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新礦資源有限公司

NEWTON RESOURCES LTD

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1231)

INTERIM RESULTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016

The Board wishes to announce the unaudited consolidated interim results of the Group for the Reporting Period together with the comparative figures for the Corresponding Prior Period as follows:–

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Six-month period ended 30 June 2016

		Six-month period ended 30 June	
	<i>Notes</i>	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Revenue	3	4,188	–
Cost of sales		(4,085)	–
Gross Profit		103	–
Other income and gains		17	–
Selling and distribution costs		(556)	–
Administrative expenses		(26,226)	(16,824)
Finance income, net	5	3,447	6,686
Loss before tax	4	(23,215)	(10,138)
Income tax expense	6	–	–
Loss for the period		(23,215)	(10,138)
Total comprehensive loss for the period		(23,215)	(10,138)
Attributable to:			
Owners of the Company		(22,991)	(10,013)
Non-controlling interests		(224)	(125)
		(23,215)	(10,138)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted (RMB cent)	8	(0.57)	(0.25)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2016

		30 June 2016	31 December 2015
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment		705,641	710,408
Intangible assets		49,728	49,938
Prepaid land lease payments		3,256	3,307
		758,625	763,653
Current assets			
Inventories	9	15,381	13,916
Trade receivable	10	473	3,142
Prepayments, deposits and other receivables	11	32,294	40,786
Cash and bank balances		524,870	530,233
		573,018	588,077
Current liabilities			
Trade payables	12	3,938	4,345
Other payables and accruals	13	68,023	70,234
Interest-bearing bank borrowings		290,598	284,852
Income tax payable		7,634	7,634
		370,193	367,065
Net current assets		202,825	221,012
Total assets less current liabilities		961,450	984,665
Non-current liabilities			
Long-term payables		7,660	7,660
Net assets		953,790	977,005
Equity			
Equity attributable to owners of the Company			
Share capital		331,960	331,960
Reserves		619,980	642,971
		951,940	974,931
Non-controlling interests		1,850	2,074
Total equity		953,790	977,005

NOTES:

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

During the period, the principal activity of the Company is investment holding and the principal activities of its subsidiaries include mining, processing and sale of iron concentrates and gabbro-diabase and stone products in the PRC.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The unaudited interim condensed consolidated financial statements of the Group for the six-month period ended 30 June 2016 (the “Interim Financial Statements”) have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board and the disclosure requirements of Appendix 16 of the Listing Rules.

The Interim Financial Statements does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2015.

2.2 New Standards and Amendments Adopted by the Group

The accounting policies adopted in the preparation of the Interim Financial Statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2015, except for the adoption of the following amendment and improvements to existing International Financial Reporting Standards (“IFRSs”) and the new IFRSs, that are relevant and first effective for the current accounting period of the Company, as summarised below:

IFRS 14	<i>Regulatory Deferral Accounts</i>
Amendments to IFRS 11	<i>Joint Arrangements: Accounting for Acquisitions of Interests</i>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to IAS 27	<i>Equity Method in Separate Financial Statements</i>
Annual Improvements 2012-2014 Cycle	
Amendments to IAS 1	<i>Disclosure Initiative</i>
Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i>

The adoption of the above amendment and improvements to IFRSs and new IFRSs did not have any significant effect on the amounts reported and/or disclosures set out in the Interim Financial Statements.

The Group has not early adopted any other accounting standard, interpretation or amendment that has been issued but is not yet effective.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the net invoiced value of goods sold, net of trade discounts and returns and various types of government surcharges, where applicable.

Operating Segment Information

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments, the “Iron Concentrate” segment and the “Gabbro-Diabase and Stone” segment.

Iron Concentrate – mining, processing and sale of iron concentrates

Gabbro-Diabase and Stone – mining, processing and sale of gabbro-diabase and stone products

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment results, which is a measure of adjusted loss before tax. The adjusted loss before tax is measured consistently with the Group’s loss before tax except that interest income, finance costs as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude cash and bank balances and other unallocated head office and corporate assets, which are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, income tax payable and other unallocated head office and corporate liabilities, which are managed on a group basis.

The following tables present revenue and results information for the Group's operating segments for the six-month periods ended 30 June 2016 and 2015, respectively.

	Iron Concentrate RMB'000	Gabbro- Diabase and Stone RMB'000	Total RMB'000
Six-month period ended 30 June 2016 (Unaudited)			
Segment Revenue:			
Sales to external customers	<u>–</u>	<u>4,188</u>	<u>4,188</u>
Segment Results	(11,413)	(4,953)	(16,366)
Reconciliation:			
Interest income			7,608
Corporate and other unallocated expenses			(10,386)
Interest expenses			<u>(4,071)</u>
Loss before tax			<u>(23,215)</u>
Other segment information:			
Write-down of inventories to net realisable value	<u>–</u>	<u>1,764</u>	<u>1,764</u>
Impairment of prepayments	<u>7,917</u>	<u>–</u>	<u>7,917</u>
Depreciation and amortisation	3,496	1,895	5,391
Corporate and other unallocated depreciation			<u>253</u>
			<u>5,644</u>
Capital expenditure	–	614	614
Corporate and other unallocated capital expenditure			<u>2</u>
			<u>616</u>

	Iron Concentrate <i>RMB'000</i>	Gabbro- Diabase and Stone <i>RMB'000</i>	Total <i>RMB'000</i>
Six-month period ended 30 June 2015 (Unaudited)			
Segment Revenue:			
Sales to external customers	—	—	—
Segment Results	(4,208)	(1,655)	(5,863)
Reconciliation:			
Interest income			11,737
Corporate and other unallocated expenses			(11,534)
Interest expenses			(4,478)
Loss before tax			(10,138)
Other segment information:			
Write-down of inventories to net realisable value	—	108	108
Depreciation and amortisation	4,208	758	4,966
Corporate and other unallocated depreciation			269
			5,235
Capital expenditure	—	2,364	2,364
Corporate and other unallocated capital expenditure			128
			2,492

The following table presents assets and liabilities information for the Group's operating segments as at 30 June 2016 and 31 December 2015, respectively:

	Iron Concentrate RMB'000	Gabbro- Diabase and Stone RMB'000	Total RMB'000
30 June 2016 (Unaudited)			
Segment assets	664,297	116,826	781,123
Corporate and other unallocated assets			<u>550,520</u>
Total assets			<u>1,331,643</u>
Segment liabilities	38,932	30,988	69,920
Corporate and other unallocated liabilities			<u>307,933</u>
Total liabilities			<u>377,853</u>
31 December 2015 (Audited)			
Segment assets	675,710	118,977	794,687
Corporate and other unallocated assets			<u>557,043</u>
Total assets			<u>1,351,730</u>
Segment liabilities	39,073	32,350	71,423
Corporate and other unallocated liabilities			<u>303,302</u>
Total liabilities			<u>374,725</u>

Geographical Segment Information

As the Group's revenue from the external customers and the majority of the Group's non-current assets are located in the PRC in both periods, no geographical information is presented.

4. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	Six-month period ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	4,085	–
Depreciation of items of property, plant and equipment	5,383	5,150
Amortisation of prepaid land lease payments	51	51
Amortisation of intangible assets	210	34
Write-down of inventories to net realisable value	1,764	108
Impairment of prepayments (<i>Note 11</i>)	7,917	–
	<u>7,917</u>	<u>–</u>

5. FINANCE INCOME

An analysis of the Group's net finance income is as follows:

	Six-month period ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest income	7,608	11,737
Interest on bank borrowings	(3,546)	(3,823)
Other borrowing costs	(525)	(655)
Net foreign exchange losses	(80)	(402)
Bank charges	(10)	(171)
	<u>3,447</u>	<u>6,686</u>
Finance income, net	3,447	6,686

6. INCOME TAX

The provision for the PRC corporate income tax (“CIT”) is based on the CIT rate applicable to the entities located in or deemed to be operating in Mainland China as determined in accordance with the relevant income tax rules and regulations of the PRC for the six-month periods ended 30 June 2016 and 2015.

No provision for Hong Kong profits tax had been made as the Group had no estimated assessable profits arising in Hong Kong during the six-month periods ended 30 June 2016 and 2015.

	Six-month period ended 30 June	
	2016	2015
	<i>RMB’000</i>	<i>RMB’000</i>
	(Unaudited)	(Unaudited)
Current tax – Mainland China		
Charge for the period	<u>–</u>	<u>–</u>

The Group has unrecognised tax losses arising from entity operating in Mainland China of RMB119,300,000 (six-month period ended 30 June 2015: RMB90,616,000) that will expire in five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as it is considered not probable that sufficient taxable profits will be available against which the unused tax losses can be utilised by the Group.

7. DIVIDEND

The directors do not recommend the payment of an interim dividend to shareholders for the six-month period ended 30 June 2016 (six-month period ended 30 June 2015: Nil).

8. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share amounts is based on the loss for the period attributable to owners of the Company, and the weighted average number of ordinary shares of 4,000,000,000 in issue during the periods ended 30 June 2016 and 2015.

The calculation of basic and diluted loss per share is based on:

	Six-month period ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Loss		
Loss attributable to owners of the Company, used in the basic and diluted loss per share calculation	<u>(22,991)</u>	<u>(10,013)</u>
Shares	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares in issue during the period used in the basic and diluted loss per share calculation	<u>4,000,000</u>	<u>4,000,000</u>

There was no potentially dilutive ordinary shares in issue during the six-month period ended 30 June 2016. The share options granted under the share option scheme of the Company adopted on 25 January 2011, which had either expired or been forfeited in 2015, had an anti-dilutive effect on the basic loss per share amount for the six-month period ended 30 June 2015 and was ignored in the calculation of diluted loss per share for that period.

9. INVENTORIES

	30 June 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Raw materials and spare parts	3,837	3,927
Semi-finished products	3,354	5,433
Finished products	<u>8,190</u>	<u>4,556</u>
	<u>15,381</u>	<u>13,916</u>

10. TRADE RECEIVABLE

The Group trades only with recognised and creditworthy third parties. The Group's trading terms with its customers generally require deposits received in advance, except for creditworthy customers to whom credits are granted. The credit period is generally ranging from seven days to six months. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by the management. The Group has not held any collateral or other credit enhancements over its trade receivable balance. Trade receivable is non-interest-bearing.

Based on the invoice date, the ageing of the trade receivable as at the end of the reporting period was six months to one year (within three months as at 31 December 2015).

The trade receivable was past due for less than one year. The Group considers that no provision for impairment is necessary in respect of this balance as there has not been a significant change in credit quality and the balance is still considered fully recoverable.

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Advances to suppliers	21,983	21,921
Other tax receivables	12,639	12,799
Deposits	3,068	2,983
Bank interest receivables	686	888
Prepaid land lease payments, current portion	101	101
Others	1,734	2,094
	40,211	40,786
Impairment of prepayments (<i>Note 4</i>)	(7,917)	–
	32,294	40,786

The above impairment of prepayments represented full provision for certain individually impaired prepayments (Nil for the six-month period ended 30 June 2015).

These individually impaired prepayments relate to construction-related suppliers that have been long outstanding with delays in delivery and thus considered to be irrecoverable.

12. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Within 6 months	2,724	4,165
6 months to 1 year	1,040	6
Over 1 year	174	174
	<u>3,938</u>	<u>4,345</u>

13. OTHER PAYABLES AND ACCRUALS

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Payables to suppliers or contractors for the addition of items of property, plant and equipment	32,844	33,267
Gabbro-diabase resource fees payable, current portion	14,320	14,320
Accrued interest expenses	5,293	4,707
Other payables	15,566	17,940
Total	<u>68,023</u>	<u>70,234</u>

In respect of the mining permit for gabbro-diabase at the Yanjiazhuang Mine, the fourth instalment of the gabbro-diabase resource fees payable, which amounts to RMB7.16 million, together with the associated cost of funds, was due to be paid by the Group in August 2015 but has remained unpaid. In view of the unfavourable economic and market outlook, the management has been in communication with and preparing for the application to the relevant government authority for more favourable payment terms which include the extension of payment schedule for the remaining resource fees payable.

Except for the current portion of gabbro-diabase resource fees payable which is unsecured and bears interest at the RMB loan prime rate, other payables are unsecured and non-interest-bearing.

14. CONTINGENT LIABILITIES

Since March 2013, a subsidiary of the Company was involved in litigation as a defendant regarding construction sum payable arising out of the ordinary course of business of the Group. In May 2013, a local court in the PRC issued a verdict to freeze (i) two properties of the plaintiff and (ii) the bank accounts or other assets up to RMB36 million of the Company's subsidiary, pending the outcome of the case. Consequently, certain bank accounts of such subsidiary with an aggregate balance of approximately RMB1.2 million were frozen by the local court as of 30 June 2016. In a prior year, the Company's subsidiary also filed a counterclaim against the plaintiff regarding the quality issues of the completed construction work. In March 2016, the local court issued a court order regarding the first hearing of the litigation and the counterclaim. As set out in the court order, such subsidiary needs to pay for certain amount as remaining construction sum payable with interest so arisen. The Company's subsidiary made an appeal to the court order in April 2016 and the second hearing was held in July 2016.

The Company's subsidiary has been proactively responding to the case in accordance with the advice of the Group's PRC legal counsels. Based on the available information and the advice of the Group's PRC legal counsels on the case, it is anticipated that the litigation would not have any material adverse impact to the financial position and operation of the Group.

