and gains arising from derecognition of interests in associates of HK$189,599,000. The net loss in 1H 2016 was driven by impairment on interest in associates and a significant loss in resource investments driven by the underperformance of ABM Resources NL ("**ABM Resources**").

Primary Strategic Investment

Our Primary Strategic Investment is in Mount Gibson listed and operating in Australia. Metals X Limited ("**Metals X**") is no longer classified as a Strategic Investment after we sold 21.5m shares in Metals X in July 2016. The net attributable profit from our Primary Strategic Investments for 1H 2017 was HK$39,416,000 (1H 2016: Net loss of HK$21,779,000). Mount Gibson reported a net profit after tax of A$23 million.

Mount Gibson

Mount Gibson is an Australian listed iron ore producer. Mining of Direct Shipping Ore from its Extension Hill mine has finished, and will now be replaced by Iron Hill which is expected to start production in May 2017. Mount Gibson continues to evaluate the potential to reinstate the Koolan Island Main Pit seawall.

In November 2014, the Main Pit at Koolan Island was flooded after a failure of the Main Pit seawall. As a result, all mining operations are suspended, and Mount Gibson is undergoing a detailed evaluation of restart options. As part of the evaluation, Mount Gibson is in discussions with insurers about the business interruption policy, and successfully received A$86 million cash settlement for the property damage insurance claim. Mount Gibson sales guidance for the financial year ending 30 June 2017 ("**FY 2017**") is 3.2 to 3.5 million tonnes, of which 1.8 million tonnes was sold in 1H 2017.

Mount Gibson reported a net profit after tax of A$23 million, which was driven by a stronger realized iron ore price and costs which came in at the bottom of the guidance range.

Mount Gibson continues to focus on keeping costs low, despite the recent rebound in the iron ore price. All-in group cash cost guidance has been reduced from A$50–54 per tonne in the financial year ended 30 June 2016 to A$47–51 per tonne in FY 2017. Corporate costs also fell slightly, down 4% year-on-year ("**YoY**") in 1H 2017. Importantly, Mount Gibson still boasts an impressive cash balance, ending 1H 2017 with A$447 million or A$0.408 per share.

Mount Gibson has received final statutory approvals for the development of the Iron Hill deposit at Extension Hill South and life-of-mine sales is estimated to be 5.5–6.0 million tonnes. Mount Gibson aims to commence first ore sales in May 2017 and Iron Hill will contribute 0.4–0.5 million tonnes to FY 2017 guidance. Mining at Iron Hill is expected to continue until late 2018.

The Platts IODEX 62% CFR China index has risen sharply in December 2016 quarter on the back of higher than expected Chinese steel demand. Iron ore prices ended 1H 2017 at US$78.87 per tonne compared to US$54.33 per tonne at the start of 1H 2017. While iron ore prices remain strong in January and February 2017, we are cautious on the outlook for iron ore prices. Iron ore inventory at the mills and the port are back at 2013–2014 highs and forecasts for seaborne supply continues to grow significantly, and is likely to outpace steel demand in 2017 and 2018.

Metals X and Westgold Resources

In December 2016, Metals X spun out its gold assets into Westgold Resources Limited ("**Westgold Resources**"), which now holds the Higginsville, South Kalgoorlie and Central Murchison projects. The remaining base metals assets including tin via its 50% interest in the producing Renison mine in Tasmania, copper through the recently acquired Nifty mine of Aditya Birla Minerals Limited ("**ABY**") and nickel through its world scale Wingellina nickel development project remain in Metals X. Both companies remain listed in Australia.

In July 2016, APAC disposed of 21.5 million shares in Metals X through an on-market transaction. The disposal ties in with APAC's decision to place Metals X under strategic review. In January 2017, APAC received shareholder approval to dispose of the remaining shares in Metals X and Westgold Resources for a period of 12 months. In February 2017 we sold a further 22 million shares in Metals X and 11 million shares in Westgold Resources for an aggregate consideration of A$46,200,000.

Westgold Resources produced 140,401 ounces in the 1H 2017 up 81% YoY driven by a successful ramp up at the Central Murchison Gold Project (CMGP) and improved production at both South Kalgoorlie (SKO) and Higginsville (HGO). Looking forward, the company expects to commence production from the Fortnum Project in the March quarter 2017.

The gold price fell after the US election in early November and ended the year below US$1,150 as the market anticipated more fiscal easing which was seen as positive for the US economy. Further, the Fed raised interest rates in December by 25 basis points and expectations for three additional hikes during CY 2017 increased. Gold has since rebounded as enthusiasm for Trump's policies have waned. We expect the gold price to remain linked to sentiment around the US rate hikes and retain its safe haven status.

At Metals X, Renison produced 3,486 tonnes of tin (100% basis), and benefited from a strong average realised tin prices of A$26,550 per tonne, up 27% from 1H 2016. After acquiring the Nifty mine in August 2016, Metals X significantly increased production at Nifty, delivering 7,909 tonnes in the December quarter compared to 4,504 tonnes in the September quarter. Further upside can be generated from returning the Nifty plant to continuous production.

