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 2019

The board of directors (the "**Board**") of APAC Resources Limited (the "**Company**" or "**APAC**") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 31 December 2019, 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 2019

	Notes	**Six months ended** **31.12.2019** ***HK$'000*** **(unaudited)**	31.12.2018 *HK$'000* (unaudited)
Revenue			
Trading of goods		**268,152**	48,292
Interest income		**45,000**	25,971
Total revenue	*2*	**313,152**	74,263
Cost of sales		**(280,311)**	(44,520)
Gross profit		**32,841**	29,743
Other gains and losses	*4*	**(32,082)**	(459,907)
Other income		**8,064**	5,821
(Impairment loss) reversal of impairment loss on interests in associates, net		**(19,010)**	146,401
Administrative expenses		**(22,820)**	(20,773)
Finance costs		**(98)**	(654)
Share of results of associates		**81,156**	114,501
Profit (loss) before taxation	*5*	**48,051**	(184,868)
Income tax expense	*6*	**(1,112)**	(719)
Profit (loss) for the period attributable to owners of the Company		**46,939**	(185,587)
Earnings (loss) per share (expressed in HK cents)			
— basic	*8*	**3.85**	(23.29)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2019

	Six months ended	
	31.12.2019	31.12.2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit (loss) for the period	**46,939**	(185,587)
Other comprehensive income (expense), net of tax		
Items that may be subsequently reclassified to profit or loss:		
Exchange difference arising from translation of associates	**975**	(45,682)
Exchange difference arising from translation of other foreign operations	**(387)**	(1,336)
Share of other comprehensive expense of an associate	**—**	(146)
	588	(47,164)
Item that will not be reclassified to profit or loss:		
Share of other comprehensive income of an associate	**483**	2,748
	1,071	(44,416)
Total comprehensive income (expense) for the period attributable to owners of the Company	**48,010**	(230,003)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	31.12.2019 HK$'000 (unaudited)	30.6.2019 HK$'000 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**1,309**	1,368
Right-of-use assets		**6,546**	—
Interests in associates	*9*	**2,006,551**	1,904,461
Financial assets at fair value through profit or loss		**90,461**	307,880
Loan notes		**3,934**	51,168
Loan receivables		**323,158**	—
		2,431,959	2,264,877
Current assets			
Inventories		**52,720**	53,802
Trade and other receivables	*10*	**102,120**	26,072
Financial assets at fair value through profit or loss		**619,439**	392,102
Loan receivables		**157,178**	401,418
Pledged bank deposits		**81,518**	74,711
Bank balances and cash		**564,154**	814,547
		1,577,129	1,762,652
Total assets		**4,009,088**	4,027,529

	Notes	**31.12.2019**	30.6.2019
		HK$'000	*HK$'000*
		(unaudited)	(audited)
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	*12*	**1,218,894**	1,218,894
Other reserves		**288,302**	287,231
Accumulated profits		**2,433,411**	2,508,362
		3,940,607	4,014,487
Non-current liability			
Lease liabilities		**2,370**	—
Current liabilities			
Trade and other payables	*11*	**60,634**	12,811
Tax payable		**1,343**	231
Lease liabilities		**4,134**	—
		66,111	13,042
Total liabilities		**68,481**	13,042
Total equity and liabilities		**4,009,088**	4,027,529
Net current assets		**1,511,018**	1,749,610
Total assets less total liabilities		**3,940,607**	4,014,487

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2019

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.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**") and an interpretation, the accounting policies and methods of computation used in the preparation of condensed consolidated financial statements for the six months ended 31 December 2019 are the same as those presented in the Group's annual financial statements for the year ended 30 June 2019.

Application of new and amendments to HKFRSs

During the six months ended 31 December 2019, the Group has applied, for the first time, the following new and amendments to HKFRSs and an interpretation issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs and an interpretation in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

1.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 "Leases" ("**HKAS 17**"), and the related interpretations.

1.1.1 *Key changes in accounting policies resulting from application of HKFRS 16*

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted for on a portfolio basis when the Group reasonably expects that the effects on the condensed consolidated financial statements would not differ materially from individual leases within the portfolio.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of certain office premise that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, if any.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item in the condensed consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 "Financial Instruments" ("**HKFRS 9**") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable; and

- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed, in which case, the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

1.1.2 *Transition and summary of effects arising from initial application of HKFRS 16*

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 July 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 July 2019. Any difference at the date of initial application is recognised in the opening accumulated profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

(i) elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

(ii) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rates for certain leases of properties in the PRC was determined on a portfolio basis; and

(iii) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 July 2019, the Group recognises additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition.