15. EVENT AFTER THE REPORTING PERIOD

In late July 2016, large portion of Hebei Province, the PRC, have been inundated with heavy rain, triggering floods and landslides in the region (the "Disaster") leading to economic losses and disruption to the people and businesses. The Group's operation at the Yanjiazhuang Mine was affected by the Disaster, causing losses and damages to the Group's certain machinery and inventories. Despite the steps taken by the management to mitigate the impact of the Disaster to the Group's operation, certain assets in the range of RMB5.0 million were lost or damaged. Additional remedial costs will need to be incurred for repairing and reinforcement works. The Group will liaise with the insurance company on the coverage and compensation for these losses, costs and damages associated with the Disaster. Based on the Group's preliminary assessment and current development of the Disaster, it is not expected to cause material impact on the financial position and operation of the Group.

CHAIRMAN'S STATEMENT

In the first half of 2016, the Group's management has been continuing the business promotion regarding its crushed stone and railway ballast products on one hand, whereby, hoping to generate a long-term and stable cash flow for the Group. On the other hand, the Group's management is still endeavouring to explore other new business opportunities. Following the implementation of policies under the 13th Five-Year Plan, the infrastructure development including high-speed rails and highways in Mainland China is being driven, facilitating a significantly increase in the demand for crushed stone and railway ballast. During the Reporting Period, the Group's gabbro-diabase and stone business recorded revenue of approximately RMB4.2 million.

Unfortunately, the land expropriation issue has not yet been fully resolved. As a result, the trial production of iron concentrates at the Yanjiazhuang Mine has not yet resumed in the Reporting Period.

Recently, the PRC government has been actively promoting the green industry and has paid much attention to the environmental issue. Moreover, it has posed even stricter environmental protection requirements on highly polluted industries such as iron mining industry. In responding to those policies, I have urged the management to pay close attention to the latest regulatory requirements and any change thereof launched by the PRC government and to adopt such appropriate environmental and other measures, from time to time, so as to satisfy such relevant requirements. In addition, the iron mining industry is still in a state of over-supply, causing the price of the iron concentrates to remain at low level. Therefore, the future development of the Group's iron concentrate business is facing greater uncertainty.

Going forward, the Group's management is striving to seek opportunities for increasing the Group's cash flow and expanding the sales and marketing, hoping to grasp the development opportunity for the crushed stone and railway ballast to enable the gabbro-diabase and stone business be gradually expanded to a commercial scale. The Group will also cautiously explore the mergers and acquisitions opportunities and seek collaboration and market possibilities, enabling the diversification of the Group's business and revenue so as to reach the Group's goal for sustainable development.

Now, may I take this chance to extend my heartfelt gratitude to my fellow Board members, the management team and all the staff members for their dedication and commitment made for the Group. On behalf of the Board, I express my sincere thanks to the shareholders, customers, suppliers, banks and business partners for their support.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

For the first half of 2016, the PRC's gross domestic product grew approximately by 6.7% when compared to that of the previous year. The PRC's overall economic development has remained stable and met the expectation.

Being driven and developed under the 13th Five-Year Plan, the PRC economy shifted from high-speed development towards the “new normal” of mid-high speed development. Since 2015, the PRC economic growth is experiencing more and more downward pressure while there was a slowdown in the growth of or even a downturn in construction industry and property industry. As a result, the market demand for stone was sliding down and the stone business operators were facing tough challenges. Moreover, since the PRC government has been strengthening its awareness towards ecosystem and environmental protection for recent years, it has been enhancing the requirements regarding resource saving and protection and has been promoting the new requirements regarding the green development and sustainable development of stone industry. Therefore, the stone industry is continuing to put more efforts to the environmental protection measures and to allocate more resources for fulfilling the PRC government's requirements under the green development of stone industry and for coping with such trend.

However, following the promotion of infrastructure investment projects such as highways and high-speed railways development in Hebei and surrounding provinces by the PRC government, it is hoped that the demand for crushed stone and railway ballast will be increased, thus bringing potential business opportunities for the Group's gabbro-diabase and stone business. The Group also noticed that the urbanisation in Mainland China did increase and the living standard of people in Mainland China was gradually enhanced, leading to the increasing usage of stone for home renovation which in turn cause an increase in the consumption of stone. Originally, stone was supplied for constructions but as for now, more and more stone has been used for home renovation, as a development. The Group hopes to seek opportunities for entering into the home decoration market, thus diversifying the Group's product offering.

Under the impact of increasing downside risks in global economy and weak steel demand, the global iron mining industry followed the downward trend in the first half of 2016. The global economy is facing the threat of synchronized slowdown and mounting risks including another bout of financial market turmoil and a political backlash against globalisation. In these years, exports have become a double-edged sword for the PRC's steel sector; they help in the short term but hinder the necessary pain of restructuring vital for long-term health. Trade protectionism has recently emerged in overseas countries against the PRC's steel and iron products. Nevertheless, the PRC government is strengthening international dialogue and negotiation to resolve these trade disputes regarding steel and iron on one hand. On the other hand, the PRC government is on track to achieve a production capacity cut of 45 million tonnes by 2016. Earlier in February this year, the PRC government had announced its decision to close 100 million to 150 million tonnes of steel capacity within three to five years.

Nevertheless, the PRC government has been enhancing the requirements and standards towards environmental protection and production safety of highly polluted industry including mining industry. In so doing, the iron mining industry is required to put more resources on environmental protection and production safety so as to satisfy these new requirements launched by the PRC government. Consequently, more pressure is to be exerted on the operations in the iron mining industry in this respect. Overall speaking, the iron ore market is still in the state of over-supply. Excessive supply still suppress the price of iron concentrates.

BUSINESS REVIEW

During the Reporting Period, the Group continued to carry out business promotion of crushed stone and railway ballast products, thereby hoping to generate a long-term and stable cash flow for the Group. The Group also continued to probe, with the local villagers, in the arrangements for solving the local issues, hoping to reach a consensus and to resume the iron concentrate business at the appropriate time.

Gabbro-Diabase and Stone Business

Driven by the implementation of new policies by the PRC government, the Group has been provided with an opportunity to continue developing the stone business. Under the implementation of the 13th Five-Year Plan, the development of the infrastructure including high-speed rails and highways within Mainland China is being driven, thus facilitating a significantly increase in the demand for crushed stone and railway ballast. The Group hopes to generate continuing cash flow through the production and sale of gabbro-diabase, crushed stone and railway ballast products.

To seize these market opportunities, the Group has completed the construction of two crushed stone and railway ballast production facilities by the end of 2015. After the Group conducted the commissioning of the machines for production of crushed stone and railway ballast, it commenced the crushing of stone steadily and produced and sold the crushed stone for laying roads and railway ballast for paving railways. During the Reporting Period, the Group recorded sales revenue of approximately RMB4.2 million.

