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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)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

The Board wishes to announce the audited consolidated annual results of the Group for FY 2016 together with the comparative figures for FY 2015 as follows:–

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Revenue	3	84,584	3,421
Cost of sales		(84,178)	(2,139)
Gross profit		406	1,282
Other income and gains		17	–
Selling and distribution costs		(871)	(2,013)
Administrative expenses		(44,918)	(38,315)
Impairment loss on property, plant and equipment		(423,549)	–
Impairment loss on intangible assets		(48,790)	–
Impairment loss on prepaid land lease payments		(1,959)	–
Impairment loss on prepayments		(12,987)	–
Other expenses		(15,251)	–
Finance income/(expense), net	5	4,391	(6,598)
Loss before tax	4	(543,511)	(45,644)
Income tax expense	6	–	–
Loss for the year		(543,511)	(45,644)
Total comprehensive loss for the year		(543,511)	(45,644)
Attributable to:			
Owners of the Company		(538,055)	(45,351)
Non-controlling interests		(5,456)	(293)
		(543,511)	(45,644)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted (RMB cent)	8	(13.45)	(1.13)

Details of the dividends payable and proposed for the year are disclosed in Note 7.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	9	270,267	710,408
Intangible assets	10	938	49,938
Prepaid land lease payments	11	1,307	3,307
		<u>272,512</u>	<u>763,653</u>
Current assets			
Inventories	12	9,193	13,916
Trade and bills receivables	13	38,331	3,142
Prepayments, deposits and other receivables	14	32,807	40,786
Cash and bank balances	15	402,844	530,233
		<u>483,175</u>	<u>588,077</u>
Current liabilities			
Trade payables	16	2,682	4,345
Other payables and accruals	17	87,752	70,234
Interest-bearing bank borrowings		223,625	284,852
Income tax payable		7,634	7,634
		<u>321,693</u>	<u>367,065</u>
Net current assets		<u>161,482</u>	<u>221,012</u>
Total assets less current liabilities		<u>433,994</u>	<u>984,665</u>
Non-current liabilities			
Long-term payables		<u>500</u>	<u>7,660</u>
Net assets		<u>433,494</u>	<u>977,005</u>
Equity			
Equity attributable to owners of the Company			
Share capital		331,960	331,960
Reserves		<u>104,916</u>	<u>642,971</u>
		436,876	974,931
Non-controlling interests		<u>(3,382)</u>	<u>2,074</u>
Total equity		<u>433,494</u>	<u>977,005</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Attributable to owners of the Company						Non-controlling interests	Total equity
	Share capital	Share premium account	Capital reserves	Share option reserve	Accumulated losses	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	331,960	719,871	80,864	9,220	(121,633)	1,020,282	2,367	1,022,649
Loss for the year	—	—	—	—	(45,351)	(45,351)	(293)	(45,644)
Other comprehensive income for the year	—	—	—	—	—	—	—	—
Total comprehensive loss for the year	—	—	—	—	(45,351)	(45,351)	(293)	(45,644)
Transfer of share option reserve upon the expiry of share options	—	—	—	(9,220)	9,220	—	—	—
At 31 December 2015 and 1 January 2016	331,960	719,871	80,864	—	(157,764)	974,931	2,074	977,005
Loss for the year	—	—	—	—	(538,055)	(538,055)	(5,456)	(543,511)
Other comprehensive income for the year	—	—	—	—	—	—	—	—
Total comprehensive loss for the year	—	—	—	—	(538,055)	(538,055)	(5,456)	(543,511)
At 31 December 2016	<u>331,960</u>	<u>719,871*</u>	<u>80,864*</u>	<u>—*</u>	<u>(695,819)*</u>	<u>436,876</u>	<u>(3,382)</u>	<u>433,494</u>