The Group recognised lease liabilities of HK$6,921,000 and right-of-use assets of HK$6,921,000 as at 1 July 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 5.1%.

	At 1 July 2019
	HK$'000
Operating lease commitments disclosed as at 30 June 2019	5,114
Add: Lease liabilities resulting from lease modification of existing leases	2,058
Less: Recognition exemption — short term leases	(32)
Discounting impact using relevant incremental borrowing rates at date of initial application of HKFRS 16	(219)
Lease liabilities as at 1 July 2019	6,921
Analysed as	
— Non-current	3,156
— Current	3,765
	6,921

The carrying amount of right-of-use assets as at 1 July 2019 comprises the following:

	Right-of-use assets
	HK$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	6,921

2. REVENUE

Disaggregation of revenue

Six months ended 31 December 2019 (unaudited)

	Commodity business *HK$'000*	**Principal investment and financial services** *HK$'000*	**Total** *HK$'000*
Revenue recognised at a point in time for contracts with customers under HKFRS 15:			
Trading of goods			
— Commodities (iron ore)	**268,152**	**—**	**268,152**
Revenue recognised under other HKFRSs:			
Interest income under effective interest method			
— Loan receivables	**—**	**44,637**	**44,637**
— Loan notes	**—**	**363**	**363**
	—	**45,000**	**45,000**
Total revenue	**268,152**	**45,000**	**313,152**

Six months ended 31 December 2018 (unaudited)

	Commodity business *HK$'000*	Principal investment and financial services *HK$'000*	Total *HK$'000*
Revenue recognised at a point in time for contracts with customers under HKFRS 15:			
Trading of goods			
— Commodities (iron ore)	48,292	—	48,292
Revenue recognised under other HKFRSs:			
Interest income under effective interest method			
— Loan receivables	—	24,307	24,307
— Loan notes	—	458	458
— Convertible notes	—	1,206	1,206
	—	25,971	25,971
Total revenue	48,292	25,971	74,263

Revenue from trading of goods is derived from the segment of commodity business and interest income is derived from the segment of principal investment and financial services.

3. SEGMENT INFORMATION

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

(i) Commodity business (trading of commodities);

(ii) Resource investment (trading of and investment in listed and unlisted securities of energy and natural resources companies); and

(iii) Principal investment and financial services (provision of loan financing and investments in loan notes, convertible notes and other financial assets and receiving interest income from these financial assets).

Segment results represent the profit (loss) by each segment without allocation of share of results of associates, impairment loss on interest in an associate, net reversal of impairment loss on interests in associates, loss arising from deemed disposal of partial interest in an associate, finance costs, net loss arising from changes in fair value of certain financial assets at fair value through profit or loss ("**FVTPL**"), unallocated income and gains and and unallocated expenses and losses which include central administration costs and directors' salaries. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Information regarding the Group's operating and reportable segments is presented as follows:

Segment revenue and results

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

Six months ended 31 December 2019 (unaudited)

	Commodity business	Resource investment	Principal investment and financial services	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trading of goods	**268,152**	**—**	**—**	**268,152**
Interest income under effective interest method	**—**	**—**	**45,000**	**45,000**
Total revenue	**268,152**	**—**	**45,000**	**313,152**
Gross sales proceeds from resource investment	**—**	**292,834**	**—**	**292,834**
Segment results	**(10,862)**	**59,908**	**37,580**	**86,626**
Share of results of associates				**81,156**
Impairment loss on interest in an associate				**(19,010)**
Loss arising from deemed disposal of partial interest in an associate				**(1,679)**
Loss arising from changes in fair value of certain financial assets at FVTPL, net				**(83,857)**
Unallocated income and gains				**4,087**
Unallocated expenses and losses				**(19,174)**
Finance costs				**(98)**
Profit before taxation				**48,051**

Six months ended 31 December 2018 (unaudited)

	Commodity business *HK$'000*	Resource investment *HK$'000*	Principal investment and financial services *HK$'000*	Total *HK$'000*
Trading of goods	48,292	—	—	48,292
Interest income under effective interest method	—	—	25,971	25,971
Total revenue	48,292	—	25,971	74,263
Gross sales proceeds from resource investment	—	172,167	—	172,167
Segment results	1,128	(141,080)	13,715	(126,237)
Share of results of associates				114,501
Reversal of impairment loss on interests in associates, net				146,401
Loss arising from deemed disposal of partial interest in an associate				(2,414)
Loss arising from changes in fair value of certain financial assets at FVTPL, net				(297,611)
Unallocated income and gains				1,579
Unallocated expenses and losses				(20,433)
Finance costs				(654)
Loss before taxation				(184,868)

