APAC RESOURCES

APAC RESOURCES LIMITED

亞太資源有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 1104)

2006

Annual Report

* For identification purpose only

Contents

APAC RESOURCES

Corporate Information

BOARD OF DIRECTORS

Executive Directors:
Mr. Yue Jialin *(Chairman)*
Mr. Lau Yau Cheung *(Chief Executive Offier)*
Mr. Michael Joseph Bogue

Independent Non-Executive Directors:
Mr. Wong Wing Kuen, Albert
Mr. Tsui Robert Che Kwong
Mr. Yang Weiming

LEGAL ADVISERS

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

AUDITORS

Graham H.Y. Chan & Co.

COMPANY SECRETARY

Mr. To Yung Kan

STOCK CODE

1104

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Rooms 2808-10
28/F Wing On House
71 Des Voeux Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Secretaries Limited
26/F Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

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

FINANCIAL RESULTS

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

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

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

DIVIDEND

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

REVIEW OF OPERATIONS

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

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

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

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

FINANCIAL RESOURCES, BORROWINGS, CAPITAL STRUCTURE AND FOREGIN EXCHANGE EXPOSURES

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

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

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

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

PLEDGE OF ASSETS

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

EMPLOYEES AND REMUNERATION POLICY

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

PROSPECT

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

Further, on 16 February 2007, the Group entered into a conditional acquisition agreement, subject to satisfaction of certain conditions precedent including financial, legal and technical due diligences, to acquire the entire issued share capital of China Mineral Resource Limited ("CMR"), a limited liability company incorporated in Hong Kong, for an aggregate consideration of HK$450,000,000, constituting a very substantial acquisition of the Company. The Group understands from the vendor that CMR owns the rights of exploration and exploitation of an iron ore mine, located in north of Mongolia. The Group is now preparing for the circular for this conditional acquisition which, in turn, is subject to shareholders' approval in the forthcoming special general meeting of the Company.

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

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

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

APPRECIATION

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

Yue Jialin
Chairman

Hong Kong, 13 April 2007

EXECUTIVE DIRECTORS

Mr. Yue Jialin, aged 39, appointed on 26 April 2004, is the Chairman and Executive Director of the Company. Mr. Yue is responsible for the strategic planning and corporate development of the Group. Mr. Yue has established in-depth knowledge of the PRC economic development and policies through his previous role as a judge in the Economic Court of People's Court in Luowu District, Shenzhen, the People's Republic of China (the "PRC") during 1989 to 1992. Mr. Yue also sits on the school of business administration of Changhun Industrial University as visiting professor. Mr. Yue has engaged in legal consultation in respect of the acquisition of state owned assets and foreign investments in the PRC.

Mr. Lau Yau Cheung, aged 46, appointed on 26 April 2004, is an Executive Director of the Company. Mr. Lau is the Company's Chief Executive Officer and responsible for the overall management and general administrative activities. Mr. Lau graduated in 1984 from the University of Toronto in Canada with a Bachelor of Commerce degree and has served in various senior management positions with both private and publicly listed companies in Hong Kong in the past years. Mr. Lau is also an Independent Non-Executive Director of Chai-Na-Ta Corp., a Canadian company which is the world's largest supplier of North American ginseng with shares listed on the NASDAQ - OTCBB in the United States, since November 2006.

Mr. Michael Joseph Bogue, aged 36, was appointed on 25 September 2006 as an Independent Non-Executive Director and was redesignated as Executive Director of the Company with effect from 10 January 2007. Mr. Bogue holds a Bachelor of Commerce degree from the University of Western Australia and has a diverse and successful background in senior executive roles related to the global resources sector. Over the last 14 years he has undertaken numerous mergers and acquisitions, equity and debt capital market issuances and derivatives transactions across the global resources sector. He is the current Managing Director and Chief Executive Officer of RIMCapital Limited, a resources focused Investment Company listed on the Australian Stock Exchange. Previous executive positions have included roles within a global investment Bank as Co-Head of Mining & Metals for Asia Pacific, a senior Business Development & Finance role within a top tier Australian resources house and as principal of a boutique investment and advisory firm specializing in the resources sector.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wong Wing Kuen, Albert, aged 56, appointed on 6 July 2004, is an Independent Non-executive Director of the Company. Mr. Wong is fellow member of The Institute of Chartered Secretaies and Administrators, a fellow member of The Hong Kong Institute of Company Secretaries, a fellow member of the Taxation Institute of Hong Kong, a member of Hong Kong Securities Institute, a fellow member of Association of International Accountants, a fellow member of Society of Registered Financial Planners, a member of The Chartered Institute of Arbitrators, a member of The Chartered Institute of Bankers in Scotland and a full member of Macau Society of Certified Practising Accountants. Mr. Wong was also a director of Minghua Group International Holdings Limited, a listed public company in the USA, until 30 June 2004. Currently, Mr. Wong is the Managing Director of Charise Financial Consultants Limited, a private professional consulting firm in Hong Kong.

Mr. Tsui Robert Che Kwong, aged 53, appointed on 6 July 2004, is an Independent Non-executive Director of the Company. Mr. Tsui is a graduate of University of Buckingham, England, with a bachelor degree in Law. He is the sole proprietor of Robert C.K. Tsui & Co., a firm of solicitors in Hong Kong. Mr. Tsui has been practicing in the legal field for more than 20 years. He is also an Independent Non-Executive Director of Teem Foundation Group Limited (Stock Code: 628), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited since August 2004.

Mr. Yang Weiming, aged 47, appointed on 8 August 2006, is an Independent Non-Executive Director of the Company. Mr. Yang is graduated with a bachelor's degree from the correspondence school of Guangdong Provincial Committee Party School of CPC in 2003. He had worked at the Centre for Development and Leasing of Housing, Shenzhen Housing Bureau from 1997 to 2004, specializing in the development of properties in China. Presently, Mr. Yang is also a director of New Gold International Limited which is a private limited company incorporated in Hong Kong.

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 34 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 27.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to results by business activities for the year ended 31 December 2006 is set out in note 5 to the financial statements.

SHARE CAPITAL

Details of movement in share capital of the Company during the year are set out in note 19 to the financial statements.

RESERVES

Details of movements in reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 30 and in note 21 to the financial statements respectively.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Yue Jialin *(Chairman)*

Mr. Lau Yau Cheung *(Chief Executive Officer)*

Mr. Michael Joseph Bogue (appointed on 25 September 2006 as Independent Non-Executive Director and redesignated as Executive Director on 10 January 2007)

Independent Non-Executive Directors:

Mr. Wong Wing Kuen,Albert

Mr. Tsui Robert Che Kwong

Mr. Yang Weiming (appointed on 8 August 2006)

Mr. Wu Guo Jian (resigned on 8 August 2006)

In accordance with Bye-laws 86 and 87 of the Company's Bye-laws, Mr. Yue Jialin, Mr. Michael Joseph Bogue and Mr. Yang Weiming will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. All of the remaining directors shall continue in office.

No director being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (i) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken of deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on The Stock Exchange (the "Listing Rules"), were as follows:

(a) **Long position in shares as at 31 December 2006**

Name of Director	Capacity and nature	Number of ordinary shares	Approximate % holding
Mr. Yue Jialin ("Mr. Yue")	Interest of controlled corporation (Note 1)	596,699,801	47.39 (Note 2)

(b) **Long position in shares and underlying shares as at the date of this annual report**

Name of Director	Capacity and nature	Number of ordinary shares	Approximate % holding
Mr. Yue	Interest of controlled corporation (Note 1)	1,312,739,562 (Note 3)	39.56% (Note 4)

Notes:

1. These shares are registered/will be registered (as the case may be) in the name of and beneficially owned by Profit Harbour Investments Limited ("Profit harbour").

2. The percentage shareholding is calculated on the basis of the Company's issued share capital of 1,259,000,000 Shares as at 31 December 2006.

3. This represented an interest in 1,193,399,602 shares and an interest in 119,339,960 units of warrants giving rise to an interest in 119,339,960 underlying shares. The warrants will entitle the holders to subscribe at any time during the period from 5 February 2007 to 4 February 2010 (both days inclusive) for fully paid shares at an initial subscription price of HK$0.30 per share (subject to adjustments).

4. The percentage of shareholding is calculated on the basis of the Company's issued share capital of 3,318,042,968 shares as at the date of this annual report.

Save as disclosed above, as at 31 December 2006, none of the Directors nor the chief executives of the Company had or was deemed to have any interests of short positions in the share, underlying shares of debentures of the company or any of its associated corporation (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken of deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 20 to the financial statements.