* These reserve accounts comprise the consolidated reserves of RMB104,916,000 (2015: RMB642,971,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Loss before tax		(543,511)	(45,644)
Adjustments for:			
Depreciation of items of property, plant and equipment	4	10,730	10,363
Amortisation of intangible assets	4	210	61
Amortisation of prepaid land lease payments	4	101	101
Impairment loss on property, plant and equipment		423,549	—
Impairment loss on intangible assets		48,790	—
Impairment loss on prepaid land lease payments		1,959	—
Impairment of trade receivables	4	313	—
Impairment loss on prepayments		12,987	—
Write-down of inventories to net realisable value	4	5,991	1,073
Write-off of items of property, plant and equipment	4	694	—
Write-off of inventories	4	749	—
Finance (income)/expense, net	5	(4,391)	6,598
Cash flows before working capital changes		(41,829)	(27,448)
Increase in inventories		(2,017)	(7,020)
Increase in trade and bills receivables		(35,502)	(3,142)
(Increase)/decrease in prepayments, deposits and other receivables		(5,367)	2,814
Increase in restricted bank deposits		(274)	(2)
(Decrease)/increase in trade payables		(1,663)	3,984
Increase in other payables and accruals		18,293	656
Cash used in operations		(68,359)	(30,158)
Interest received		11,453	22,516
Bank charges paid		(4)	(181)
Net cash flows used in operating activities		(56,910)	(7,823)
Cash flows from investing activities			
Purchase of items of property, plant and equipment		(3,806)	(6,739)
Net cash flows used in investing activities		(3,806)	(6,739)
Cash flows from financing activities			
Repayment of bank borrowings		(77,625)	(72,816)
New bank borrowing		—	23,673
Interest paid		(6,606)	(7,627)
Net cash flows used in financing activities		(84,231)	(56,770)
Net decrease in cash and cash equivalents		(144,947)	(71,332)
Cash and cash equivalents at beginning of year		529,041	600,665
Effect of foreign exchange rate changes, net		17,284	(292)
Cash and cash equivalents at end of year		401,378	529,041
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		402,844	530,233
Restricted bank balances		(1,466)	(1,192)
Cash and cash equivalents at end of year		401,378	529,041

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, Uglan House, Grand Cayman, KY1-1104, Cayman Islands.

During the year, the principal activity of the Company is investment holding and the principal activities of its subsidiaries include trading business, mining, processing and sale of iron concentrates and gabbro-diabase and stone products and car-park business.

2.1. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) (which include all International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations) issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for current year’s financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to IFRS 11 IFRS 14	<i>Accounting for Acquisitions of Interests in Joint Operations</i> <i>Regulatory Deferral Accounts</i>
Amendments to IAS 1	<i>Disclosure Initiative</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 (2011)	<i>Equity Method in Separate Financial Statements</i>
Annual Improvements 2012-2014 Cycle	<i>Amendments to a number of IFRSs</i>

Except for the amendments to IFRS 10, IFRS 12 and IAS 28 (2011), amendments to IFRS 11, IFRS 14, amendments to IAS 16 and IAS 41, and amendments to IAS 27 (2011), which are not relevant to the preparation of the Group’s financial statements, the nature and the impact of the other amendments are described below:

- (a) Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:
- (i) the materiality requirements in IAS 1;
 - (ii) that specific line items in the statement of comprehensive income and the statement of financial position may be disaggregated;
 - (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
 - (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of comprehensive income. The amendments have had no significant impact on the Group's financial statements.

- (b) Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.
- (c) Annual Improvements to IFRSs 2012-2014 Cycle issued in September 2014 sets out amendments to a number of IFRSs. Details of the amendments are as follows:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in IFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions²</i>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts²</i>
IFRS 9	<i>Financial Instruments²</i>
Amendments to IFRS 10 and IAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
IFRS 15	<i>Revenue from Contracts with Customers²</i>
Amendments to IFRS 15	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers²</i>
Amendments to IAS 40	<i>Transfers of Investment Property²</i>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration²</i>
IFRS 16	<i>Lease³</i>
Amendments to IAS 7	<i>Disclosure Initiative¹</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses¹</i>
Annual Improvements 2014-2016 Cycle	<i>Amendments to IFRS 12¹</i>
Annual Improvements 2014-2016 Cycle	<i>Amendments to IFRS 1²</i>
Annual Improvements 2014-2016 Cycle	<i>Amendments to IAS 28²</i>

¹ Effective for annual periods beginning on or after 1 January 2017

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

⁴ No mandatory effective date yet determined but available for adoption

The Group has already commenced an assessment of the impact of these new or revised standards and amendments to standards, certain of which may be relevant to the Group's operations and may give rise to changes in accounting policies, changes in disclosures and remeasurement of certain items in the financial statements. The Group is not yet in a position to ascertain their impact on its results of operations and financial position.

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 and value of services rendered.