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

Segment assets and liabilities

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

	31.12.2019	30.6.2019
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Commodity business	**374,898**	541,765
Resource investment	**723,315**	477,278
Principal investment and financial services	**486,660**	422,619
Total segment assets	**1,584,873**	1,441,662
Interests in associates	**2,006,551**	1,904,461
Financial assets at FVTPL	**90,461**	307,880
Loan notes	**—**	31,360
Unallocated	**327,203**	342,166
Consolidated assets	**4,009,088**	4,027,529
Commodity business	**57,127**	6,675
Resource investment	**430**	609
Principal investment and financial services	**2,257**	231
Total segment liabilities	**59,814**	7,515
Unallocated	**8,667**	5,527
Consolidated liabilities	**68,481**	13,042

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

- all assets are allocated to operating and reportable segments other than interests in associates, certain property, plant and equipment, certain loan notes and certain financial assets at FVTPL (i.e. convertible notes) not managed under principal investment and financial services segment, certain financial assets at FVTPL (i.e. unlisted equity investments and listed equity securities not held within the trading portfolios) not managed under resource investment segment, certain other receivables, certain right-of-use assets and certain bank balances and cash.

- all liabilities are allocated to operating and reportable segments other than certain lease liabilities and certain other payables.

4. OTHER GAINS AND LOSSES

	Six months ended	
	31.12.2019	31.12.2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
(Loss) gain arising from changes in fair value of financial assets mandatorily measured at FVTPL, net:		
— Listed equity securities held-for-trading	**56,134**	(137,445)
— Listed equity securities not held within the trading portfolios	**(84,753)**	(298,400)
— Convertible notes	**(950)**	533
— Unlisted equity investments	**1,846**	789
Loss arising from deemed disposal of partial interest in an associate	**(1,679)**	(2,414)
Gain arising from changes in fair value of provisional pricing arrangements in relation to trading of commodities, net	**5,697**	1,979
(Impairment loss) reversal of impairment loss on loan receivables, net	**(491)**	107
Net foreign exchange loss	**(7,904)**	(23,708)
Others	**18**	(1,348)
	(32,082)	(459,907)

5. PROFIT (LOSS) BEFORE TAXATION

	Six months ended	
	31.12.2019	31.12.2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit (loss) before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	**202**	149
Depreciation of right-of-use assets	**1,900**	—
Cost of inventories recognised as an expense	**280,311**	44,520

6. INCOME TAX EXPENSE

	Six months ended	
	31.12.2019	31.12.2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax:		
— Hong Kong Profits Tax	**1,112**	134
Underprovision in prior years:		
— Enterprise Income Tax in the People's Republic of China	**—**	585
	1,112	719

7. DIVIDENDS

Dividends recognised as distribution during the period:

	Six months ended	
	31.12.2019	31.12.2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
2019 interim dividend declared — HK10 cents (2018: interim dividend of HK6 cents with a scrip dividend option)	**121,890**	47,717

An interim dividend of HK10 cents (six months ended 31 December 2018: HK6 cents) per ordinary share, in an aggregate amount of HK$121,890,000 (six months ended 31 December 2018: HK$47,717,000), were declared in respect of the year ended 30 June 2019 (six months ended 31 December 2018: year ended 30 June 2018) and an amount of HK$121,890,000 was paid in cash during the six months ended 31 December 2019 (six months ended 31 December 2018: an amount of HK$28,072,000 was paid in cash and the remaining amount of HK$19,645,000 was settled by the issue of 17,318,628 new ordinary shares of the Company).

No dividend has been proposed for the six months ended 31 December 2019.

8. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share attributable to owners of the Company is based on the following data:

Earnings (loss)

	Six months ended	
	31.12.2019	31.12.2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Earnings (loss) for the purpose of calculating basic earnings (loss) per share:		
Profit (loss) for the period attributable to owners of the Company	**46,939**	(185,587)

Number of shares

	Six months ended	
	31.12.2019	31.12.2018
	(unaudited)	(unaudited)
Weighted average number of ordinary shares for the purpose of calculating basic earnings (loss) per share	**1,218,893,914**	796,689,159

For the six months ended 31 December 2019 and 2018, no separate diluted earnings (loss) per share information has been presented as there were no potential ordinary shares of the Company outstanding.