No options were granted to the directors during the year ended 31 December 2006 and no options were held by the directors as at 31 December 2006.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section headed "SHARE OPTIONS" above, at no time during the year was the Company, or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of,the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of the connected transactions and related party transactions are set out in note 27 to the financial statements. Save for the above, no contracts of significance, to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors and chief executive of the Company, the following persons (not being Directors or chief executives of the Company) had, or were deemed to have, interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company of the Stock Exchange under the provisions of Division 2 and 3 of part XV of the SFO or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had an option in respect of such capital:

(a) Long position in shares as at 31 December 2006

Name of Shareholders	**Capacity and nature**	**Number of Shares and Underlying shares**	**Approximate % holding** *(Note 2)*	*Notes*
Profit Harbour	Beneficial owner	596,699,801	47.39%	1
Benefit Rich Limited ("Benefit")	Corporate Interests (interest of controlled corporation)	300,000,000	23.83%	3
Shougang Holding (Hong Kong) Limited ("Shougang")	Beneficial owner	300,000,000	23.83%	4

(b) Long position in shares and underlying shares as at the date of this annual report

Name of Shareholders	**Capacity and nature**	**Number of shares and Underlying shares**	**Approximate % holding** *(Note 5)*	*Notes*
Profit Harbour	Beneficial owner	1,312,739,562	39.56%	6
Benefit	Corporate Interests (interest of controlled corporation)	660,000,000	19.89%	7
Shougang	Beneficial owner	660,000,000	19.89%	8
Ms. Chong Sok Un	Beneficial owner	477,100,000	14.38%	9

Notes:

1. The entire issued share capital of Profit Harbour is owned by Mr. Yue.

2. The percentage of shareholding is calculated on the basis of the Company's issued share capital of 1,259,000,000 shares as at 31 December 2006.

3. Benefit was interested in 300,000,000 shares and was a wholly-owned subsidiary of Shougang as at 31 December 2006.

4. Benefit was a wholly-owned subsidiary of Shougang as at 31 December 2006. As a result, Shougang was deemed to have the same long position as Benefit under the SFO for 300,000,000 shares.

5. The percentage of shareholding is calculated on the basis of the Company's issued share capital of 3,318,042,968 shares as at the date of this annual report (before any exercise of the warrants by the respective holders).

6. This represented an interest in 1,193,399,602 shares and an interest in 119,339,960 units of warrants giving rise to an interest in 119,339,960 underlying shares. The warrants entitle the holders to subscribe at any time during the period from 5 February 2007 to 4 February 2010 (both days inclusive) for fully paid shares at an initial subscription price of HK$0.30 per share (subject to adjustments).

7. This represented an interest in 600,000,000 shares and an interest in 60,000,000 units of warrants giving rise to an interest in 60,000,000 underlying shares. The warrants entitle the holders to subscribe at any time during the period from 5 February 2007 to 4 February 2010 (both days inclusive) for fully paid shares at an initial subscription price of HK$0.30 per share (subject to adjustments).

8. Benefit is a wholly-owned subsidiary of Shougang as at the date of this annual report. As a result, Shougang is deemed to have the same long position as Benefit under SFO for 660,000,000 shares.

9. This represented an interest in 472,100,000 shares and an interest in 5,000,000 units of warrants giving rise to an interest in 5,000,000 underlying shares held by various holding companies, directly or indirectly owned by Ms. Chong Sok Un and her associate(s) as at the date of this annual report. The warrants entitle the holders to subscribe at any time during the period from 5 February 2007 to 4 February 2010 (both days inclusive) for fully paid shares at an initial subscription price of HK$0.30 per share (subject to adjustments).

Save as disclosed above, as at 31 December 2006, the Directors and chief executive of the Company were not aware of any other persons (other than Directors or chief executives of the Company) had, or were deemed to have, interests or short positions in the shares and underlying shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

The Directors are of the opinion that during the year ended 31 December 2006, the Directors of the Company had no interests in any businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's three customers in aggregate accounted for the entire turnover of the Group and the largest customer accounted for approximately 54.97% of the total turnover of the Group.

The aggregate purchases attributable to the Group's four suppliers during the year accounted for the entire purchases of the Group and the largest supplier, the sole agent of the Group's base metal trade, accounted for approximately 56.53% of the total purchases of the Group.

At no time during the year did a director, an associate of a director or a shareholder of the Company, which to the knowledge of the Directors owns more than 5% of the Company's issued share capital, have an interest in any of the three largest customers and any of the four suppliers of the Group.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 17 to 24.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events are set out in note 32 to the financial statements.

PUBLIC FLOAT

As at the date of this report, the Company has maintained a sufficient public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of its Directors.

AUDITORS

Messrs. Deloitte Touche Tohmatsu were auditors of the Company for the year ended 31 December 2004 and resigned as auditors on 22 March 2006. Graham H.Y. Chan & Co. was appointed to fill the vacancy on 12 April 2006.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Graham H.Y. Chan & Co. as auditors of the Company.

On behalf of the Board

Yue Jialin
Chairman

Hong Kong, 13 April 2007

The Company is committed to achieving and maintaining a high standard of corporate governance. The Board considers effective corporate governance essential to protecting shareholders' interests and enhancing stakeholder value. Accordingly, the Board attributes a high priority to identifying and implementing appropriate corporate governance practices to ensure transparency, accountability and effective internal controls.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is fully complied with all code provisions of the Code on Corporate Governance Practices ("CG Code") in Appendix 14 of the Listing Rules on the Stock Exchange for the year ended 31 December 2006.

THE BOARD

The Board is charged with the responsibility of the leadership and control of the Group. The Board promotes the success of the Group and make decisions objectively in the best interests of the Group. The Board's role is clearly defined as directing and supervising the affairs of the Group, establishing its strategic direction and setting objectives and business development plans. In addition, the Board has also delegated various responsibilities to the Board Committees. Further details of these committees are set out in this report.

During the year, 16 full board meetings were held and the attendance of each director is set out as follows:

		Number of Board meetings attended / eligible to attend
Executive Directors:		
Mr. Yue Jialin	(Chairman)	16/16
Mr. Lau Yau Cheung	(Chief Executive Officer)	16/16
Mr. Michael Joseph Bogue	(appointed on 25 September 2006 as Independent Non-Executive Director and re-designated as Executive Director on 10 January 2007)	5/6
Independent Non-Executive Directors:		
Mr. Wong Wing Kuen, Albert		14/16
Mr. Tsui Robert Che Kwong		13/16
Mr. Yang Weiming	(appointed on 8 August 2006)	7/9
Mr. Wu Guo Jian	(resigned on 8 August 2006)	6/8

Board meetings are scheduled to be held at approximately quarterly interval and additional meetings will be held as and when required. With respect to the regular Board meetings, Directors receive written notice of the meeting at least 14 days' in advance. The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all applicable rules and regulations are complied with. The agenda and the accompanying Board papers are normally sent to all Directors at least 3 days before the date of every regular Board meetings so that the directors have the time to review the documents. With respect to other meetings, Directors are given as much notice as is reasonable and practicable in the circumstances. Draft minutes of each Board meeting are circulated to all Directors for their comment before approval. All minutes are kept by the Company Secretary and are open for inspection at any reasonable notice by any Director.

Every Director is entitled to have access to board papers and related materials and has access to the advice and services of the Company Secretary, and has the liberty to seek independent professional advise if so required. Directors will be continuously updated on the major development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practice.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman and the Chief Executive Officer of the Company are Mr. Yue Jialin and Mr. Lau Yau Cheung respectively. The roles of the Chairman and the Chief Executive Officer are segregated and assumed by two separate individuals who have no relationship with each other to strike a balance of power and authority so that the job responsibilities are not concentrated on any one individual. The Chairman of the board is responsible for the leadership and effective running of the board, while the Chief Executive Officer is delegated with the authorities to manage the business of the Group in all respects effectively. The division of responsibilities between the Chairman and the Chief Executive Officer have been clearly established and set out in writing.

BOARD COMPOSITION

The Board currently comprises six Directors, with three Executive Directors and three Independent Non-Executive Directors. The composition of the Board during the year and up to date of this report is set out as follow:

Executive Directors:

Mr. Yue Jialin	(Chairman)
Mr. Lau Yau Cheung	(Chief Executive Officer)
Mr. Michael Joseph Bogue	(appointed on 25 September 2006 as Independent Non-Executive Director and re-designated as Executive Director on 10 January 2007)

Independent Non-Executive Directors:

Mr. Wong Wing Kuen, Albert	
Mr. Tsui Robert Che Kwong	
Mr. Yang Weiming	(appointed on 8 August 2006)
Mr. Wu Guo Jian	(resigned on 8 August 2006)

The Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced board composition is formed to ensure strong independence exists across the Board and has met the recommended practice under the CG Code for the Board to have at least one-third in number of its members comprising Independent Non-Executive Directors. At least one of the Independent Non-Executive Directors has appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. The brief biographical details of the Directors are set out in pages 7 and 8, which demonstrates a diversity of skills, expertise, experience and qualifications. The Board has received annual confirmation of independence from the Independent Non-Executive Directors in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the Independent Non-Executive Directors are independent within the definition of the Listing Rules.

APPOINTMENTS AND RE-ELECTION OF DIRECTORS

Each of the Independent Non-Executive Directors of the Company was appointed for a specific term ("the Term") but subject to the relevant provisions of the Bye-laws of the Company or any other applicable laws whereby the Directors shall vacate or retire from their office. The Term for Mr. Wong Wing Kuen, Albert and Mr. Tsui Robert Che Kwong have been renewed upon expiry on 31 December 2006. The Term for Mr. Yang Weiming will be expired on 30 June 2007.