Tin prices have been supported by lower production from Indonesia, China and Myanmar while demand seems to have rebounded as evidenced by an increase in semiconductor shipments. We remain bullish on the medium to long-term outlook for tin due to the lack of significant supply growth. Copper prices rebounded sharply in December quarter 2016 driven by supply side issues at several key mines and stronger Chinese demand from both the appliances and grid sectors.

Resource Investment

The investments in this division comprise mostly minor holdings in various natural resource companies listed on major stock exchanges including Australia, Canada, Hong Kong, and the United Kingdom. Our investments focus on selective commodities within several commodity segments, namely energy, bulk commodities, base metals, and precious metals. Some of our positions are exploration or development stage companies and this section of the market is particularly sensitive to risk aversion, lower commodity prices, and the difficult financing markets.

Resource Investment posted a fair value gain of HK$56,594,000 in 1H 2017 (1H 2016: Loss of HK$101,452,000), which after accounting for segment related dividend and other investment income and expenses, resulted in a segment profit of HK$25,277,000 (1H 2016: Loss of HK$96,845,000).

Our Resource Investment division includes the results of the two new resource portfolios which were announced in August 2016. Despite a rally in commodity prices late in the December quarter 2016, the resources sector was still fairly anaemic during 1H 2017. This was reflected in the ASX Small Resources Index which was up only 1%, and the TSX Venture Composite Index which was up 2%.

Precious

The precious commodities (majority gold, and some diamonds exposure) generated a net fair value gain of HK$3,459,000 in 1H 2017 despite the gold price falling 14% as we were able to effectively leverage our fundamental analysis to focus on mispriced opportunities. As at 31 December 2016, the carrying value of the Precious segment was HK$81,268,000 (As at 30 June 2016: HK$49,732,000). Our largest gold investment is in ABM Resources which generated a fair value gain of HK$10,951,000 with carrying value as at 31 December 2016 of HK$29,993,000.

Bulk

Bulk commodities (predominantly coal exposure) generated a fair value gain of HK$20,559,000 and coking coal prices increased 118% during 1H 2017. Within this segment, our significant investments include Shougang Fushan Resources Group (Stock code: 639) listed in Hong Kong, which generated a fair value gain of HK$16,361,000 in 1H 2017 and had a carrying value as at 31 December 2016 of HK$19,760,000 after we realized some gains through selling part of our investment (As at 30 June 2016: HK$93,784,000).

Base Metals

Base Metals segment (a mix of copper, nickel and aluminium companies) delivered a fair value gain of HK$17,801,000 in 1H 2017 as the copper, aluminium and nickel prices increased by roughly 13%, 2% and 0.4% respectively. The Base Metals segment includes our investment in China Hongqiao Group (Stock code: 1378) listed in Hong Kong, which generated a fair value gain of HK$7,988,000 in 1H 2017 and had a carrying value as at 31 December 2016 of HK$33,629,000 (As at 30 June 2016: HK$25,641,000).

Energy

The Energy segment (mainly oil exposure) had a fair value gain of HK$9,439,000 in 1H 2017 driven by an oil price increase of 13%. Our significant Energy investments include Karoon Gas (ASX: KAR), which generated a fair value gain of HK$3,483,000 and had a carrying value as at 31 December 2016 of HK$2,016,000 and Santos (ASX: STO), which generated a fair value gain of HK$2,790,000 in 1H 2017 and had a carrying value as at 31 December 2016 of HK$Nil after we realized gains in our investment (As at 30 June 2016: HK$32,063,000).

Others

We also have a fair value gain of HK$5,336,000 from our non-commodity related investments in 1H 2017 and had a carrying value as at 31 December 2016 of HK$10,476,000 (As at 30 June 2016: HK$7,098,000). This segment includes our investment in Brainchip Holdings (ASX: BRN) listed in Australia, which generated a fair value gain of HK$5,269,000 and had a carrying value as at 31 December 2016 of HK$4,339,000 (As at 30 June 2016: HK$5,795,000).

Commodity Business

Our iron ore offtakes at Koolan Island and Tallering Peak have ceased to deliver shipments with both mines now closed, so we are now looking for new offtake opportunities across a range of commodities. As a result of the limited activity, in 1H 2017, our Commodity Business generated a minor loss of HK$647,000 (1H 2016: Profit of HK$11,267,000).

Loans Receivable

In the year ended 30 June 2016, we reduced the group's loans receivable by HK$119,583,000 reflecting conservative estimates for the recoverable amount of a loan granted to an investment holding company of a property developer in the People's Republic of China (the "**PRC**") (the "**Loan**") which was due in January 2016 and remained outstanding at 30 June 2016.

In December 2016, the borrower through another entity (the "**Payer**"), repaid RMB10,000,000 (equivalent to approximately HK$11,122,000) to the Group.