9. INTERESTS IN ASSOCIATES

	31.12.2019	30.6.2019
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Interests in associates before impairment	**2,055,961**	1,934,861
Impairment losses recognised	**(49,410)**	(30,400)
	2,006,551	1,904,461

10. TRADE AND OTHER RECEIVABLES

	31.12.2019	30.6.2019
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Trade receivables at FVTPL	**67,265**	—
Other receivables, deposits and prepayments	**11,217**	16,731
Receivable from securities brokers	**23,638**	9,341
	102,120	26,072

The Group allows an average credit period of 90 days to its trade customers from commodity business. Before accepting any new customers, the Group assesses the potential customer's credit quality and defines credit limits to it. The credit limits attributed to customers are reviewed regularly.

The following is an ageing analysis of trade receivables presented based on the invoice date which approximates the revenue recognition date at the end of the reporting period:

	31.12.2019	30.6.2019
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 to 30 days	**54,344**	—
31 to 60 days	**897**	—
61 to 90 days	**12,024**	—
	67,265	—

11. TRADE AND OTHER PAYABLES

	31.12.2019	30.6.2019
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Trade payables designated at FVTPL	**53,097**	5,415
Other payables	**7,537**	7,396
	60,634	12,811

The following is an ageing analysis of trade payables designated at FVTPL presented based on the invoice date at the end of the reporting period:

	31.12.2019	30.6.2019
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 to 30 days	**50,617**	5,415
31 to 60 days	**2,480**	—
	53,097	5,415

12. SHARE CAPITAL

	Number of shares	**Amount**
		HK$'000
Authorised and issued share capital		
Ordinary shares of HK$1.00 each:		
Authorised:		
At 1 July 2019 (audited) and 31 December 2019 (unaudited)	2,000,000,000	2,000,000
Issued and fully paid:		
At 1 July 2019 (audited) and 31 December 2019 (unaudited)	1,218,893,914	1,218,894

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 shareholders of the Company of HK$46,939,000 for the six months ended 31 December 2019 ("**1H FY2020**"), compared with a net loss attributable to shareholders of the Company of HK$185,587,000 for the six months ended 31 December 2018 ("**1H FY2019**"). This profit was mainly attributable to the substantial reduction in the unrealized fair value loss recognized for the Group's financial assets at fair value through profit or loss in relation to listed equity securities not held within the trading portfolios and a profit of HK$59,908,000 generated from our Resource Investment division, which was partly offset by the non-recurrence of reversal of impairment loss on the carrying value of the Group's investment in Mount Gibson Iron Limited ("**Mount Gibson**").

Primary Strategic Investments

Our Primary Strategic Investments are in Mount Gibson which is listed and operating in Australia and in the year ended 30 June 2018 we also acquired an investment in Tanami Gold NL ("**Tanami Gold**"). The net attributable profit from our Primary Strategic Investments for 1H FY2020 was HK$80,951,000 (1H FY2019: Net profit of HK$113,525,000). Mount Gibson reported a 1H FY2020 net profit after tax of A$45 million.

Mount Gibson

Mount Gibson is an Australian producer of direct shipping grade iron ore products. Mount Gibson owns the Koolan Island mine off the Kimberley coast in the remote north-west of Western Australia which produces one of the highest grade iron ore products in Australia, and the Extension Hill/Iron Hill operations in the Mount Gibson Range south east of Geraldton. Mining of Direct Shipping Ore from its Mid West mines ended in the year ended 30 June 2019 although sale of low grade material from Extension Hill is expected to continue into the year ending 30 June 2020 ("**FY 2020**").

Importantly, ore sales at the Koolan Island Restart Project started in April 2019, achieved commercial production in the June quarter 2019. The restart project had 21 million tonnes of 65.5% Fe reserves and the net present value of the project is A$252 million assuming Platts 62% Fe of US$55/dry metric tonne ("**dmt**") and A$ of 0.75.

Mount Gibson reported a net profit after tax of A$45 million for 1H FY2020 from sales of 2.8 million tonnes.

Mount Gibson's operating costs remained high in 1H FY2020, particularly as Koolan Island operations were impacted by a conveyor belt tear and replacement which deferred two shipments into 2020. It reported an all in cash cost of A$72 per tonne for 1H FY2020. We expect costs to remain high in FY 2020 due to an initial high strip ratio, which is forecast to progressively decline over the mine life.

Mount Gibson still boasts a robust cash reserve, including term deposits and tradable investments, ending 1H FY2020 with A$398 million or an equivalent of A$0.34 per share, despite paying a dividend in September 2019.