According to the Bye-laws of the Company then in effect before 23 May 2006, at each annual general meeting (the "AGM") of the Company, one-third of the Directors for the time (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) should retire from office by rotation, provided that the Chairman of the Board and/or the Managing Director of the Company should not be subject to retirement by rotation. Further, any Director appointed to fill a casual vacancy or as an addition to the Board should hold office only until the next following AGM and should then be eligible for re-election at that meeting. To ensure full compliance with the code provision A.4.2 of the CG Code, relevant amendments to the Bye-laws of the Company were proposed and approved by the shareholders at the AGM of the Company held on 23 May 2006 so that (i) any Director appointed by the Board shall hold office only until the next following general meeting of the Company (in the case of filing a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the Board); and (ii) each Director shall be subject to retirement by rotation at least once every three years.

REMUNERATION COMMITTEE

The Remuneration Committee currently consists of three Independent Non-Executive Directors. The Remuneration Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice in accordance with the Company's policy if considered necessary.

The Remuneration Committee shall meet at least once a year. Three committee meetings were held in 2006 to review and discuss the existing policy and remuneration packages of both the Executive and Independent Non-Executive Directors and the attendance of each member is set out as follows:

Committee member	**Number of Committee meetings attended / eligible to attend**
Mr. Wong Wing Kuen, Albert (Chairman)	4/4
Mr. Tsui Robert Che Kwong	4/4
Mr. Michael Joseph Bogue (appointed on 25 September 2006 and resigned on 10 January 2007)	3/3
Mr. Yang Weiming (appointed on 8 August 2006)	3/3
Mr. Wu Guo Jian (resigned on 8 August 2006)	1/1

The remuneration payable to Directors will depend on their respective contractual terms under their employment or service contracts, as recommended by the Remuneration Committee. Details of the Directors' remuneration are set out in note 8 to the financial statements.

The major roles and functions of the Remuneration Committee are as follows:

1. to review and make recommendations to the Board on the Company's policy and structure for remuneration of all directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

2. to have the delegated responsibility to determine the specific remuneration packages of all Executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss of office or termination of their office or appointment, and make recommendations to the Board of the remuneration of Independent Non-Executive Directors. The Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment and conditions elsewhere in the Group and desirability of performance-based remuneration;

3. to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

4. to review and approve the compensation payable to Executive Directors and senior management in connection with any loss or termination of their office or appointment;

5. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

6. to ensure that no Directors or any of his associates is involved in deciding his own remuneration;

AUDIT COMMITTEE

The Audit Committee has been established since July 2004 and currently comprises all three Independent Non-Executive Directors of the Company, Mr. Wong Wing Kuen, Albert, Mr. Tsui Robert Che Kwong and Mr. Yang Weiming.

The Audit Committee shall meet at least twice a year. Four committee meetings were held during the year. The attendance of each member is set out as follows:

Committee member	**Number of Committee meetings attended/eligible to attend**
Mr. Wong Wing Kuen, Albert (Chairman)	4/4
Mr. Tsui Robert Che Kwong	3/4
Mr. Yang Weiming (appointed on 8 August 2006)	1/1
Mr. Wu Guo Jian (resigned on 8 August 2006)	3/3

Full minutes of audit committee meetings are kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the audit committee meetings are sent to all members of the committee for their comment and records respectively, in both cases within a reasonable time after the meeting.

The major roles and functions of the Audit Committee are:

1. to consider and recommend to the Board on the appointment, re-appointment and removal of the external auditors, to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of those auditors;

2. to consider and discuss with the external auditors the nature and scope of each year's audit;

3. to review and monitor the external auditors' independence and objectivity;

4. to review the interim and annual financial statements before submission to the Board;

5. to discuss any problems and reservation arising from the interim review and final audit, and any matters the external auditors may wish to discuss;

6. to review the external auditors' management letters and management's response;

7. to review the Group's financial controls, internal control and risk management systems; and

8. to consider any findings of major investigations of internal control matters as delegated by the Board and management's response.

During the meetings held in 2006, the Audit Committee had performed the work as summarized below:

1. recommended to the Board, for the approval by shareholders, of the change of auditors.

2. reviewed the final results of the Group for the year ended 31 December 2006 and the interim results for the six months ended 30 June 2006 before submission to the Board;

3. reviewed the external auditors' independent review report in the relation to the 2006 interim results;

4. recommended to the Board, for the approval by shareholders, of the re-appointment of the auditors.

DIRECTORS' SECURITIES TRANSACTIONS

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 of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code throughout the year.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for preparing, with the support from the finance department, the consolidated financial statements for each financial year which give true and fair view of the state of affairs of the Group in presenting the interim and annual financial statements, and announcements to shareholders. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern, the Board therefore continues to adopt the going concern approach in preparing the accounts. The Board acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's interim and annual reports, other price-sensitive announcement and other financial disclosures required under the Listing Rules, and reports to the regulators.

The responsibility of the external auditors with respect to the financial reporting are set out in the section "Independent Auditor's Report" on page 25.

INTERNAL CONTROLS

The Board is responsible for overseeing the Group's system of internal controls. However, such a system is designed to manage the Group's risks within an acceptable risk profile, rather than to eliminate the risk of failure, to achieve the business objectives of the Group. Accordingly, it can only provide reasonable assurance but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group and this process includes updating the system of internal controls when there are changes to business environment or regulatory guidelines.

The Board has conducted a review of the effectiveness of the system of internal control of the Group and is of the view that the system of internal controls in place for the year under review and up to the date of issuance of the annual report and financial statements is sound and is sufficient to safeguard the interests of the shareholders, customers and the Group's assets.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid to the Company's auditors, Messrs. Graham H. Y. Chan & Co. is set out as follows:

Services rendered	**Fee paid/payable**
	HK$'000
Audit services	250
Non-audit services	701
	951

COMMUNICATIONS WITH SHAREHOLDERS

The Board recognises the importance of good communication with shareholders. Information in relation to the Group is disseminated to shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars.

The Company's general meetings are a valuable forum for the Board to communicate directly with the shareholders. Shareholders are encouraged to attend all general meetings of the Company.

The Chairman of the Board as well as Chairman of the Audit Committee and Remuneration Committee were presented to answer any questions from the shareholders at the Company's 2006 AGM.

Circulars had been distributed to all shareholders at least 21 days prior to the Company's 2006 AGM and at least 14 days prior to the special general meetings of the Company convenced during 2006 (the "SGMs"), setting out details of each proposed resolution, voting procedures (including procedures for demanding and conducting a poll) and other relevant information. The Chairman had explained the procedures for demanding and conducting a poll again at the beginning of the Company's 2006 AGM, and revealed how many proxies for and against have been received in respect of each resolution. All substantive resolutions at the SGMs were decided on a poll which were conducted by the Chairman and scrutinized by the Company's Hong Kong Branch Share Registrars. All the resolutions put to shareholders at the SGM, were passed. The results of the poll were published on the website of the Stock Exchange and also in local newspapers.

事務所
會計師
陳浩賢

GRAHAM H.Y. CHAN & CO.

CERTIFIED PUBLIC ACCOUNTANTS

HONG KONG

TO THE SHAREHOLDERS OF APAC RESOURCES LIMITED

(Formerly known as Shanghai Merchants Holdings Limited)

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of APAC Resources Limited (the " Company") set out on pages 27 to 66, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Graham H. Y. Chan & Co.
Certified Public Accountants (Practising)
Unit 1, 15/F., The Center,
99 Queen's Road Central,
Hong Kong

13 April 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	**2006** **HK$'000**	2005 HK$'000
Turnover	4	**22,773**	68,393
Cost of sales		**(21,604)**	(66,113)
Gross profit		**1,169**	2,280
Other income	4	**40,343**	474
Credit arising from a scheme of arrangement with creditors		**—**	15,421
Distribution costs		**(499)**	(1,353)
Administrative expenses	6	**(10,524)**	(8,539)
Impairment of goodwill	22	**(3,116)**	—
Finance costs	7	**(2,153)**	(1,744)
Profit before taxation		**25,220**	6,539
Income tax expense	9	**(238)**	(38)
Profit for the year	10	**24,982**	6,501
Attributable to:			
Equity holders of the company		**24,982**	6,501
Minority interests		**—**	—
Profit for the year		**24,982**	6,501
Dividends	11	**—**	—
Earnings per share - basic	12	**3.10 HK Cents**	1.57 HK Cents

Consolidated Balance Sheet

As at 31 December 2006

APAC RESOURCES

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Deposit for acquisition of available-for-sale investment		**20,000**	—
Current assets			
Inventories	14	**1,494**	—
Trade and other receivables	15	**8,460**	37,526
Trading securities	16	**227,039**	—
Pledged bank deposits		**10,098**	4,012
Cash and cash equivalents	23	**12,282**	1,465
		259,373	43,003
Current liabilities			
Trade and other payables	17	**7,585**	6,053
Secured other loans		**—**	15,000
Margin financing loan	18	**141,612**	—
Tax payable		**200**	69
		149,397	21,122
Net current assets		**109,976**	21,881
Total assets less current liabilities		**129,976**	21,881
Capital and reserves			
Share capital	19	**125,900**	41,300
Reserves		**4,076**	(19,419)
Total equity attributable to equity shareholders of the Company		**129,976**	21,881
Minority interests		**—**	—
Total equity		**129,976**	21,881