Money Lending

We have not engaged in any money lending activities since our money lenders license was granted under the Money Lenders Ordinance of Hong Kong in August 2015.

Company Strategy

APAC leverages its in-house natural resources expertise to identify and manage both Primary Strategic Investment and Resource Investment which drives growth in the business. We aim to profit from the value curve of resources projects from exploration to production, though currently see good risk-reward in select mid-tier producers. Value and cash flow can be generated through capital appreciation, direct project ownership and securing offtake agreements.

Financial Review

Liquidity, Financial Resources and Capital Structure

As at 31 December 2016, our non-current assets amounted to HK$1,541,182,000 (As at 30 June 2016: HK$1,226,788,000) and net current assets amounted to HK$1,049,471,000 (As at 30 June 2016: HK$981,578,000) with a current ratio of 45.4 times (As at 30 June 2016: 48.6 times) calculated on the basis of its current assets over current liabilities. Included in non-current assets and current assets are loan notes of HK$194,980,000 (As at 30 June 2016: HK$345,465,000) and loans receivable of HK$140,381,000 (As at 30 June 2016: HK$131,899,000) respectively which form part of the on-going treasury management arrangements of the Group.

As at 31 December 2016, we had no borrowings (As at 30 June 2016: HK$ Nil) and had undrawn banking amounting to HK$170,639,000 secured against certain of term deposits and corporate guarantee of the Company. As at 31 December 2016, we had a gearing ratio of Nil (As at 30 June 2016: HK$ Nil), calculated on the basis of total borrowings over equity attributable to owners of the Company.

Foreign Exchange Exposure

For the period under review, the Group's assets were mainly denominated in Australian 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 Dollars denominated assets.

Pledge of Assets

As at 31 December 2016, certain of the Group's bank deposits of HK$80,100,000 (As at 30 June 2016: HK$79,955,000) were pledged to a bank to secure various trade and 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 employees are entitled to participate in the Company's benefit plans including medical insurance and pension fund schemes including the Mandatory Provident Fund Scheme (subject to the applicable laws and regulations of the PRC for its employees in the PRC).

As at 31 December 2016, the Group, including its subsidiaries but excluding associates, had 18 (As at 30 June 2016: 19) employees. Total emolument together with pension contributions incurred for the six months ended 31 December 2016 amounted to HK$5,013,000 (1H 2016: HK$5,350,000).

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this announcement, during the six months ended 31 December 2016, the Group had not held any significant investments nor made any material acquisitions or disposals of subsidiaries or associated companies. Save as disclosed in this announcement, as at 31 December 2016, the Group does not have plan for any other material investments or acquisition of material capital assets.

CAPITAL COMMITMENTS

As at 31 December 2016, the Group had no material capital commitments contracted but not provided for (As at 30 June 2016: HK$ Nil).

CONTINGENT LIABILITIES

As at the date of this announcement and as at 31 December 2016, the Board is not aware of any material contingent liabilities.

INTERIM DIVIDEND

No dividend was paid or proposed during the six months ended 31 December 2016, nor has any dividend been proposed since the end of the reporting period (2015: HK$ Nil).

SUBSEQUENT EVENT

On 29 December 2016, the Group received a repayment of RMB10,000,000 (equivalent to approximately HK$11,122,000) of the Loan from the Payer. Subsequent to the end of the reporting period, the Group received a further amount of approximately RMB216,170,000 (equivalent to approximately HK$245,093,000) from the Payer as settlement of the outstanding amount of the Loan in full.

On 16 February 2017, the Group sold 22 million shares in Metals X and 11 million shares in Westgold Resources for an aggregate consideration of A$46,200,000.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 December 2016.

AUDIT COMMITTEE REVIEW

The Audit Committee has reviewed with the management the accounting policies and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim results for the six months ended 31 December 2016. In carrying out this review, the Audit Committee has relied on a review conducted by the Group's external auditor in accordance with the 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 as well as obtaining reports from management. The Audit Committee has not undertaken independent audit checks.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the six months ended 31 December 2016, the Company had fully complied with the code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its code for securities transactions by the directors of the Company. Having made specific enquiry of all directors of the Company, all directors of the Company have confirmed that they had complied with the required standard as set out in the Model Code for the six months ended 31 December 2016.

By Order of the Board
APAC RESOURCES LIMITED
Arthur George Dew
Chairman

Hong Kong, 24 February 2017

As at the date of this announcement, the directors of the Company are:

Executive Directors

Mr. Brett Robert Smith *(Deputy Chairman)* and Mr. Andrew Ferguson *(Chief Executive Officer)*

Non-Executive Directors

Mr. Arthur George Dew *(Chairman) (Mr. Wong Tai Chun, Mark as his alternate)*, Mr. Lee Seng Hui and Mr. So Kwok Hoo

Independent Non-Executive Directors

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

* *For identification purpose only*