Mount Gibson sales guidance for FY2020 has been increased to 4.8 million tonnes to 5.3 million tonnes due to higher sales expected from the Mid West, at an all-in group cash cost of A$70-75/wet metric tonne (wmt) FOB.

After a very strong iron ore price in the first half of calendar 2019, the Platts IODEX 62% CFR China index reversed during 1H FY2020 as Vale restarted production, falling from highs above US$121/dmt, and has traded in a range of US$80/dmt to US$95/dmt since then. The iron ore price in early February 2020 is around US$80/dmt and has held up surprisingly well despite the expected economic slowdown related to the coronavirus, which we expect will flow through to steel mill production and margins. We continue to expect average iron ore prices to remain capped in the medium term given weak non-China steel demand and a continuing recovery in Brazil.

Tanami Gold

We currently own 46.3% of Tanami Gold.

Tanami Gold's principal business activity is gold exploration. It holds 60% of the Central Tanami Project and has a cash balance of A$28 million, after it exercised its first put option in July 2018 to sell 15% of the project to Northern Star Resources Limited ("**Northern Star**") for A$20 million cash. The remaining 40% is owned by Northern Star. Under the terms of the joint venture, Northern Star will sole fund all expenditure until commercial production is achieved at the Central Tanami Project. After commercial production is reached, Northern Star can earn an additional 35% of the Central Tanami Project and Tanami Gold has a second put option to sell its remaining 25% of the project to Northern Star for A$32 million. Northern Star continues exploration in the Central Tanami Project at various prospects.

Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss mainly comprise the Group's investments in Metals X Limited ("**Metals X**") and Resource Investment. As at 31 December 2019, none of these investments represents 5% or more of the Group's total assets.

The carrying values of Metals X as at 31 December 2019 amounted to HK$57,591,000 (As at 30 June 2019: HK$87,748,000) represented approximately 1.4% (As at 30 June 2019: 2.2%) of the total assets of the Group. In 1H FY2020, our investment in Metals X generated an unrealised loss of approximately HK$96,539,000 (1H FY2019: Loss of HK$134,437,000) which was accounted for in profit or loss.

At Metals X, the Renison mine produced 1,854 tonnes of tin (net 50% basis) up 9% year-on-year ("**YoY**"), however the average realised tin price of A$22,344 per tonne was down 7% YoY. Tin production at Metals X is currently impacted by lower grade ore but is expected to start mining from the high grade Area 5 in second half of calendar 2020.

Tin prices traded have weakened steadily during 1H FY2020 and recently traded in the US$16,000 per tonne to US$17,000 per tonne range. The tin price has been driven by weakness in the semiconductor sector as a result of the US-China trade war and is likely to remain under pressure while China battles to control the coronavirus outbreak. However we remain bullish on the medium term outlook for tin due to the lack of significant supply growth and new demand for tin from the growing electrical vehicle and energy storage industries.

In May 2019, Metals X announced a "Reset Plan" for the Nifty copper mine which targeted production of 35ktpa by March 2021. In September 2019, APAC gave notices to Metals X requesting the directors of Metals X to call a general meeting of Metals X given the destruction of shareholder value since the acquisition of the Nifty Copper Mine. And in November 2019, Metals X announced that after an operational review, operations at Nifty were suspended. Mr. Brett Smith was appointed to the board of Metals X as a director.

Now that the Nifty mine is transitioning to care and maintenance, Metals X has announced a strategic review of its copper assets and has appointed financial advisors to explore options for Nifty including joint ventures and partial or complete divestment.

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, the United Kingdom and the US. Our investments focus on select 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$56,134,000 in 1H FY2020 (1H FY2019: Loss of HK$137,445,000), which after accounting for segment related dividend and other investment income and expenses, resulted in a segment profit of HK$59,908,000 (1H FY2019: Loss of HK$141,080,000).

Our Resource Investment division includes the results of the two resource portfolios which were announced in August 2016. In general, the majority of the metals sector has been subdued in 1H FY2020, dragged down by concerns relating to the trade war, although the gold sector retains its safe haven status and was a commodity where we made strong profits. During 1H FY2020 the average performance from a number of small cap resources indices averaged 12% (includes the Dow Jones US Mining Index, FTSE AIM Basic Resources Index, ASX Small Resources Index, the TSX Venture Composite Index and the NYSE Arca Exchange Gold BUGS Index among others). Brent oil prices traded in a range of US$55/bbl to US$65/bbl during 1H FY2020 and during the period was briefly impacted by several geopolitical events in the Middle East. US and Canadian gas prices have been particularly weak with US Henry Hub gas prices falling 16% during the period. Despite a steadier oil price, the average performance of several small cap oil and gas indices averaged -17% in 1H FY2020 (includes the S&P TSX Small Cap Energy Index and S&P 500 Energy Sector among others).