The financial statements on pages 27 to 66 were approved and authorised for issue by the Board of Directors on 13 April 2007 and are signed on its behalf by:

Yue Jialin
Director

Lau Yau Cheung
Director

Balance Sheet

As at 31 December 2006

APAC RESOURCES

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Investments in subsidiaries	13	**90,065**	6,296
Current assets			
Other receivables		**478**	145
Bank balances and cash		**7,093**	7
		7,571	152
Current liabilities			
Other payables		**4,602**	3,840
Secured other loans		**—**	15,000
		4,602	18,840
Net current assets/(liabilities)		**2,969**	(18,688)
Total assets less current liabilities		**93,034**	(12,392)
Capital and reserves			
Share capital	19	**125,900**	41,300
Reserves	21	**(32,866)**	(53,692)
Total equity		**93,034**	(12,392)

Yue Jialin
Director

Lau Yau Cheung
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

APAC RESOURCES

	Attributable to equity shareholders of the Company						
	Share capital	Share premium	Special reserve	Accu-mulated losses	Total	Minority interests	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2005	41,300	106,957	(14,980)	(117,897)	15,380	—	15,380
Profit for the year and total recogised income and expenses	—	—	—	6,501	6,501	—	6,501
At 31 December 2005	41,300	106,957	(14,980)	(111,396)	21,881	—	21,881
At 1 January 2006	41,300	106,957	(14,980)	(111,396)	21,881	—	21,881
Changes in equity for 2006							
Profit for the year and total recognised income and expenses	—	—	—	24,982	24,982	—	24,982
Acquisition of interest in a subsidiary	—	—	—	—	—	—	—
Issue of shares upon the conversion of convertible debt	2,000	—	—	—	2,000	—	2,000
Issue of rights shares	82,600	(1,487)	—	—	81,113	—	81,113
	84,600	(1,487)	—	—	83,113	—	83,113
At 31 December 2006	125,900	105,470	(14,980)	(86,414)	129,976	—	129,976

Consolidated Cash Flow Statement

For the year ended 31 December 2006

APAC RESOURCES

	Notes	2006 HK$'000	2005 HK$'000
Operating activities			
Profit before taxation		**25,220**	6,539
Adjustments for:			
Interest on other loans		**958**	1,744
Interest on margin financing account		**1,195**	—
Depreciation		**—**	7
Loss on disposal of property, plant and equipment		**—**	16
Unrealised gain on trading securities		**(38,743)**	—
Credit arising from scheme of arrangement with creditors		**—**	(15,421)
Impairment of goodwill		**3,116**	—
Interest income		**(1,181)**	(160)
Operating cash flows before changes in working capital		**(9,435)**	(7,275)
Decrease in inventories		**416**	—
Decrease in trade and other receivables		**29,074**	5,050
Decrease in trade and other payables		**(626)**	(5,619)
Cash from/(used in) operations		**19,429**	(7,844)
Hong Kong profits tax paid		**(107)**	(24)
Net cash from/(used in) operating activities		**19,322**	(7,868)
Investing activities			
Payment for the purchase of trading securities		**(188,296)**	—
Deposit paid for acquisition of available-for-sale investment		**(20,000)**	—
Acquisition of a subsidiary	22	**(876)**	—
(Increase)/decrease in pledged bank deposits		**(6,086)**	3,988
Interest received		**1,181**	160
Net cash (used in)/from investing activities		**(214,077)**	4,148

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Financing activities			
Issue of rights shares		**82,600**	—
Share issuing expenses		**(1,487)**	—
Interest paid		**(2,153)**	(1,744)
Increase in margin financing loan		**141,612**	—
Secured other loans raised		**—**	15,000
Repayment of other loans		**(15,000)**	(15,000)
Net cash from/(used in) financing activities		**205,572**	(1,744)
Net increase/(decrease) in cash and cash equivalents		**10,817**	(5,464)
Cash and cash equivalents at 1 January		**1,465**	6,929
Cash and cash equivalents at 31 December	23	**12,282**	1,465

1 CORPORATE INFORMATION

The Company is incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 34.

The financial statements are presented in Hong Kong dollars ("HK$"), which is the Company's functional and presentation currency.

2 ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006. The adoption of these new and revised Standards and Interpretations has no material effect on how the results of operation and financial position of the Group are prepared and presented.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

HKAS 1 (Amendment)	Capital Disclosures [1]
HKFRS 7	Financial Instruments: Disclosures [1]
HKFRS 8	Operating Segments [7]
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [2]
HK(IFRIC) – INT 8	Scope of HKFRS 2 [3]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives [4]
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment [5]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasure Share Transactions [6]
HK(IFRIC) – INT 12	Service Concession Arrangements [8]

1 Effective for annual periods beginning on or after 1 January 2007

2 Effective for annual periods beginning on or after 1 March 2006

3 Effective for annual periods beginning on or after 1 May 2006

4 Effective for annual periods beginning on or after 1 June 2006

5 Effective for annual periods beginning on or after 1 November 2006

6 Effective for annual periods beginning on or after 1 March 2007

7 Effective for annual periods beginning on or after 1 January 2009

8 Effective for annual periods beginning on or after 1 January 2008

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Group.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs) (which also includes Hong Kong Accounting Standards (HKASs) and Interpretations issued by the HKICPA), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial instruments classified as trading securities and available-for-sale investments are stated at their fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumption that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other source. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 31.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries and minority interests *(Continued)*

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the company's balance sheet, an investment in a subsidiary is stated at cost less impairment loss, unless the investment is classified as held for sale or included in a disposal group that is classified as held for sale.

(d) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 3(g)(ii)).

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis and includes all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(f) Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when the Group has become a party to the contractual provisions of the instrument.

(i) Financial assets at fair value through profit or loss

Investments in securities held for trading are classified as current assets and are initially stated at fair value. At each balance sheet date the fair value is re-measured, with any resultant gain or loss being recognised in profit or loss. Upon disposal, the difference between the net sales proceeds and the carrying value is included in the income statement.

(ii) Available-for-sale investments

Available-for-sale investments are those non-derivates and are designated as available-for-sale investments or not classified under other investment categories. Available-for-sale investments are carried at fair value. Unrealised gain and losses (including transaction costs on acquisition) arising from changes in the fair value are recognised in fair value reserve in accordance with HKAS 39. When the securities are sold, the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments in the investment revaluation reserve are treated as gains or losses on disposal. For investments where there is no active market and whose fair value cannot be reliably measured, such investments are measured at cost less any impairment losses at each balance sheet date subsequent to initial recognition.

(iii) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

(iv) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are ready convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Financial instruments *(Continued)*

(v) Trade and other payables

Trade and other payable are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(vi) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

(vii) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares are taken to equity as a deduction, net of tax, from the proceeds.

(g) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investment in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows :

— For trade and other current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

— For available-for-sale securities, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Impairment of assets *(Continued)*

(i) Impairment of investments in equity securities and other receivables (Continued)

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— investment in subsidiaries; and

— goodwill

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

(iii) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(iv) Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

(v) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Impairment of assets *(Continued)*

(v) Reversals of impairment losses (Continued)

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(h) Employee benefits costs

Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred.

(i) Share-based payments

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable.

The cost of equity-settled transaction is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date of which the relevant employees became fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settlement transactions at each balance sheet date until the vesting date reflects the extent to which (i) the vesting period has expired, and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movements in cumulative expense recognised as at the beginning and end of the period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Share-based payments *(Continued)*

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(j) Income tax expense

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(k) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure to settle the obligation.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Provisions and contingent liabilities *(Continued)*

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(l) Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed or when the relevant sales contracts become unconditional.

Interest income is recognised as it accrues using the effective interest method.

(m) Foreign currencies

In preparing the financial statements, transactions in currencies other than the Group entity's functional currency (foreign currencies) are recorded at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognsied directly in equity, in which case, the exchange differences are also recognised directly in equity.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

(n) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the income statement in the year in which they are incurred.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rental payments applicable to such operating leases are charged to the income statement on the straight-line basis over the lease periods.

(p) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment as the secondary reporting format for the purpose of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

4 TURNOVER AND OTHER INCOME

An analysis of the Group's turnover and other income is as follows:

	2006 HK$'000	2005 HK$'000
Turnover		
Sales of base metals	**5,788**	44,937
Sales of fabric products and other merchandises	**14,132**	23,456
Proceeds from sale of trading securities	**2,853**	—
	22,773	68,393
Other income		
Interest income	**1,181**	160
Unreaslised gain on trading securities	**38,743**	—
Others	**419**	314
	40,343	474
Total income	**63,116**	68,867

5 SEGMENTAL INFORMATION

Primary reporting format - business segments

As at 31 December 2006, the Group comprises the following main business segments:

(i) trading in base metals;

(ii) trading in fabric products and other merchandises; and

(iii) trading and investment of listed securities

5 SEGMENTAL INFORMATION *(Continued)*

Primary reporting format - business segments *(Continued)*

The following tables represent revenue and profit/(loss) information on each of the above business segments for the years ended 31 December 2005 and 2006, and certain assets and liabilities information regarding business segments as at 31 December 2005 and 2006.