An analysis of revenue is as follows:

	2016 RMB'000	2015 <i>RMB'000</i>
Trading business	79,641	—
Sale of stone products	4,753	3,421
Car-park business	190	—
	<u>84,584</u>	<u>3,421</u>

Operating Segment Information

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

Iron Concentrates	—	mining, processing and sale of iron concentrates
Gabbro-Diabase and Stone	—	mining, processing and sale of gabbro-diabase and stone products
Trading Business	—	supply and trading of iron ores, steel products, other commodities and construction materials
Car-Park Business	—	own, operate and manage car-parking spaces

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.

	Iron Concentrates RMB'000	Gabbro- Diabase and Stone RMB'000	Trading Business RMB'000	Car-Park Business RMB'000	Total RMB'000
Year end 31 December 2016					
Segment Revenue:					
Sales to external customers	<u>–</u>	<u>4,753</u>	<u>79,641</u>	<u>190</u>	<u>84,584</u>
Segment Results	(405,056)	(118,389)	155	(237)	(523,527)
Reconciliation:					
Interest income					11,154
Corporate and other unallocated expense					(23,493)
Interest expenses					<u>(7,645)</u>
Loss before tax					<u><u>(543,511)</u></u>
Segment assets	270,597	15,928	43,060	782	330,367
Corporate and other unallocated assets					<u>425,320</u>
Total assets					<u><u>755,687</u></u>
Segment liabilities	34,172	38,975	–	2,279	75,426
Corporate and other unallocated liabilities					<u>246,767</u>
Total liabilities					<u><u>322,193</u></u>
Other segment information:					
Impairment loss on property, plant and equipment	372,934	50,615	–	–	423,549
Impairment loss on intangible assets	1,363	47,427	–	–	48,790
Impairment loss on prepaid land lease payments	1,959	–	–	–	1,959
Impairment of trade receivables	–	313	–	–	313
Impairment loss on prepayments	12,987	–	–	–	12,987
Write-off of items of property, plant and equipment	690	4	–	–	694
Write-off of inventories	–	749	–	–	749
Write-down of inventories to net realisable value	1,742	4,249	–	–	5,991
Depreciation and amortisation	7,997	2,824	–	4	10,825
Corporate and other unallocated depreciation					<u>216</u>
					<u><u>11,041</u></u>
Capital expenditure	1,234	1,886	–	143	3,263
Corporate and other unallocated capital expenditure					<u>233</u>
					<u><u>3,496</u></u>

	Iron Concentrates <i>RMB'000</i>	Gabbro- Diabase and Stone <i>RMB'000</i>	Total <i>RMB'000</i>
Year end 31 December 2015			
Segment Revenue:			
Sales to external customers	<u>–</u>	<u>3,421</u>	<u>3,421</u>
Segment Results	(7,337)	(8,387)	(15,724)
Reconciliation:			
Interest income			21,272
Corporate and other unallocated expense			(42,230)
Interest expenses			<u>(8,962)</u>
Loss before tax			<u>(45,644)</u>
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>
Other segment information:			
Write-down of inventories to net realisable value	–	1,073	<u>1,073</u>
Depreciation and amortisation	7,337	2,651	9,988
Corporate and other unallocated depreciation			<u>537</u>
			<u>10,525</u>
Capital expenditure	–	6,717	6,717
Corporate and other unallocated capital expenditure			<u>219</u>
			<u>6,936</u>

Geographical segment

(a) Revenue from external customers

	2016 RMB'000	2015 RMB'000
Mainland China	46,070	3,421
Asia	38,324	—
Hong Kong	190	—
	<u>84,584</u>	<u>3,421</u>

(b) Non-current assets

The majority of the Group's non-current assets are located in the PRC in both years.

Information about major customers

During the year ended 31 December 2016, there were two customers from the Trading Business segment from whom the revenue was exceeded 10% of the Group's revenue, representing revenue of RMB41,318,000 and RMB38,323,000 respectively (2015: two customers from Gabbro-Diabase and Stone segment of RMB2,653,000 and RMB414,000 respectively).