Precious

Precious metals (majority gold exposure) generated a net fair value gain of HK$55,490,000 in 1H FY2020 while the gold price was up 10%. As at 31 December 2019, the carrying value of the Precious segment was HK$285,069,000 (As at 30 June 2019: HK$80,468,000). Our largest gold investment in the Resource Investment division is in Westgold Resources (ASX: WGX) which generated a fair value gain of HK$44,830,000 with carrying value as at 31 December 2019 of HK$180,135,000. We also own Prodigy Gold (ASX: PRX) which generated a fair value loss of HK$8,035,000 with carrying value as at 31 December 2019 of HK$22,424,000. This was comfortably offset by gains in a number of smaller positions including Dacian Gold (ASX: DCN) which generated a fair value gain of HK$7,442,000 and Calibre Mining Corp (TSX: CXB) which generated a fair value gain of HK$3,279,000.

The Group's strategy is to capture returns on its investment portfolio at opportune times subject to prevailing share prices and market sentiment. The Board has decided that the current environment represents an appropriate time to include the Group's interest in Westgold Resources in the resource investment portfolio. As a result of this decision, the classification of Westgold Resources in the consolidated statement of financial position has changed from non-current assets to current assets in 1H FY2020.

Westgold Resources produced 120,127 ounces of gold in 1H FY2020 down 1% YoY despite the sale of the Higginsville project, which was offset by a ramp up at the Fortnum Gold Project. Westgold Resources forecasts that production will reach 275,000 to 300,000 ounces in FY 2020, and they achieved 43% of the bottom end of the guidance range in 1H FY2020.

The gold price strengthened after the Fed cut its benchmark rate by 25 basis points in July 2019. Since then, gold has traded around US$1,500 per ounce, fluctuating with sentiment around the economic outlook, the outcome from phase 1 negotiations in the US-China trade war, and Middle East geopolitical issues. More recently gold price has strengthened and in early February 2020 was trading around US$1,550 per ounce due to the outbreak of the coronavirus. We see potential for governments to use supportive measures such as interest rate cuts in the aftermath of the coronavirus which would also support the gold price.

Prodigy Gold is a gold exploration company listed on the Australian Securities Exchange. Its exploration portfolio is located in the Tanami Gold district in Northern Territory with resource of 15.7Mt at 2g/t. It is focused on drilling out several prospective areas including Bluebush and Suplejack and has farmed out acreage to Independence Group, Newcrest and Gladiator Resources. Its major shareholders include Independence Group, a reputable ASX listed gold company. At 31 December 2019 Prodigy Gold has A$12.6 million cash and no debt after raising equity in August 2019, and funds to be used for its ongoing exploration program.

Bulk

Bulk commodities (all our exposure is in coking coal) generated a fair value loss of HK$266,000 as hard coking coal prices fell 20% due to weakness in steel making margins. As at 31 December 2019, the carrying value was HK$116,042,000 (As at 30 June 2019: HK$72,784,000). Our only investment in this segment during 1H FY2020 is in Shougang Fushan (HKEX: 639).

Shougang Fushan is a coking coal producer listed on the Hong Kong Stock Exchange. It has 3 mines located in China with reserves of 84Mt of raw coking coal at 31 December 2018 and during six months ended 30 June 2019 Shougang Fushan produced 2.2Mt raw coking coal. The market cap of Shougang Fushan in early February 2020 is around HK$8.4 billion, while its working capital reported at 30 June 2019 is HK$4.6 billion and it generated EBITDA of HK$1.2 billion in six months ended 30 June 2019. At the time of writing, Shougang Fushan has not reported its final results for the year ended 31 December 2019, but we are cautious on the outlook for steel related commodities given risk of a slowdown in China.

Base Metals

Base Metals segment (a mix of copper, nickel and zinc companies) delivered a fair value gain of HK$5,587,000 in 1H FY2020 as the copper and nickel prices increased by 4% and 14% respectively while the zinc price fell 7%. The Base Metals segment includes our investment in China Molybdenum (HKEX: 3993) which generated a fair value gain of HK$7,827,000 in 1H FY2020 and had a carrying value as at 31 December 2019 of HK$30,048,000 (As at 30 June 2019: HK$22,221,000).