	Trading in base metals		Trading in fabric products and other merchandises		Trading and investment of listed securities		Consolidated	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000 (restated)
Revenue from external customers	**5,788**	44,937	**14,132**	23,456	**2,853**	—	**22,773**	68,393
Segment result	**21**	110	**577**	966	**39,152**	—	**39,750**	1,076
Unallocated corporate expenses							**(12,377)**	(8,214)
Credit arising from a scheme of arrangement with creditors							**—**	15,421
Finance costs							**(2,153)**	(1,744)
Profit before taxation							**25,220**	6,539
Income tax expense							**(238)**	(38)
Profit for the year							**24,982**	6,501
Segment assets	**551**	432	**7,281**	1,719	**247,039**	—	**254,871**	2,151
Unallocated corporate assets							**24,502**	40,852
Consolidated total assets							**279,373**	43,003
Segment liabilities	**—**	—	**—**	1,570	**570**	—	**570**	1,570
Unallocated corporate liabilities							**148,827**	19,552
Consolidated total liabilities							**149,397**	21,122

5 SEGMENTAL INFORMATION *(Continued)*

Secondary reporting format - geographical segments

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

	2006	2005
	HK$'000	HK$'000
Hong Kong	**10,255**	49,635
Africa	**12,518**	18,758
	22,773	68,393

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

	2006	2005
	HK$'000	HK$'000
Hong Kong	**27,783**	43,003
Australia	**245,229**	—
Africa	**6,361**	—
	279,373	43,003

There was no addition of property, plant and equipment for each of the year ended 31 December 2005 and 2006.

6 ADMINISTRATIVE EXPENSES

	2006	2005
	HK$'000	HK$'000
Administrative expenses include the following:		
Auditors' remuneration	**250**	250
Depreciation	**—**	7
Legal and professional fees	**2,290**	4,760
Loss on disposal of property, plant and equipment	**—**	16
Retirement benefits scheme contributions	**70**	55
Staff costs, including directors' emoluments *(Note 8) (NB)*	**3,354**	1,513

NB: For the year ended 31 December 2005, the staff costs disclosed above included an amount of HK$213,000 which was included in distribution costs in the consolidated income statement. For the year ended 31 December 2006, no staff costs were included in distribution costs in the consolidated income statement.

7 FINANCE COSTS

	2006	2005
	HK$'000	HK$'000
Interest on other loans	**958**	1,744
Interest on margin financing account	**1,195**	—
	2,153	1,744

8 DIRECTORS' AND EMPLOYEES' EMOLUMENTS

An analysis of remuneration paid and payable to directors of the Company for the year ended 31 December 2006 and 2005 is set as follows:

2006

	Fee	**Salaries, allowances and benefits in kind**	**Retirement scheme contribution**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Executive Directors				
Mr. Yue Jialin	—	—	—	—
Mr. Lau Yau Cheung	**—**	**2,050**	**30**	**2,080**
Mr. Michael Joseph Bogue	**11**	**—**	**—**	**11**
Independent Non-executive Directors				
Mr. Wong Wing Kuen, Albert	**40**	**—**	**—**	**40**
Mr. Tsui Robert Che Kwong	**40**	**—**	**—**	**40**
Mr. Wu Guo Jian	**20**	**—**	**—**	**20**
Mr. Yang Weiming	**16**	**—**	**—**	**16**
Total	**127**	**2,050**	**30**	**2,207**

8 DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

2005

	Fee HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contribution HK$'000	Total HK$'000
Executive Directors				
Mr. Yue Jialin	—	—	—	—
Mr. Lau Yau Cheung	—	300	15	315
Independent Non-executive Directors				
Mr. Wong Wing Kuen, Albert	40	—	—	40
Mr. Tsui Robert Che Kwong	40	—	—	40
Mr. Wu Guo Jian	40	—	—	40
Total	120	300	15	435

During the year ended 31 December 2006, Mr. Yue Jialin waived his emoluments to the amount of HK$20,000. During the year ended 31 December 2005, Mr. Lau Yau Cheung waived part of his emoluments to the amount of HK$300,000. The waived emoluments were excluded in the above disclosure.

Apart from the above, no director has waived or agreed to waive any emoluments during the years ended 31 December 2006 and 2005.

Of the five individuals with the highest emoluments in the Group, one (2005: one) individual is a director of the Company whose emoluments are included in the disclosure set out above. The aggregate of the emoluments in respect of the other four (2005: four) individuals whose emolument fell within the band of nil to HK$1,000,000 are as follows:

	2006 **HK$'000**	2005 HK$'000
Salaries and allowances	**1,136**	1,093
Retirement benefits scheme contributions	**40**	40
	1,176	1,133

During the years ended 31 December 2006 and 2005, no emoluments were paid by the Group to any of the directors or the five highest paid individuals, as an inducement to join or upon joining the Group or as compensation for loss of office.

9 INCOME TAX EXPENSE

Hong Kong profits tax is calculated at 17.5% (2005: 17.5%) of the assessable profit for the year.

The charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follow:

	2006	2005
	HK$'000	HK$'000
Profit before taxation	**25,220**	6,539
Tax at Hong Kong Profits Tax rate of 17.5%	**4,413**	1,144
Tax effect of non-deductible expenses	**2,069**	1,454
Tax effect of non-taxable income	**(6,943)**	(2,755)
Tax effect of tax loss not recognised	**699**	193
Utilisation of tax loss previously not recognised	**—**	2
	238	38

At 31 December 2006, the Group had unused tax losses of approximately HK$8,161,000 (2005: HK$4,164,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

The Company had no significant unprovided deferred taxation at the balance sheet date.

10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of approximately HK$22,313,000 (2005: loss of HK$27,772,000) which has been dealt with in the financial statements of the Company.

11 DIVIDENDS

No dividends had been paid or declared by the Company during the year (2005: nil).

12 EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year of HK$24,982,000 (2005: HK$6,501,000) and the weighted average number of 807,098,630 (2005: 413,000,000) ordinary shares in issue during the year.

Diluted earnings per share has not been presented for the years ended 31 December 2006 and 2005, as there were no potential dilutive shares outstanding during both years.

13 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2006	2005
	HK$'000	HK$'000
Unlisted investments	**—**	75,274
Amounts due from subsidiaries, less allowances	**90,065**	6,296
	90,065	81,570
Less: Impairment loss	**—**	(75,274)
	90,065	6,296

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the Directors, the amounts will not be repaid in the next twelve months from the balance sheet date and the amounts are therefore shown as non-current.

Particulars of the Company's principal subsidiaries at 31 December 2006 are set out in note 34.

14 INVENTORIES

	The Group	
	2006	2005
	HK$'000	HK$'000
Goods purchased for resale	**1,494**	—

Inventories comprise electronics parts.

15 TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers.

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

	The Group	
	2006	2005
	HK$'000	HK$'000
Trade receivables		
0 to 30 days	**3,076**	2,151
31 to 60 days	**2,048**	—
61 to 90 days	**2,124**	—
91 to 365 days	**418**	—
Over 365 days	**130**	—
	7,796	2,151
Other receivables	**664**	35,375
	8,460	37,526

All trade and other receivables are expected to be settled within one year.

Included in trade and other receivables are the following amounts denominated in a currency other than the functional currency of the Group's entities to which they relate :

	The Group	
	2006	2005
United States Dollars	**US$951,898**	US$275,718

16 TRADING SECURITIES

	The Group	
	2006	2005
	HK$'000	HK$'000
Trading securities, at fair value		
Listed equity securities, in Hong Kong	**1,810**	—
Listed equity securities, in overseas	**225,229**	—
	227,039	—

16 TRADING SECURITIES *(Continued)*

Included in the trading securities are the following amounts denominated in a currency other than the functional currency of the Group's entities to which they relate:

	2006	2005
Australian Dollars	**A$36,826,000**	—

17 TRADE AND OTHER PAYABLES

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

	The Group	
	2006	2005
	HK$'000	HK$'000
Trade payables		
0 to 30 days	**—**	1,554
90 days to 365 days	**192**	—
over 365 days	**1,754**	—
	1,946	1,554
Other payables	**5,639**	4,499
	7,585	6,053

All trade and other payables are expected to be settled within one year.

17 TRADE AND OTHER PAYABLES *(Continued)*

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the Group's entities to which they relate:

	The Group	
	2006	2005
Australian Dollars	**A$92,000**	—

18 MARGIN FINANCING LOAN

The margin loan facility was secured by trading securities with carrying amount of approximately HK$225,229,000 as at 31 December 2006.