4. LOSS BEFORE TAX

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

	2016 RMB'000	2015 RMB'000
Cost of inventories sold	83,913	2,139
Cost of services provided	265	—
Depreciation of items of property, plant and equipment	10,730	10,363
Amortisation of intangible assets	210	61
Amortisation of prepaid land lease payments	101	101
Impairment of trade receivables	313	—
Write-down of inventories to net realisable value	5,991	1,073
Write-off of items of property, plant and equipment	694	—
Write-off of inventories	749	—
Interest on construction sum payable arising from the litigation	4,761	—
Minimum lease payments under operating leases for office tenancy	1,182	1,066
Auditors' remuneration (including out-of-pocket expenses)	1,800	1,634
Employee benefit expense (excluding directors' remuneration)		
– Wages, salaries and allowances	9,614	12,038
– Pension scheme contributions	489	429
	<u>84,584</u>	<u>3,421</u>

5. FINANCE INCOME/(EXPENSE)

An analysis of the Group's net finance income/(expense) is as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Interest income	11,154	21,272
Interest on bank borrowings	(6,590)	(7,641)
Other borrowing costs	(1,055)	(1,321)
Net foreign exchange gains/(losses)	886	(18,727)
Bank charges	(4)	(181)
	<u>4,391</u>	<u>(6,598)</u>
Finance income/(expense), net	<u>4,391</u>	<u>(6,598)</u>

6. INCOME TAX

The provision for 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 years ended 31 December 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 years ended 31 December 2016 and 2015.

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Current tax – Mainland China		
Charge for the year	<u>–</u>	<u>–</u>

7. DIVIDEND

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2016 (2015: Nil).

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

The calculation of basic loss per share amount is based on the loss for the year attributable to owners of the Company, and the weighted average number of ordinary shares of 4,000,000,000 in issue during the years ended 31 December 2016 and 2015.

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Loss		
Loss attributable to owners of the Company, used in the basic and diluted loss per share calculation	<u>(538,055)</u>	<u>(45,351)</u>
	<i>'000</i>	<i>'000</i>
Shares		
Weighted average number of ordinary shares in issue during the year 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 year ended 31 December 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 year ended 31 December 2015 and was ignored in the calculation of diluted loss per share for that year.

9. PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>RMB'000</i>	Motor vehicles, fixtures and others <i>RMB'000</i>	Machinery <i>RMB'000</i>	Mining infrastructure <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:						
At 1 January 2015	62,239	5,724	98,447	164,347	408,252	739,009
Additions	–	212	678	17	6,029	6,936
Transfer in/(out)	–	–	5,365	211	(5,576)	–
At 31 December 2015 and 1 January 2016	62,239	5,936	104,490	164,575	408,705	745,945
Additions	–	162	7	–	3,327	3,496
Write-off (<i>Note a</i>)	–	–	(116)	(34)	(9,249)	(9,399)
At 31 December 2016	62,239	6,098	104,381	164,541	402,783	740,042
Accumulated depreciation and impairment:						
At 1 January 2015	(4,293)	(2,281)	(16,012)	(2,588)	–	(25,174)
Provided for the year	(2,952)	(835)	(6,538)	(38)	–	(10,363)
At 31 December 2015 and 1 January 2016	(7,245)	(3,116)	(22,550)	(2,626)	–	(35,537)
Provided for the year	(2,952)	(725)	(7,053)	–	–	(10,730)
Impairment recognised during the year (<i>Note b</i>)	(30,901)	(310)	(45,508)	(95,950)	(250,880)	(423,549)
Write-off (<i>Note a</i>)	–	–	34	7	–	41
At 31 December 2016	(41,098)	(4,151)	(75,077)	(98,569)	(250,880)	(469,775)
Net carrying amount:						
At 31 December 2016	21,141	1,947	29,304	65,972	151,903	270,267
At 31 December 2015	54,994	2,820	81,940	161,949	408,705	710,408

- (a) During the year, the Group has adjusted items of property, plant and equipment of RMB9,358,000 mainly regarding the write-back of construction sum payable on several constructions upon the judgements in relation to the litigation become final and binding (*Note 18*).

(b) Impairment assessment in 2016

In accordance with the Group's accounting policies, each asset or cash-generating unit ("CGU") is evaluated annually at end of each reporting period, to determine whether there are any indications of impairment. If any such indications of impairment exist, a formal estimate of the recoverable amount is performed.

During the year, the Group has yet to resume the trial production of the iron concentrate business at the Yanjiazhuang Mine as principally affected by local issues and nuisance together with the Disaster happened in July 2016.