Energy

The Energy segment (mainly oil and uranium exposure) had a fair value loss of HK$653,000 in 1H FY2020. Although oil price was up 3% during the period, energy indices fell significantly as discussed above. Our significant Energy investments include Yellow Cake (LSE: YCA), which generated a fair value gain of HK$1,008,000 and had a carrying value as at 31 December 2019 of HK$10,901,000 (As at 30 June 2019: HK$8,117,000) and Karoon Energy (ASX: KAR), which generated a fair value gain of HK$841,000 and had a carrying value as at 31 December 2019 of HK$8,192,000 (As at 30 June 2019: Nil).

Others

We also have a fair value loss of HK$4,024,000 from the remaining commodity (diamonds, manganese and mineral sands among others) and non-commodity investments in 1H FY2020 and had a carrying value as at 31 December 2019 of HK$22,707,000 (As at 30 June 2019: HK$28,556,000). This segment includes our investment in Alibaba Pictures (HKEX: 1060), which generated a fair value loss of HK$3,100,000 and had a carrying value as at 31 December 2019 of HK$13,700,000.

Commodity Business

Our iron ore offtake at Koolan Island recommenced as the mine restarted operations, and we continue to look for new offtake opportunities across a range of commodities. For 1H FY2020, our Commodity Business generated a loss of HK$10,862,000 (1H FY2019: Profit of HK$1,128,000).

Principal Investment and Financial Services

The Principal Investment and Financial Services segment, which covers the income generated from loans receivable, loan notes, convertible notes and other financial assets. For 1H FY2020, this segment generated a profit of HK$37,580,000 (1H FY2019: Profit of HK$13,715,000).

Money Lending

The Group engaged in money lending activities under the Money Lenders Ordinance of Hong Kong. For 1H FY2020, the revenue and profits generated from money lending formed part of results of the Principal Investment and Financial Services segment.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2019, our non-current assets amounted to HK$2,431,959,000 (As at 30 June 2019: HK$2,264,877,000) and net current assets amounted to HK$1,511,018,000 (As at 30 June 2019: HK$1,749,610,000) with a current ratio of 23.9 times (As at 30 June 2019: 135.2 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$3,934,000 (As at 30 June 2019: HK$51,168,000) and loan receivables of HK$480,336,000 (As at 30 June 2019: HK$401,418,000).

As at 31 December 2019, we had borrowings of HK$6,504,000 (As at 30 June 2019: Nil), representing lease liabilities and had undrawn banking facilities amounting to HK$317,550,000 secured against certain term deposits of the Group. As at 31 December 2019, we had a gearing ratio of 0.002 (As at 30 June 2019: Nil), calculated on the basis of total borrowings over equity attributable to owners of the Company.

As announced on 11 March 2019, the Company decided to implement a rights issue (the "**Rights Issue**") on the basis of one rights share for every two existing shares in issue by issuing 406,297,971 rights shares, with aggregate nominal value of HK$406,297,971, at the subscription price of HK$1.10 per rights shares raising gross proceeds of approximately HK$447 million and net proceeds of approximately HK$438 million (approximately HK$1.08 per share). The Rights Issue was completed in April 2019. The subscription price represented a discount of approximately 14.73% to the closing price of HK$1.29 per share as quoted on The Stock Exchange of Hong Kong Limited on 11 March 2019. The directors of the Company considered the Rights Issue would provide an opportunity to raise capital for the Company whilst strengthening the capital base and the financial position of the Company. During 1H FY2020, approximately HK$237.2 million, which remained unused as at 30 June 2019, was used to further invest in companies involved in the resources sector. As at 31 December 2019, all proceeds from the Rights Issue were used and details of use of proceeds were as follows:

Intended use of proceeds	Actual use of proceeds
(i) Approximately HK$244 million will be used for enhancing the Group's capacity to further invest in companies involved in the resources sector	Approximately HK$244 million was used
(ii) Approximately HK$150 million will be used for repayment of the Group's existing outstanding loans and other related expenses owed to a bank and a related company	Approximately HK150 million was used
(iii) Approximately HK$44 million for general working capital for the Group	Approximately HK$44 million was used
(iv) Approximately HK$9 million will be used for expenses of the rights issue	Approximately HK$8.3 million was used. The unused amount of approximately HK$0.7 million was used for general working capital for the Group

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 United States Dollars and Hong Kong Dollars. There would be no material immediate effect on the cash flows of the Group from adverse movements in foreign exchange for long term investments. In addition, the Group is required to maintain foreign currency exposure to cater for its present and potential investment activities, meaning it will be subject to reasonable exchange rate exposure. In light of this, the Group did not actively hedge for the risk arising from the Australian Dollars denominated assets. However, the Group will closely monitor this risk exposure as required.