19 SHARE CAPITAL

	2006		2005	
	Number of shares	**Amount HK$'000**	Number of shares	Amount HK$'000
Ordinary shares of HK$0.10 each				
Authorised:				
At 1 January	**1,000,000,000**	**100,000**	1,000,000,000	100,000
Increase in authorised share capital	**1,000,000,000**	**100,000**	—	—
At 31 December	**2,000,000,000**	**200,000**	1,000,000,000	100,000
Issued and fully paid:				
At 1 January	**413,000,000**	**41,300**	413,000,000	41,300
Issue of rights shares	**826,000,000**	**82,600**	—	—
Issue of share upon conversion of convertible bond	**20,000,000**	**2,000**	—	—
At 31 December	**1,259,000,000**	**125,900**	413,000,000	41,300

19 SHARE CAPITAL *(Continued)*

Details of the changes in the Company's share capital during the year ended 31 December 2006 are as follows:

(i) Pursuant to a special resolution passed on 19 June 2006, the authorised share capital of the Company was increased to HK$200,000,000 by the creation of 1,000,000,000 shares of HK$0.1 each.

(ii) The Company completed a rights issue on 14 July 2006, which raised gross proceeds of HK$82.6 million by issuing 826 million rights shares at HK$0.1 each.

(iii) On 24 August 2006, the convertible bond of HK$2 million issued to the Vendor for acquisition of 60% issued equity interest of Chinaright Electronics Limited was converted into 20,000,000 new shares of the Company.

20 SHARE OPTIONS SCHEME

The Company has a share option scheme (the "Scheme") which was adopted on 22 September 2004 whereby the board of directors of the Company may grant options to eligible persons, including directors of the Company and its subsidiaries, as incentives to directors and eligible employees to subscribe for shares in the Company. The Scheme will expire on 21 September 2014.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per grant. Options may be exercised at any time from the date of grant of the share option to the 10th anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the highest of the closing price of the Company's shares on the date of grant, the nominal value of the Company's shares and the average closing price of the shares for the five business days immediately preceding the date of grant.

The total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme must not exceed 30% of the shares in issue from time to time. The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

No option has been granted under the Scheme since its adoption.

21 RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 30 of the financial statements.

Company	Share premium HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2005	106,957	60,274	(193,151)	(25,920)
Loss for the year	—	—	(27,772)	(27,772)
At 31 December 2005	106,957	60,274	(220,923)	(53,692)
At 1 January 2006	**106,957**	**60,274**	**(220,923)**	**(53,692)**
Rights shares issuing expenses	(1,487)	—	—	(1,487)
Profit for the year	—	—	22,313	22,313
At 31 December 2006	**105,470**	**60,274**	**(198,610)**	**(32,866)**

Nature and purpose of reserves

(i) Special reserve

The special reserve represents the difference between the nominal value of the aggregate share capital of the subsidiaries acquired and the nominal value of the share capital of the Company issued for the acquisition at the time of a group reorganisation in 1998.

(ii) Contributed surplus

The contributed surplus represents the difference between the consolidated net assets of the subsidiaries acquired and the nominal value of the share capital of the Company issued for the acquisition at the time of a group reorganisation in 1998.

21 RESERVES *(Continued)*

In addition to accumulated profits, under the Companies Act 1981 of Bermuda (as amended), contributed surplus of the Company is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company had no reserve available for distribution to shareholders at the balance sheet date.

22 ACQUISITION OF A SUBSIDIARY

On 19 July 2006, Rise Cheer Limited (the "Purchaser"), a wholly owned subsidiary of the Company, acquired 60% issued equity interest of Chinaright Electronics Limited ("Chinaright").

Details of the net assets of Chinaright acquired by the Group were as follows :

	Chinaright 's carrying amount before acquisition	**Fair value adjustment**	**Fair value**
	HK$'000	HK$'000	HK$'000
Inventories	1,910	—	1,910
Account and other receivable	8	—	8
Bank balance and cash	54	—	54
Account and other payable	(2,158)	—	(2,158)
Net liabilities	(186)	—	(186)
Goodwill on acquisition *(note)*			3,116
Total cost of acquisition			2,930

22 ACQUISITION OF A SUBSIDIARY *(Continued)*

The cost of acquisition included consideration of HK$2,000,000 payable to the Vendor which was satisfied by issue of convertible bonds (note 2) and legal and professional costs directly related to the acquisition of HK$930,000 which were paid in cash.

	HK$'000
Net cash outflow arising on acquisition	
Cash paid for cost of acquisition	(930)
Cash and cash equivalent acquired	54
	(876)

Chinaright contributed nil revenue and attributed a loss of HK$549,500 to the Group's results for the year between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2006, total group turnover for the year would have been approximately HK$40,627,000 and profit attributable to shareholders would have been HK$23,799,000. The proforma information is for illustrative purposes only and is not necessarily an indicative turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006 nor is it intended to be a projection of future results.

Note:

(1) The Directors had carried out a test for impairment on the goodwill and considered the value of the goodwill were fully impaired.

(2) The convertible bonds were fully converted into shares of the Company on 24 August 2006.

23 CASH AND CASH EQUIVALENTS

	The Group	
	2006	2005
	HK$'000	HK$'000
Pledged bank deposits	**10,098**	4,012
Cash at bank and in hand	**9,421**	1,465
Cash held in a securities account maintained in a securities company	**2,861**	—
	22,380	5,477
Less: Pledged bank deposits	**(10,098)**	(4,012)
Cash and cash equivalents	**12,282**	1,465

Included in cash and cash equivalents in the balance sheet are the following amounts denominated in a currency other than the functional currency of the Group's entities of which they relate:

	The Group	
	2006	2005
Australian Dollars	**A$15,000**	—

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term deposits during the year are made for varying period of between 1 day and two months depending on the immediate cash requirements of the Group, and earn interest at respective short term time deposits rates. The carrying amount of the cash and cash equivalent approximate to their fair value.

24 MAJOR NON-CASH TRANSACTIONS

(i) As detailed in note 22 above, the Group acquired 60% issued equity interest of Chinaright by the issuance of the convertible bond to the amount of HK$2 million.

(ii) On 24 August 2006, the convertible bond of HK$2 million issued to the Vendor for acquisition of 60% issued equity interest of Chinaright Electronics Limited was converted into 20,000,000 new shares of the Company.

(iii) During the year ended 31 December 2005, a wholly-owned subsidiary of the Company had effected a scheme of arrangement with creditors, with which the Group's liabilities were reduced by approximately HK$15,421,000.

25 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.

(i) Foreign exchange risk

The Group operates internationally and certain trade receivables are denominated in foreign currencies, which is mainly in United Stated dollars that are pegged with Hong Kong dollars. Therefore, the Group does not have any significant exposure to currency risk.

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its short-term borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(iii) Price risk

The Group's investments in securities are measured at fair value at each balance sheet date. Therefore, the company is exposed to equity price risk. Management manages this exposure by maintaining a portfolio of investments with different risk profiles.

(iv) Credit risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It arises primarily from the Group's bank deposits and trade and other receivables. The Group only traded with recognised and creditworthy third parties. Receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is no significant. Bank balances are placed with high-credit-quality institutions and directors of the Company consider that the credit risk for such is minimal.

(v) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in short and longer term.

25 FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Fair value estimation

Fair value of trading securities is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

The carrying amounts of the Group's other financial assets including cash and cash equivalents, bank deposits, trade and other receivables; and financial liabilities including trade and other payables, approximate their fair values due to their short maturities. The face value less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

26 COMMITMENT

(a) Operating lease – the Group as lessee

	2006	2005
	HK$'000	HK$'000
Minimum lease payments under operating leases in respect of rented premises during the year	**366**	440

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

	2006	2005
	HK$'000	HK$'000
Within one year	**153**	366
After one year but within five years	**—**	153
	153	519

Operating lease payments represent rental payable by the Group for its office premises. Leases are negotiated for an average term of two years.

26 COMMITMENT *(Continued)*

(b) Capital commitment

On 27 October 2006, the Group entered into an acquisition agreement with the vendors, Honest Opportunity Limited and New Fortress Investments Limited pursuant to which, among other things, the purchaser, a wholly-owned subsidiary of the Company, has conditionally agreed to acquire 48,373,197 ordinary shares in Mount Gibson Iron Limited ("Mount Gibson"), a corporation incorporated under the laws of Australia, the shares of which are listed on the Australian Stock Exchange, representing approximately 8.79% interest in Mount Gibson as at 7 November 2006. Consideration payable by the Group is approximately HK$224.5 million. As at the balance sheet date, deposit of HK$20 million was paid. The completion of the acquisition agreement is subject to the approval by the independent shareholders of the Company. Subsequently, such proposed acquisition was approved at the special general meeting of the Company held on 4 January 2007.

27 MATERIAL CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following material related party transactions.

(a) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors and certain of the highest paid employees as disclosed in note 8 as follows:

	2006	2005
	HK$'000	HK$'000
Short-term employee benefits	**2,050**	300
Post-employment benefits	**30**	15
	2,080	315

(b) On 12 April 2006, the Company and its controlling shareholder, Profit Harbour Investments Limited ("Profit Harbour") entered into a deed of assignment, pursuant to which Profit Harbour has conditionally agreed to acquire from the Company, the Debt at the consideration of US$4.5 million (equivalent to approximately HK$35.1 million) (the "Assignment of Debts"). The Assignment of Debts constitutes a connected transaction and a major transaction of the Company under the Rules Governing the Listing of Securities on of The Stock of Exchange of Hong Kong Limited and were approved by independent shareholders by way of poll on special general meeting of the Company held on 23 May 2006. On 26 May 2006, the amount was deposited into a bank account of the Company.