As for sales and marketing, the Group is actively expanding the customer network, thereby hoping to enhance the Group's revenue and profitability.

The management is now endeavouring to explore development opportunities to enhance the Group's cash flow, including, (i) directly or indirectly contacting the suppliers or constructors of road and railway projects and striving to seize the opportunity for undertaking the businesses; (ii) identifying the local capable processing manufacturers and make them become a part of the Group's supply chain, so as to expand the Group's product offerings and supply quantity; and (iii) taking the advices of customers and carrying out adjustments to and technical upgrade regarding the production facilities in a feasible manner, so as to satisfy the requirements of the orders. Furthermore, the Group is still trying out the scheme to award employees based on their production outputs. This scheme provides the Group with the flexibility to recruit the local labour force so as to lay the foundation for resolving the land expropriation disputes, and also better utilise the surplus manpower resulting from the suspension of the iron concentrate business.

With respect to the application for the production safety permit for the gabbro-diabase business, the Group has submitted the required documents to the relevant authorities for approval, and the representatives from the Safety Authority have completed on-site inspection, assessment and acceptance procedures and confirmed the Group's production safety qualification. However, the PRC government has been tightening the policies towards environmental protection, the management could not ascertain the time required for obtaining the permit, as it may take time for the government authorities to coordinate and arrange the issuance of the permit, and it is beyond the Group's control, thereby presenting uncertainties over the future development of the Group's gabbro-diabase and stone business. The Group will continue to follow up on the progress for the application for production safety permit.

In respect of the mining permit for gabbro-diabase at the Yanjiazhuang Mine, the fourth instalment of the gabbro-diabase resource fees payable, which amounts to RMB7.16 million, together with the associated cost of funds, was due to be paid by the Group in August 2015 but has remained unpaid. In view of the unfavourable economic and market outlook, the management has been in communication with and preparing for the application to the relevant government authority for more favourable payment terms which include the extension of payment schedule for the remaining resource fees payable.

Following the growing trend regarding the environmental protection and reducing emission in Mainland China and aiming at the construction of environmental friendly mine and enhancing the utilisation rate of ore resources, the Group installed environmental protection facilities at its production facilities for crushed stone and railway ballast and other sites for production of gabbro-diabase, with a view to reduce any adverse impact on surrounding area arising from the production process. The Group is also paying high attention to the production safety regarding the production facilities for crushed stone and railway ballast, and making every effort to provide the staff members a safe working environment.

However, with respect to the overall objective of implementing the green development and improving the ecosystem and environmental quality under the 13th Five-Year Plan by the PRC government recently, the environmental authority is now conducting the evaluation of the environmental risk regarding the closure, suspension and removal of the relevant enterprises. Recently, the Group received a notice from the relevant environmental protection authority (the “Environmental Protection Authority”) requiring the Group to upgrade the environmental protection measures at the production facilities of crushed stone and railway ballast (the “Upgrade”). At present, the Group has formulated the preliminary plan with respect to the Upgrade and has been contacting and arranging professionals to formulate the construction plan regarding the specific design and sophistication and the budget with respect to the Upgrade. It is expected that after the Upgrade has been confirmed by the Environmental Protection Authority, the Upgrade will be implemented. Upon examination and acceptance by the Environmental Protection Authority, the production at these facilities will then be resumed and continued. During the period of implementation of the Upgrade, the Group will continue to conduct sale negotiation regarding the stone inventories and products and will strive to explore new cash flow, so as to mitigate the impact on the business caused by the Upgrade.

As for the development of the infrastructure regarding gabbro-diabase and stone business during the Reporting Period, further discussion will be made in the section under the heading of the “Capital Expenditure and Infrastructure Development”.

Iron Concentrate Business

During the Reporting Period, the iron ore market was still in the state of over-supply while the PRC government has recently implemented the developmental planning for energy-saving and environmental protection and in particular, the PRC government has adopted even stricter environmental protection policies and standards regarding the highly polluted industry including mining industry in Hebei Province; and the PRC government also implemented the policy regarding the cut of excessive production capacity and inventories for steel. These moves made the operators in iron mining industry to suffer from the pressure from environmental protection adjustments and to face greater difficulties and challenges. These policies would probably bring adverse impact to the Group's resumption of iron concentrate business.

On one hand, the Group expects that through creating job opportunities for the locality by hiring local villagers to participate in the production of the gabbro-diabase and stone business, a closer relationship between the Group and the surrounding area can be fostered, thereby paving the way for mutual growth. On the other hand, the disturbances caused to the Group's mining site by the surrounding villages and the villagers have been mitigated, to a certain extent, under the help and mediation of the local government and the village representatives. Thus, the Group can explore the possibility of developing new business at the locality. Although the Group has been conducting close communication with the local government and has obtained significant support, the land expropriation issue has not yet been fully resolved. As a result, the trial production of iron concentrates at the Yanjiazhuang Mine has not yet resumed in the Reporting Period.

With respect to the renewal of production safety permit for iron mining, the Group has submitted the required documents to the relevant authorities for approval, and the representatives from the Safety Authority have completed on-site inspection, assessment and acceptance procedures and confirmed the Group's production safety qualification. Since the PRC government has been tightening the policies towards environmental protection, it may take longer time for the government authorities to coordinate and arrange for the issuance of the permit and the management could not ascertain the timing for the Group to obtain the permit, which has presented uncertainties over the future development of its iron concentrate business. The Group will continue to follow up on the progress for the renewal of the production safety permit.

Given the prevailing weak iron concentrate price and that the impacts of various government policies have presented uncertainties over the future development of the Group's iron concentrate business, the Group will endeavour to resolve the local issues and obtain the necessary permits and consents from the Safety Authority and other production-related consents, priming for the resumption of the operation in an economically viable scale after resolving all these issues and when the market improves. In this respect, the Group will keep abreast of the latest status and renewal progress of permits, keep a close eye on future market development and price trend of iron concentrates, maintain the production and ancillary facilities in reasonably satisfactory conditions, and keep up the high awareness of mine safety and environmental protection measures.

The expansion plans of the Group's Yanjiazhuang Mine were hindered by the impact arising from the land expropriation. During the Reporting Period, the relevant construction works remained suspended. For the relevant details, please refer to the section under the heading of the "Capital Expenditure and Infrastructure Development".

CAPITAL EXPENDITURE AND INFRASTRUCTURE DEVELOPMENT

During the Reporting Period, the Group incurred capital expenditure amounting to approximately RMB0.6 million, mainly on fine-tuning the first and second crushed stone and railway ballast production facilities for better product quality.

Gabbro-Diabase and Stone Business

During the Reporting Period, the Group had fine-tuned the first and second crushed stone and railway ballast production facilities for better product quality.