Pledge of Assets

As at 31 December 2019, the Group's bank deposits of HK$81,518,000 (As at 30 June 2019: HK$74,711,000) were pledged to banks to secure various trade and banking facilities granted to the Group.

Employees and Emolument 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 People's Republic of China (the "**PRC**") for its employees in the PRC).

As at 31 December 2019, the Group, including its subsidiaries but excluding associates, had 14 (As at 30 June 2019: 14) employees. Total remuneration together with pension contributions incurred for 1H FY2020 amounted to HK$9,272,000 (1H FY2019: HK$6,170,000).

Principal Risks

The Group adopts a comprehensive risk management framework. Policies and procedures are developed, regularly reviewed and updated to enhance risk management and react to changes in market conditions and the Group's business strategy. The Audit Committee reviews the Group's policies and scrutinises that management has performed its duty to have effective risk management and internal control systems necessary for monitoring and controlling major risks arising from the Group's business activities, changing external risks and the regulatory environment, and reports to the Board on the above.

Financial Risk

Financial risk includes market risk, credit risk and liquidity risk. Market risk concerns that the value of an investment will change due to movements in market factors and which can be further divided into foreign currency risk, interest rate risk and other price risk. Credit risk is the risk of losses arising from clients or counterparties failing to make payments as contracted. Liquidity risk concerns that a given security or asset cannot be traded readily in the market to prevent a loss or make the required profit.

Operational Risk

The Group faces various operational risks which are concerned with possible losses caused by human factors, inadequate or failed internal processes, systems or external events. Operational risk is mitigated and controlled through establishing robust internal controls, proper segregation of duties and effective internal reporting.

The business and operating line management are responsible for managing the operational risks of their business units on a day-to-day basis. Each department head has to identify risks, evaluate the effectiveness of key controls in place and assess whether the risks are effectively managed. Independent monitoring and reviews are conducted by the internal audit team which reports regularly to the respective senior management and the Audit Committee.

Significant Investments, Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures, and Future Plans for Material Investments or Capital Assets

Save as disclosed in this announcement, during the six months ended 31 December 2019, the Group did not hold any other significant investments nor have any material acquisitions or disposals of subsidiaries, associates and joint ventures. Save as disclosed in this announcement, as at 31 December 2019, the Group did not have any plans for material investments or capital assets.

Capital Commitments

As at 31 December 2019, the Group had no material capital commitments contracted but not provided for.

Contingent Liabilities

As at the date of this announcement and as at 31 December 2019, the Board is not aware of any material contingent liabilities.

Important Events Affecting the Group After the Reporting Date

There are no important events affecting the Group which have occurred after the end of financial period for the six months ended 31 December 2019 and up to the date of this announcement.

Interim Dividend

An interim dividend of HK10 cents per share in an aggregate amount of approximately HK$121,890,000 were declared for the year ended 30 June 2019 and an amount of approximately HK$121,890,000 was paid in cash during the six months ended 31 December 2019. No dividend has been proposed for the six months ended 31 December 2019 (Six months ended 31 December 2018: Nil).

Company Strategy

The commodity market has been volatile during the reporting period. Looking forward, the Board believes that the performance of the equity investments at fair value through profit or loss will be dependent on market sentiment which is affected by factors such as commodity prices, interest rate movements, geo-political conditions and performance of the macro economy. In order to mitigate the associated risks, the Group will review its investment strategy regularly and take appropriate actions whenever necessary in response to changes in market situation. In addition, the Group will also seek potential investment opportunities with an aim to maximize value for the shareholders.

Forward Looking Observations

The outlook for the global economy is likely to be weak in the first part of calendar year 2020 as China will be impacted by reduced industrial production and consumption as a fallout from the coronavirus. As discussed, at the time of writing, China has already rolled out measures to support businesses and we expect there is more to come from other central bank and governments. Against this difficult backdrop, we remain defensive and selective with our investments in the near term, and continue to look for high quality opportunities which will generate attractive returns over the long run. Our mining and energy investment portfolios are the platform for future mining and energy investments. Our largest investment is in Mount Gibson which is underpinned by a large cash reserve, and its Koolan Island mine reached commercial production in June 2019 and has started to generate cash flow.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

During the six months ended 31 December 2019, the Company has applied the principles of, and fully complied with, the applicable 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.

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 2019. 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.

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 2019.

By Order of the Board
APAC Resources Limited
Arthur George Dew
Chairman

Hong Kong, 27 February 2020

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. Wang Hongqian

* *For identification purpose only*