28 LITIGATION AND CONTINGENT LIABILITIES

At 31 December 2006, the Group had the following litigation and contingent liabilities:

Reference is made to the disclosure of litigation and contingent liabilities in the annual reports 2004 and 2005 and interim report 2006 of the Company.

1. After taking legal advice, the receivers of the Company, Mr. Alan Chung Wah Tang and Ms. Alison Wong Lee Fung Ying, both from Grant Thornton, Certified Public Accountants (the "Receivers"), commenced legal proceedings on 2 July 2003 against Great Center Limited ("Great Center") for the repayment of two sums totaling US$4.5 million (or approximately HK$35.1 million), remitted on or about 21 May 2003 with no apparent justification, from the bank account of Merchants (Hong Kong) Limited, to a bank account maintained in the name of Great Center, and interest thereon, damages and costs of the legal proceedings (the "Great Center Action").

2. The writ of summons issued on 2 July 2003 in relation to the claim against Great Center for the repayment of US$4.5 million was amended on 10 July 2004 (the "Amended Writ") to include the claims for (i) the repayment of HK$12.8 million remitted from a bank account of the Company to a bank account in the name of Great Center on or about 17 April 2003; and (ii) the repayment of HK$22.0 million remitted from a bank account of the Company to a bank account in the name of Modern Shine Enterprises Limited ("Modern Shine"), a company incorporated in the British Virgin Islands, on or about 22 April 2003, interest thereon, damages and costs of legal proceedings. The sum of claims under the Amended Writ amounts to approximately HK$69.9 million. At last, the court entered judgment against Modern Shine on 7 November 2005 for the sum of HK$22,000,000 plus interest and damages for conversion and interest thereon. Regarding the claim against Great Center, the Company has reached an amicable settlement with Great Center's liquidators. The settlement was approved by the court on 6 November 2006. The Company received the settlement sum of US$2,637,000 plus interest in the sum of US$114,210.30 from Great Center's liquidators on 20 November 2006. The Company has not obtained the judgment sum of HK$22,000,000. Since Modern Shine is a company incorporated in the British Virgin Islands, it makes the enforcement extremely costly. Further, the Company has no information on the financial status and asset position of Modern Shine. As advised by the legal advisers to the Company, the viable course of action includes the petitioning for winding up of Modern Shine, which is also a very costly process.

28 LITIGATION AND CONTINGENT LIABILITIES *(Continued)*

3. On 23 August 2003, the Receivers commenced legal proceedings against Win Victory Holdings Limited ("Win Victory"), a company incorporated in Hong Kong, for the repayment of a sum of HK$37.0 million, together with interest thereon, damages and costs of the legal proceedings. Further, the Receivers, on behalf of the Company, petitioned for the winding-up of Win Victory on the grounds, inter alia, that Win Victory is unable to pay its debts and provisional liquidators were appointed. Due to the lack of funds in Win Victory, the provisional liquidators have not undertaken an extensive investigation and have recently made an application to the court for the discharge of their appointment and their application is fixed to be heard on 20 April 2006. The continuation of the winding-up petition was to enable a more thorough investigation of the flow of funds in and out of Win Victory. In view of the application by the provisional liquidators, the official receiver made an application to restore the winding-up petition, which has been adjourned to 24 April 2006 for hearing. The court had on the hearing of 24 April 2006 ordered that Win Victory be wound-up on the petition of the Company. The Company is making arrangement to prove its debts and to recover its costs of the winding up proceedings in the liquidation of Win Victory.

29 PLEDGE OF ASSETS

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
(a) Margin loan facilities secured by trading securities	**225,229**	—	**—**	—
(b) Banking facilities of HK$10 million (2005: HK$4 million) granted by a bank and secured by bank deposits of the Group	**10,098**	4,012	**—**	—
(c) Other loan facilities of HK$nil (2005: HK$15 million) granted by a financial institution and secured by floating charges over:				
- Traded and other receivables	**—**	1,864	**—**	145
- Bank balances and cash	**—**	1,376	**—**	7
	—	3,240	**—**	152
	235,327	7,252	**—**	152

30 RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund scheme for all qualifying employees of its Hong Kong subsidiaries. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The Group contributed 5% of the relevant payroll costs to the scheme, which contribution is matched by employees.

The total cost charged to the consolidated income statement of HK$70,200 (2005: HK$55,000) represents contributions payable to the scheme by the Group at rates specified in the rules of the scheme.

At the balance sheet date, there was no forfeited contribution, which arose upon employees leaving the retirement benefits scheme and which was available to reduce the contribution payables in the future years.

31 CRITICAL ACCOUNTING JUDGMENT AND ESTIMATES

In the process of applying the Group's accounting policies, the Group's management has made judgments and estimates based on past experiences, expectations of the future and other information. The key sources of estimation uncertainty and critical judgments that may significantly affect the amounts recognised in the financial statements are disclosed below:

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. Management reassesses the estimations at each balance sheet date.

32 POST BALANCE SHEET EVENTS

The following events took place subsequent to 31 December 2006:

(a) Pursuant to an ordinary resolution passed on 4 January 2007, the authorised share capital of the Company was increased from HK$200,000,000 divided into 2,000,000,000 shares of HK$0.1 each to HK$800,000,000 divided into 8,000,000,000 shares of HK$0.1 each.

(b) The Company completed a rights issue ("Rights Issue") on 1 February 2007, which raised gross proceeds of HK$378,000,000 by issuing 1,259,000,000 rights shares at HK$0.3 each. As a result of the Rights Issue, a total of 251,800,000 Bonus Warrants were allotted and issued. The Bonus Warrants will be exercisable for a period of three years commencing on 5 February 2007 to 4 February 2010.

(c) On 1 February 2007, the Company (through its direct wholly-owned subsidiary, Fortune Desire Investments Limited ("Fortune Desire")) completed the acquisition of 48,373,197 ordinary shares in the issued share capital of Mount Gibson.

32 POST BALANCE SHEET EVENTS *(Continued)*

(d) On 6 February 2007, the Company (through Fortune Desire) acquired an aggregate of 40,125,967 ordinary shares in the issued share capital of Mount Gibson ("MG Shares"), representing approximately 5.09% interest in the issued share capital of Mount Gibson as at 9 February 2007, through a number of on-market transactions on the Australian Stock Exchange, at an aggregate consideration of A$33,501,170 (equivalent to approximately HK$202,722,279 at approximately A$1.00 to HK$6.0512) (being all at an average price of approximately A$0.8349 per MG Share ("Acquisition"). Completion of the Acquisition has taken place on 9 February 2007 in accordance with the normal clearing and settlement procedures for on-market transactions on the Australian Stock exchange. The Acquisition was not subject to any condition and was ratified by shareholders by way of poll at the special general meeting held on 4 April 2007.

(e) On 9 February 2007, the Company (through Fortune Desire) entered into a conditional acquisition agreement ("Conditional Acquisition Agreement") with the Vendor (a direct wholly-owned subsidiary of Shougang Holding (Hong Kong) Limited), pursuant to which, amongst other things, Fortune Desire as the purchaser, has conditionally agreed to acquire 19,754,646 MG Shares, representing 2.51% interest in the issued share capital of Mount Gibson as at 9 February 2007, at an aggregate consideration of A$16,791,449.1 (equivalent to HK$102,427,839.51 at A$1.00 to HK$6.10). As at 16 February 2007, being the date the Company made announcement for the Conditional Acquisition, Shougang Holding (Hong Kong) Limited was interest in 600,000,000 shares of the Company, representing approximately 23.83% of the existing issued share capital of the Company. The Conditional Acquisition constitutes a very substantial acquisition and a connected transaction for the Company under the Listing Rules and was approved by the independent shareholders of the Company at the special general meeting held on 4 April by way of poll.

(f) On 16 February 2007, the Company as the purchaser entered into an acquisition agreement with the Vendor and the Guarantor (the "China Mineral Acquisition"), pursuant to which subject to satisfaction of certain conditions precedent, among other things, the Vendor has agreed to sell and the Company has agreed to purchase the Sale Shares, representing the entire issued share capital of China Mineral Resource Limited, a limited liability company incorporated in Hong Kong, for an aggregate consideration of HK$450,000,000. The consideration will be satisfied (i) as to HK$300,000,000 by the Company allotting and issuing a total of 500,000,000 ordinary shares at HK$0.60 per share credited as fully paid; and (ii) as to HK$150,000,000 by the Company paying in cash, to the Vendor on completion. The China Mineral Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules and is therefore subject to the approval of the shareholders of the Company.

(g) On 28 February 2007, the Company completed a placing of 800,000,000 new shares at the price of HK$0.30 per share (the "Placing"), underwritten by Sun Hung Kai Investment Services Limited, as placing agent, to more than six placees, who were independent third parties and not connected persons of the Group. The Group raised gross proceeds of HK$240,000,000 from the Placing.