Capital expenditure of the gabbro-diabase and stone business during the six-month periods ended 30 June 2016 and 2015 are indicated below:

	Six-month period ended 30 June	
	2016	2015
	<i>RMB'million</i>	<i>RMB'million</i>
	(Unaudited)	(Unaudited)
Construction costs	0.4	1.3
Equipment and others	0.2	1.1
Total	0.6	2.4

During the Reporting Period, the new contracts and commitments entered into by the Group for the gabbro-diabase and stone business including those related to infrastructure projects (road and railway), subcontracting agreements and purchases of equipment amounted to approximately RMB0.9 million (approximately RMB3.0 million for the Corresponding Prior Period).

Iron Concentrate Business

Due to the land expropriation disputes and the disturbances around, the remaining construction of Phase Two and Phase Three expansion plans was suspended during the Reporting Period. In addition, as a result of lawsuit, details of which are set out in the section headed “Contingent Liabilities”, the construction of certain projects undertaken by the plaintiff was also suspended and the Group did not incur any capital expenditure for the iron concentrate business during the six-month periods ended 30 June 2016 and 2015.

There were no new contract and commitment entered into by the Group for iron concentrate business including those related to infrastructure projects (road and railway), subcontracting agreements and purchases of equipment during the six-month periods ended 30 June 2016 and 2015.

It is expected that when disputes and disturbances regarding the iron concentrate production at the Yanjiazhuang Mine are smoothed out, the Group will further proceed with the relevant constructions so as to support the development of its iron concentrate business as and when appropriate.

EXPLORATION ACTIVITIES

During the Reporting Period, the Group did not have any exploration activity nor incur any expense or capital expenditure in that activity at the Yanjiazhuang Mine.

PRODUCTION COSTS OF THE YANJIAZHUANG MINE

Gabbro-Diabase and Stone Business

The Group's production costs for the gabbro-diabase and stone business amounted to approximately RMB4.1 million, as recognised in the cost of sales during the Reporting Period (Nil for the Corresponding Prior Period).

The following table presents, for the periods indicated, the Group's production costs for the gabbro-diabase and stone business:

	Six-month period ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Processing costs		
– Subcontracting fees	<u>3,038</u>	<u>–</u>
Overheads		
– Depreciation and amortisation	265	–
– Hauling	715	–
– Staff costs	46	–
– Others	<u>21</u>	<u>–</u>
	<u>1,047</u>	<u>–</u>
Total production costs for the gabbro-diabase and stone business	<u>4,085</u>	<u>–</u>

Iron Concentrate Business

During the Reporting Period, the Group's iron concentrate production had not yet resumed and therefore no production cost of iron concentrates was recorded (Nil for the Corresponding Prior Period).

IRON ORE RESOURCE AND RESERVE ESTIMATES

During the Reporting Period, the Group has yet to resume its production of iron concentrates at the Yanjiazhuang Mine and there were no significant changes in the Group's mineral resources and ore reserves prepared under the JORC Code as at 30 June 2016 as compared to those disclosed in the annual report 2015 of the Company.

The mining permit of the Yanjiazhuang Mine is valid until 26 July 2017. Taking into consideration that government policies in environmental protection, production safety and other mining-related aspects are constantly affected by pollution and other factors, the Group will continue to closely observe these government policies, and timely start the renewal application process for the mining permit of the Group's Yanjiazhuang Mine.

GABBRO-DIABASE RESOURCE ESTIMATES

During the Reporting Period, the Group conducted mining activities with a very limited scale at the Yanjiazhuang Mine and the gabbro-dabase resources at the Yanjiazhuang Mine was largely the same as those disclosed in the annual report 2015 of the Company.

In respect of the mining permit for gabbro-dabase at the Yanjiazhuang Mine, the fourth instalment of the gabbro-dabase resource fees payable, which amounts to RMB7.16 million, together with the associated cost of funds, was due to be paid by the Group in August 2015 but has remained unpaid. In view of the unfavourable economic and market outlook, the management has been in communication with and preparing for the application to the relevant government authority for more favourable payment terms which include the extension of payment schedule for the remaining resource fees payable.

The mining permit of the Yanjiazhuang Mine is valid until 26 July 2017. Taking into consideration that government policies in environmental protection, production safety and other mining-related aspects are constantly affected by pollution and other factors, the Group will continue to closely observe these government policies, and timely start the renewal application process for the mining permit of the Group's Yanjiazhuang Mine.

PRODUCTION SAFETY AND ENVIRONMENTAL PROTECTION

The Group has been placing high attention on production safety and environmental protection. Therefore, the Yanjiazhuang Mine has established a department responsible for production safety and management. This department has been consistently promoting safety standards and strengthening environmental protection measures so as to increase the Group's sense of social responsibility and safety awareness. During the Reporting Period, the Yanjiazhuang Mine had no record of significant safety incident.

Considering the deteriorating air quality in Mainland China, especially in Beijing and Hebei Province, it is anticipated that the PRC authorities are prompted to further tighten the relevant environmental policies towards heavily polluting industries, such as mining. To cope with the potential policy impact on its business, the Group will keep abreast of the latest regulatory requirements and changes and adopt appropriate environmental and other measures from time to time to facilitate its operation and production at the Yanjiazhuang Mine.

Recently, the Group received a notice from the Environmental Protection Authority requiring the Group to carry out the Upgrade. At present, the Group has formulated the preliminary plan with respect to the Upgrade and has been contacting and arranging professionals to formulate the construction plan regarding the specific design and sophistication and the budget with respect to the Upgrade. It is expected that after the Upgrade has been confirmed by the Environmental Protection Authority, the Upgrade will be implemented. Upon examination and acceptance by the Environmental Protection Authority, the production at these facilities will then be resumed and continued. During the period of implementation of the Upgrade, the Group will continue to conduct sale negotiation regarding the stone inventories and products and will strive to explore new cash flow, so as to mitigate the impact on the business caused by the Upgrade.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the Reporting Period (Nil for the Corresponding Prior Period).

FINANCIAL REVIEW

During the Reporting Period, the Group generated a revenue of approximately RMB4.2 million from the sale of railway ballast, crushed stone, and gabbro-diabase products (Nil for the Corresponding Prior Period).

The Group had not resumed the trial production and sale of iron concentrates during the Reporting Period.

The net loss for the Reporting Period was approximately RMB23.2 million (approximately RMB10.1 million for the Corresponding Prior Period). The loss attributable to owners of the Company amounted to approximately RMB23.0 million (approximately RMB10.0 million for the Corresponding Prior Period). The basic and diluted loss per share for the Reporting Period was approximately RMB0.57 cents (approximately RMB0.25 cents for the Corresponding Prior Period).

The increase in net loss was mainly attributed to (i) provision made for the Group's certain prepayments and inventories of approximately RMB7.9 million and approximately RMB1.8 million respectively for the Reporting Period, and (ii) the decrease in interest income of RMB4.1 million for the Reporting Period as compared to the Corresponding Prior Period.

Revenue, Gross Profit and Gross Profit Margin

During the Reporting Period, the Group generated a revenue of approximately RMB4.2 million from the sale of railway ballast, crushed stone and gabbro-diabase products (Nil for the Corresponding Prior Period).

The Group recorded a gross profit of approximately RMB0.1 million (Nil for the Corresponding Prior Period) and a gross margin of approximately 2.5% during the Reporting Period (Nil for the Corresponding Prior Period) as the Group has been offering competitive prices to its customers with a view to expand the clientele.

Cost of Sales

Cost of sales mainly comprised operating costs incurred in relation to staff, hauling, subcontracting fees, depreciation and amortisation.

The Group's cost of sales for the Reporting Period amounted to approximately RMB4.1 million from the production of railway ballast, crushed stone and gabbro-diabase products (Nil for the Corresponding Prior Period), further details are set out in the section headed "Production Costs of the Yanjiazhuang Mine".

Administrative Expenses

Administrative expenses increased by 56.0% to approximately RMB26.2 million during the Reporting Period, as compared to approximately RMB16.8 million for the Corresponding Prior Period. The increase was mainly a result of the impairment of certain prepayments and the write-down of inventories to net realisable value of approximately RMB7.9 million (Nil for the Corresponding Prior Period) and approximately RMB1.8 million (RMB0.1 million for the Corresponding Prior Period), respectively made during the Reporting Period.

Finance Income

The Group recorded finance income of approximately RMB3.4 million during the Reporting Period, as compared to approximately RMB6.7 million for the Corresponding Prior Period. The main reason for such change was the decrease in interest income by approximately RMB4.1 million to RMB7.6 million for the Reporting Period, which was a result of the decline in deposit interest rate offered by major banks of the Group in the first half of 2016.

Income Tax Expense

The income tax expense represented the current period provision for the CIT calculated at the CIT rate applicable to the entities located in or deemed to be operating in Mainland China as determined in accordance with the relevant income tax rules and regulations of the PRC for both periods.

No income tax was recognised for both periods. It is considered that it is premature to recognise the deferred tax assets as at 30 June 2016. Further details about the Group's income tax are set out in note 6.

Property, Plant and Equipment

As at 30 June 2016, the Group's property, plant and equipment had a net book value of approximately RMB705.6 million (approximately RMB710.4 million as at 31 December 2015), representing 53.0% (52.6% as at 31 December 2015) of total assets of the Group. The decrease was mainly attributable to the depreciation charge of approximately RMB5.4 million during the Reporting Period (approximately RMB5.2 million for the Corresponding Prior Period).

Inventories

As at 30 June 2016, the Group's inventories amounted to approximately RMB15.4 million (approximately RMB13.9 million as at 31 December 2015). The increase of 10.8% mainly represented the finished products of crushed stone and railway ballast processed at the Yanjiazhuang Mine during the Reporting Period.

Prepayments, Deposits and Other Receivables

As at 30 June 2016, the Group's balances of prepayments, deposits and other receivables were approximately RMB32.3 million (approximately RMB40.8 million as at 31 December 2015). The decrease of 20.8% was mainly attributable to the impairment of certain prepayments of approximately RMB7.9 million, in aggregate, that have been long outstanding with delays in delivery and thus considered to be irrecoverable.

Other Payables and Accruals

As at 30 June 2016, the Group's balances of other payables and accruals were approximately RMB68.0 million (approximately RMB70.2 million as at 31 December 2015). The decrease of 3.1% was mainly attributable to decrease in other payables of RMB2.3 million during the Reporting Period.

In respect of the mining permit for gabbro-diabase at the Yanjiazhuang Mine, the fourth instalment of the gabbro-diabase resource fees payable, which amounts to RMB7.16 million, together with the associated cost of funds, was due to be paid by the Group in August 2015 but has remained unpaid, as further discussed in the section headed "Business Review: Gabbro-Diabase and Stone Business" and note 13.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2016, the Group's cash and cash equivalents amounted to approximately RMB523.7 million (approximately RMB529.0 million as at 31 December 2015), of which 44.0% are denominated in RMB and 56.0% are denominated in HKD (98.8% denominated in RMB and 1.2% denominated in HKD as at 31 December 2015), representing 39.3% (39.1% as at 31 December 2015) of total assets of the Group. In addition, the Group's restricted bank balances were approximately RMB1.2 million as at 30 June 2016 and 31 December 2015, further details of which are set out in "Contingent Liabilities" section.

The Group's net cash position (calculated as cash and cash equivalents less total borrowings) was approximately RMB233.1 million (approximately RMB244.1 million as at 31 December 2015). The liquidity ratio (calculated as current assets divided by current liabilities) was approximately 1.5 as at 30 June 2016 (approximately 1.6 as at 31 December 2015).

During the Reporting Period, the Group paid approximately RMB1.0 million for the settlement of the Group's addition of items of property, plant and equipment (approximately RMB4.3 million for the Corresponding Prior Period).

CAPITAL STRUCTURE AND GEARING RATIO

The Group calculates its net gearing ratio by dividing its net debt (calculated as total borrowings less cash and cash equivalents) by its total equity.

As at 30 June 2016, the total equity of the Group amounted to approximately RMB953.8 million (approximately RMB977.0 million as at 31 December 2015).

As the Group had net cash position of approximately RMB233.1 million and RMB244.1 million as at 30 June 2016 and 31 December 2015, respectively, it is therefore not considered to have any net gearing as at these dates.

LOANS, INDEBTEDNESS AND MATURITY DATE

As at 30 June 2016, the Group's HKD denominated bank borrowings amounted to HK\$340.0 million (equivalent to approximately RMB290.6 million) (as at 31 December 2015: HK\$340.0 million (equivalent to approximately RMB284.9 million)). The bank borrowings were all unsecured and carried interest at floating rates. Maturity of bank borrowings was subject to the banks' overriding right of repayment on demand. As at 30 June 2016, no property, plant and equipment or leasehold land or land use rights were pledged by the Group.

FUNDING AND TREASURY POLICY

The Group has a funding and treasury policy to monitor its funding requirements and perform ongoing liquidity review. This approach takes into consideration the maturity of its financial instruments, financial assets and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Substantially all of the Group's operation are located in the PRC with transactions denominated and settled in RMB, while all bank borrowings of the Group are interest-bearing and denominated in Hong Kong dollars. In light of the depreciation and fluctuation of RMB against Hong Kong dollars since August 2015, the Group has increased its balance of HKD deposits during the Reporting Period. As a result, the Group's net foreign exchange loss has been mitigated and decreased by approximately RMB0.3 million to RMB0.1 million during the Reporting Period.