32 POST BALANCE SHEET EVENTS *(Continued)*

(h) On 20 March 2007, the Company and Australasian Resources Limited ("ARH") entered into a conditional subscription agreement ("Conditional Subscription Agreement") in respect of (i) the subscription of 28,000,000 ARH Shares at A$1.00 ARH Share, at an aggregate consideration of A$28,000,000 (equivalent to approximately HK$174,846,000 at approximately A$1.00 to HK$6.2445), representing approximately 7.29% interest in the existing issued share capital of ARH as at 22 March 2007 and approximately 6.80% interest in the issued share capital of ARH as enlarged by the issuance of 28,000,000 ARH Shares, and (ii) the grant of 14,000,000 ARH Options exercisable over the same number of 14,000,000 ARH Shares at nil consideration at an exercise price of A$1.50 per ARH Share for each ARH Option within a period of three years after the date of the completion, representing approximately 3.65% interest in the existing issued share capital of ARH as at 22 March 2007 when all the 14,000,000 ARH Options are exercised in full for the 14,000,000 ARH Shares and approximately 3.29% interest in the issued share capital of ARH as enlarged by the issuance of the 28,000,000 ARH Shares and 14,000,000 ARH Shares which fall to be issued when all the 14,000,000 ARH Options are exercised in full. Completion of the subscription has taken place on 12 April 2007 and then the Company has the right to nominate and appoint a director of ARH. Besides, the Company entered into a commission agreement with International Minerals Pty Limited ("IM"), a wholly owned subsidiary of ARH, and ARH, which set out the intention of the parties for the Company to procure the relevant buyer(s) the signing of certain offtake agreements for the sale of iron ore products (including iron ore concentrate, iron ore pellets and hot briquetted iron) produced by IM in return for a commission of US$1 dry tonne of iron ore products to the Company.

(i) During the period from 29 March 2007 to 3 April 2007, the Company (through Fortune Desire) acquired an aggregate of 500,000 MG Shares, As at the date of this report, the Group held an aggregate of 19.05% in the issued shares of MG.

33 CHANGE OF COMPANY NAME

Pursuant to a special resolution passed on 4 January 2007, the name of the Company was changed from "Shanghai Merchants Holdings Limited" to "APAC Resources Limited" and the Chinese name was changed from "上海商貿控股有限公司" to "亞太資源有限公司", for identification purpose only, with effect from the same date.

34 PARTICULARS OF SUBSIDIARIES

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the company	Held by a subsidiary	Principal activities
Asia Cheer Trading Limited	Hong Kong	HK$1 ordinary share	100%	100%		Trading in fabric products and other merchandises
First Landmark Limited	British Virgin Islands	US$1 ordinary share	100%	100%		Investment holding
Merchants (Hong Kong) Limited	Hong Kong	HK$2 ordinary shares	100%		100%	Inactive
Sino Chance Trading Limited	Hong Kong	HK$1 ordinary share	100%	100%		Trading in base metals
Sky Joy Management Limited	Hong Kong	HK$1 ordinary share	100%	100%		Provision of management services
Rise Cheer Limited	British Virgin Islands	US$1 ordinary share	100%	100%		Investment holding
Net Success Investments Limited	British Virgin Islands	US$1 ordinary share	100%	100%		Investment holding
Fortune Desire Investments Limited	British Virgin Islands	US$1 ordinary share	100%	100%		Investment holding
Chinaright Electronics Limited	Hong Kong	HK$100,001 ordinary shares	60%		60%	Trading of electronic parts

The above list contains only the particular of subsidiaries which principally affected the results, assets or liabilities of the Group.

RESULTS

	Year ended 31 December				
	2006	2005	2004	2003	2002
	HK$,000	HK$,000	HK$,000	HK$,000	HK$,000
Turnover	**22,773**	68,393	22,305	62,198	403,749
Profit/(loss) before taxation	**25,220**	6,539	(36,268)	(54,935)	(50,069)
Income tax expense	**(238)**	(38)	(31)	—	(24)
Profit/(loss) after taxation	**24,982**	6,501	(36,299)	(54,935)	(50,093)
Minority interests	**—**	—	—	—	99
Profit/(loss) for the year	**24,982**	6,501	(36,299)	(54,935)	(49,994)

ASSETS AND LIABILITIES

	As at 31 December				
	2006	2005	2004	2003	2002
	HK$,000	HK$,000	HK$,000	HK$,000	HK$,000
Total assets	**279,373**	43,003	57,528	76,772	95,462
Total liabilities	**(149,397)**	(21,122)	(42,148)	(25,093)	(38,767)
Minority interests	**—**	—	—	—	—
Shareholders' funds	**129,976**	21,881	15,380	51,679	56,695

NOTICE IS HEREBY GIVEN that the Annual General Meeting of APAC Resources Limited (the "Company") will be held at 7th Floor, Board Room, The Dynasty Club, South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on 25 May 2007 (Friday) at 4:00 p.m. for the following purposes:

1. To receive and adopt the audited financial statements and the reports of the directors and auditors of the Company for the year ended 31 December 2006;

2. (a) To re-elect Mr. Yue Jialin as director;

   (b) To re-elect Mr. Michael Joseph Bogue as director;

   (c) To re-elect Mr. Yang Weiming as director

   (d) To authorise the board of directors to fix remuneration.

3. To re-appoint Graham H.Y. Chan & Co. as auditors and to authorize the board of directors of the Company to fix their remuneration;

As special business,to consider and, if thought fit, pass with or without amendments, each of the following resolutions 4, 5, 6 and 7 as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

4. "**THAT**:

   (i) subject to sub-paragraph (iii) of this resolution, the exercise by the directors of the Company (the "Directors") during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot and issue or otherwise deal with additional shares in the capital of the Company ("Shares") and to make or grant offers, agreements and options which might require the exercise of such powers either during or after the Relevant Period, be and is hereby generally and unconditionally approved;

   (ii) the approval given in paragraph (i) of this resolution shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

   (iii) the aggregate nominal amount of share capital allotted and issued or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Company pursuant to the approval in sub-paragraph (i) of this resolution, otherwise than pursuant to (a) a Rights Issue (as hereinafter defined); (b) an issue of Shares upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into Shares; (c) an issue of Shares as scrip dividends or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Bye-laws of the Company from time to time; or (d) an issue of Shares under any share option scheme or similar arrangement of the Company and/or any of its subsidiaries, shall not exceed 20% of the aggregate nominal amount of the issued share capital of the Company at the date of passing of this resolution, and the said approval shall be limited accordingly; and

(iv) for the purposes of this resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; or

(c) the date on which the authority set out in this resolution is revoked or varied by an ordinary resolution in general meeting.

"Rights Issue" means the allotment, issue or grant of Shares pursuant to an offer of Shares open for a period fixed by the Directors to holders of Shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such Shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restriction or obligations under the laws of, or the requirements of, any recognized regulatory body or any stock exchange in any territory applicable to the Company)."

5. "**THAT**:

(i) subject to sub-paragraph (ii) of this resolution, the exercise by the directors of the Company (the "Directors") during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase issued shares in the capital of the Company ("Shares") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any stock exchange on which the Shares may be listed and recognised for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange under the Hong Kong Code on Share Repurchases, subject to and in accordance with all applicable laws and regulations and the Bye-laws of the Company, be and is hereby generally and unconditionally approved;

(ii) the aggregate nominal amount of Shares which the Company is authorised to repurchase pursuant to the approval in subparagraph (i) above of this resolution shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this resolution, and the said approval shall be limited accordingly; and

(iii) for the purposes of this resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; or

(c) the date on which the authority set out in this resolution is revoked or varied by an ordinary resolution in general meeting."

6. "**THAT** conditional upon the passing of resolutions nos. 4 and 5 as set out in the notice convening the meeting of which this resolution forms part, the general mandate granted to the directors of the Company to exercise the powers of the Company to allot, issue or otherwise deal with additional shares in the capital of the Company pursuant to resolution no. 4 as set out in the notice convening the Meeting of which this resolution forms part be and is hereby extended by the addition thereto an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to resolution no. 5 as set out in the notice convening the Meeting of which this resolution forms part, provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company at the date of the passing of this resolution."

7. "**THAT** subject to and conditional upon (a) the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of an permission to deal in the ordinary shares of HK$0.10 each ("Share") in the share capital of the Company (representing a maximum of 10% of the ordinary shares of the Company in issue as at the date of passing of this resolution) which may be issued pursuant to the exercise of options granted under the share option scheme adopted by the Company on 22 September 2004 (the "Share Option Scheme"), the 10% limit on grant of options under the Share Option Scheme be and is hereby refreshed provided that the total number of Shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company under the limit as refreshed hereby shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of the Resolution (the "Refreshed Mandate Limit"); and any director of the Company be and is hereby authorised to take all such steps necessary or expedient in order to give effect to the Refreshed Mandate Limit and to allot and issue ordinary shares of the Company pursuant to the exercise of any option which may fall to be granted under the Share Option Scheme."

By Order of the Board
APAC Resources Limited
Yue Jialin
Chairman

Hong Kong, 13 April, 2007