The Group will closely observe the movements in market interest rate and RMB exchange rate and consider the rearrangement of its sources of financing where appropriate. Currently, the Group does not have a foreign currency hedging policy.

SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments, the “Iron Concentrate” segment and the “Gabbro-Diabase and Stone” segment. The Group had no revenue generated during the Corresponding Prior Period, while it had revenue derived from the “Gabbro-Diabase and Stone” operating segment during the Reporting Period. Further details of the Group’s segment results are set out in note 3.

Furthermore, as the Group’s revenue from the external customers and the majority of the Group’s non-current assets are located in the PRC in both years, no geographical information is presented.

Further discussion on segment information are set out in the sections headed “Market Overview” and “Business Review”.

CAPITAL COMMITMENTS

The Group’s commitments for capital expenditure were approximately RMB61.3 million as at 30 June 2016 (approximately RMB61.6 million as at 31 December 2015). This represented commitments for property, plant and equipment. The sources of funding for capital expenditure include unutilised net proceeds from the IPO of the Company and internally generated funds.

CONTINGENT LIABILITIES

Since March 2013, a subsidiary of the Company was involved in litigation as a defendant regarding construction sum payable arising out of the ordinary course of business of the Group. In May 2013, a local court in the PRC issued a verdict to freeze (i) two properties of the plaintiff and (ii) the bank accounts or other assets up to RMB36 million of the Company’s subsidiary, pending the outcome of the case. Consequently, certain bank accounts of such subsidiary with an aggregate balance of approximately RMB1.2 million were frozen by the local court as of 30 June 2016. In a prior year, the Company’s subsidiary also filed a counterclaim against the plaintiff regarding the quality issues of the completed construction work. In March 2016, the local court issued a court order regarding the first hearing of the litigation and the counterclaim. As set out in the court order, such subsidiary needs to pay for certain amount as remaining construction sum payable with interest so arisen. The Company’s subsidiary made an appeal to the court order in April 2016 and the second hearing was held in July 2016.

The Company’s subsidiary has been proactively responding to the case in accordance with the advice of the Group’s PRC legal counsels. Based on the available information and the advice of the Group’s PRC legal counsels on the case, it is anticipated that the litigation would not have any material adverse impact to the financial position and operation of the Group.

EVENT AFTER THE REPORTING PERIOD

In late July 2016, large portion of Hebei Province, the PRC, have been inundated with heavy rain, triggering floods and landslides in the region (the “Disaster”) leading to economic losses and disruption to the people and businesses. The Group’s operation at the Yanjiazhuang Mine was affected by the Disaster, causing losses and damages to the Group’s certain machinery and inventories. Despite the steps taken by the management to mitigate the impact of the Disaster to the Group’s operation, certain assets in the range of RMB5.0 million were lost or damaged. Additional remedial costs will need to be incurred for repairing and reinforcement works. The Group will liaise with the insurance company on the coverage and compensation for these losses, costs and damages associated with the Disaster. Based on the Group’s preliminary assessment and the current development of the Disaster, it is not expected to cause material impact on the financial position and operation of the Group.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the Reporting Period, the Group had no significant acquisitions and disposals.

The Group will continue to identify and evaluate opportunities for mergers and acquisitions and other investment opportunities in order to achieve sustainable development, and to diversify the Group’s business and its income stream in the long run.

EMPLOYEES AND REMUNERATION POLICIES

The Group		30 June 2016
Number of employees		<u>135</u>
		Approximate
		percentage to
		the total
Type	Number of	number of
	employees	employees
Production, sale and operation	93	69
Management and administrative support	<u>42</u>	<u>31</u>
Total	<u>135</u>	<u>100</u>

As at 30 June 2016, the Group had a total of 135 (as at 31 December 2015: 142) full-time employees in Hong Kong and Mainland China (excluding workers under the reward scheme based on production outputs and workers of the independent third party contractors engaged in mining and hauling works). During the Reporting Period, the Group further adjusted its organisational structure for the purpose of making better alignment with its business development and changes. Certain employees had job rotation and adjustments while some of the employees had left the Group upon the expiry of their contracts or for other reasons. To cope with its business development, the Group has also filled up its job vacancy by recruitment of candidates with appropriate skills and experiences. As a result, the Group managed to reallocate its human resources with stable employee headcounts during the Reporting Period.

The Group formulates its human resources allocation and executes recruitment plans based on its development strategies. The remuneration packages of the employees are structured by reference to job nature (including geographical locations) and prevailing market conditions. The remuneration policy of the Group is subject to periodic review, and year-end bonuses and share options are available to reward employees in accordance with their individual performances and industry practice. Appropriate training programmes are also offered to ensure continuous staff training and development.

USE OF NET PROCEEDS

The net proceeds raised from the IPO of the Company in 2011 amounted to approximately RMB1,052 million. As at 30 June 2016, the application of the net proceeds raised from the IPO of the Company is set out as below.

	Net proceeds from the Listing		
	Revised use of proceeds* RMB'million	Utilised RMB'million	Unutilised RMB'million
Three-phase expansion plan of the Yanjiazhuang Mine	368	154	214
Payment of resource fees	95	—	95
Development of the gabbro-diabase business	173	92	81
Repayment of shareholders' loans	105	105	—
Working capital	32	32	—
General working capital, acquisitions and financial management	279	193	86
	<u>1,052</u>	<u>576</u>	<u>476</u>

* In March 2014, the Board approved the change in application of the unutilised net proceeds raised from the IPO.

OUTLOOK AND FUTURE PLANS

In the first half of 2016, the global economic development has been facing a lot of difficulties and challenges, and in particular, the new economic and environmental protection policies implemented by the PRC government, brought greater uncertainty to the development of the Group's business. To cope with such challenges, the Group's management is striving to develop and expand the sales network and clientele for the gabbro-diabase and stone business and is gradually expanding its investment in environmental protection facilities, hoping to develop the new business to a commercial scale. The management is undertaking studies to expand the Group's clientele and market through variety of product offering and is considering to explore other stone market such that the Group can expand the scale of the gabbro-diabase and stone business in an orderly and economically viable manner. Furthermore, the Group will endeavour to facilitate the Upgrade such that approval from the Environmental Protection Authority can be received as soon as practicable and the Group can then resume and continue to conduct the production of crushed stone and railway ballast products.

With respect to the iron concentrate business, the Group has been creating job opportunities for the locality to foster a closer relationship between the Group and the surrounding villages, and will continue to explore different possibilities so as to resolve such disputes over land expropriation and external issues, hindering the production of iron concentrates at the Yanjiazhuang Mine, and is aiming at resuming such production as soon as practicable. Given the prevailing weak iron concentrate prices and that the impacts of various environmental protection policies have brought uncertainties to the long term development of the iron concentrate business, the Group will endeavour to resolve the local issues and obtain the necessary permits and consents from the Safety Authority and other production-related consents, priming for the resumption of the operation in an economically viable scale after resolving all these issues and as and when the market improves.

Regarding the permits, the tightening national requirements towards heavily polluting industries, such as mining, in recent years have posed greater difficulties to the Yanjiazhuang Mine in applying for and renewing its permits. Moreover, the government is exerting increased control over the issuance of permits. This, together with the adjustment of government policies, has caused delays in the approval and issuance of certain permits, including production safety permits, in relation to the Group's operation at the Yanjiazhuang Mine. The Group will continue its communications with the relevant government authorities to facilitate the renewal and issuance of the production safety permits. In addition, with respect to the overall objective of implementing the green development and improving the ecosystem and environmental quality under the 13th Five-Year Plan by the PRC government recently, the environmental authority is now conducting the evaluation of the environmental risk regarding the closure, suspension and removal of the relevant enterprises. In addition, the Group will pay close attention to the relevant requirements of the environmental protection, production safety and other government policies in the PRC concerning heavily polluting industries in order to arrange for the application and renewal of relevant permits at appropriate times and allow the Group to have a better understanding of their impacts on its business development.

Although the production of iron concentrates at the Yanjiazhuang Mine is hindered by the local disputes and disturbances and various uncertainty in the international and domestic economic environment and the foregoing have brought greater challenges to the development of the Group's business, the management will actively face such challenges and continue to explore various possibilities at the Yanjiazhuang Mine.

Apart from the above businesses, the Group will cautiously explore mergers and acquisitions and other collaboration or investment opportunities in order to achieve sustainable development, and to diversify the Group's business and its income stream. In particular, given the uncertainties and challenges arising from the structural transformation of the PRC economy, the further tightening of the government policies on environmental protection, the elimination of excessive upstream capacity and oversupply of downstream production, the continual shortage of capital and tightening of fiscal policies of banks and financial institutions in the PRC, and the slowdown in the mining and iron mining industry and the PRC economic development in general, the Group will assess on an ongoing basis as to the respective impacts of these factors on the Group's existing business, and will adopt necessary changes in the Group's business and investment strategies so as to enable the Group to well adapt to the new environment.

CORPORATE GOVERNANCE PRACTICES

As part of the Company's unwavering commitment to high standards of corporate governance, it has adopted all applicable Code Provisions and, where appropriate, Recommended Best Practices of the CG Code as set out in Appendix 14 of the Listing Rules throughout the Reporting Period.

The Company continues to enhance its corporate governance practices appropriate to the conduct and growth of its business, and to review and improve such practices from time to time to ensure that business activities and decision making processes are regulated in a proper and prudent manner in accordance with international best practices.

During the Reporting Period, the Company did not have a chief executive officer and the function is divided among the executive Directors.

Further information of the Company's corporate governance practices can be found in the "Corporate Governance" section under "Investor Relations" on the Company's website.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. Having made specific enquiry with all Directors, the Directors have confirmed their compliance with the required standard set out in the Model Code during the Reporting Period.

AUDIT COMMITTEE

The Audit Committee was established in accordance with requirements of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process, risk management and internal controls. All of the Audit Committee members are appointed from the three independent non-executive Directors, namely Mr. Tsui King Fai (chairman), Mr. Lee Kwan Hung and Mr. Shin Yick, Fabian, having appropriate professional qualifications, including membership of the Hong Kong Institute of Certified Public Accountants, and experience in legal, business, investment and financial matters. The Audit Committee has reviewed with the management of the Company the interim report of the Company for the Reporting Period containing the unaudited interim condensed consolidated financial statements of the Group for the Reporting Period, the accounting principles and practices adopted by the Group. In addition, the Company's auditors, Messrs. Ernst & Young has reviewed the unaudited interim condensed consolidated financial statements of the Group for the Reporting Period.

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

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the websites of the Stock Exchange and the Company. The interim report of the Group for the six-month period ended 30 June 2016 will be despatched to the Shareholders and published on the above websites in due course.

GLOSSARY OF TERMS

In this announcement, unless the context otherwise requires, the following expressions have the meanings as mentioned below:

“Audit Committee”	the audit committee of the Company
“Board”	the board of Directors
“CG Code”	the Corporate Governance Code contained in Appendix 14 of the Listing Rules
“Company”	Newton Resources Ltd, a company incorporated in the Cayman Islands with limited liability, and the shares of which are listed in the main board of the Stock Exchange
“Corresponding Prior Period”	the six-month period ended 30 June 2015
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$” or “HKD”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“JORC”	the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy
“JORC Code”	the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2004 edition), as published by the JORC, as amended from time to time
“Listing”	the listing of the Shares on the main board of the Stock Exchange on 4 July 2011

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules
“Phase Two”	the second phase of the Company’s three-phase expansion plan, to achieve total mining and ore processing capacities of 7,000,000 tpa to produce approximately 1,770,000 tpa of iron concentrates
“Phase Three”	the third phase of the Company’s three-phase expansion plan, to achieve total mining and ore processing capacities of 10,500,000 tpa to produce approximately 2,655,000 tpa of iron concentrates
“PRC” or “Mainland China”	The People’s Republic of China, which, for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Reporting Period”	the six-month period ended 30 June 2016
“RMB”	Renminbi, the lawful currency of the PRC
“Safety Authority”	the relevant government authority for the granting of the production safety permit(s) for iron mining and gabbro-diabase products
“Share(s)”	existing ordinary share(s) of HK\$0.1 each of the Company
“Shareholder(s)”	holder(s) of issued Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“tonne(s)”	equal to 1,000 kilograms

“tpa”	tonne(s) per annum
“US\$”	the United States dollar, the lawful currency of the United States of America
“Yanjiazhuang Mine”	Lincheng Xingye Mineral Resources Co., Ltd Yanjiazhuang Mine (臨 城 興 業 礦 產 資 源 有 限 公 司 閆 家 莊 礦), an iron ore and gabbro-diabase mine located in Yanjiazhuang Mining Area, Shiwopu, Haozhuang Town, Lincheng County, Hebei Province, the PRC

By Order of the Board
Newton Resources Ltd
Cheng Kar Shun
Chairman and Non-Executive Director

Hong Kong, 22 August 2016

As at the date of this announcement, the executive Directors are Mr. Li Changfa and Mr. Luk Yue Kan; the non-executive Directors are Dr. Cheng Kar Shun, Mr. Hui Hon Chung, Mr. Cheng Chi Ming, Brian and Mr. Wu Wai Leung, Danny; and the independent non-executive Directors are Mr. Tsui King Fai, Mr. Lee Kwan Hung and Mr. Shin Yick, Fabian.