For the gabbro-diorite and stone business of the Group, Xingye had been formulating preliminary plan to upgrade the environmental protection measures at the production facilities of crushed stone and railway ballast at the Yanjiazhuang Mine (the "Environmental Upgrade") during the first half of 2016. However, inclement weather took place in Hebei Province, the PRC in late July 2016 caused floods and landslides in the region, and resulted in economic losses and disruption, and in turn new demands from the local villagers to Xingye. Such new demands entail additional time for the management of Xingye to negotiate and discuss with the local villagers with a view to settling or satisfying such demands. As such, the originally planned Environmental Upgrade as well as the original target to resume the trial production of iron concentrates at the Yanjiazhuang Mine have to be further postponed.

Having regard to the above postponement in the resumption of iron concentrate trial production and the Environmental Upgrade at the Yanjiazhuang Mine and also the possible reduction in profitability of the iron concentrate business in the long run, as well as the persistent oversupply situation leading to a generally falling trend of iron concentrate prices from 2013 to 2016 and market outlook, management has performed impairment assessment on the carrying amounts of the Group's property, plant and equipment, intangible assets and prepaid land lease payments related to the Yanjiazhuang Mine. For the purpose of impairment assessment, iron concentrate CGU and gabbro-diorite and stone CGU are treated as two separate CGUs.

Iron concentrate CGU:

In assessing whether an impairment is required, the carrying value of the asset of iron concentrate CGU is compared with its recoverable amount. The recoverable amount is the higher of the CGU's fair value less costs of disposal and value in use ("VIU"). The recoverable amounts of iron concentrate CGU were estimated based on its VIU, determined by discounting the future cash flows to be generated from the continuing use of this CGU. The recoverable amounts are determined based on a VIU calculation using cash flow projections according to financial budgets covering a five-year period approved by management with pre-tax discount rate of 20.55%. The CGU cash flows beyond the five year period are extrapolated using a 2% growth rate until the end of the respective asset useful lives. Other key assumptions used in the estimation of VIU are as follows:

Recoverable reserves – Economic recoverable reserves represent Xingye management’s expectations at the time of completing the impairment testing, which comprise proved and probable reserves based on independent technical report. In addition, the mining permit in respect of the Yanjiazhuang Mine will expire in July 2017. The management of Xingye has started to look into its renewal arrangements and is planning to initiate the renewal application in the coming months. Consultation has been made with PRC legal advisers and the relevant authorities on the steps and approvals required from the relevant authorities for such renewal. However, as the mining operation at the Yanjiazhuang Mine has been suspended for a certain period of time, the management anticipates that Xingye would encounter complications and difficulties during the renewal process, and need more efforts and time to communicate with the relevant authorities and to complete the renewal process. Xingye will also endeavor to identify the alternatives that could help on the renewal of the mining permit so as to give impetus to the upcoming application progress.

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins of the first five-year period are based on the industry average gross margin achieved, adjusted for Xingye management’s expectations for possible changes in the production costs and estimated market prices. The budgeted gross margins beyond the five year period are based on independent technical report. In order to foster the local villagers to resolve the local matters in an agreeable manner, the management of Xingye has preliminary proposal that, by allowing the local villagers to participate in Xingye’s mining operations at the Yanjiazhuang Mine, the local villagers could be awarded based on the performance of the iron concentrate business (when resumed). Such proposal lead to the possible reduction in profitability of the iron concentrate CGU, and is however still subject to more negotiations with the local village representatives as well as the local authorities, and finalisation and also to the renewal of the mining permit of the Yanjiazhuang Mine.

Production volumes and production start date – Estimated production volumes of the first five-year period and production start date are based on the detailed life of mine plans and take into account development plans of the mine agreed by Xingye management. For the production volumes beyond the five year period are based on independent technical report.

Discount rate – The discount rate used is pre-tax and reflects specific risks.

The values assigned to key assumptions are consistent with external information sources.

Gabbro-diabase and stone CGU:

In assessing whether an impairment is required, the carrying value of the asset of gabbro-diabase and stone CGU is compared with its recoverable amount. The recoverable value of gabbro-diabase and stone CGU was determined based on fair value less costs of disposal calculation.

Based on the above-mentioned impairment assessment, the recoverable amounts, carrying amounts and impairment provision of iron concentrate CGU and gabbro-diabase and stone CGU as at 31 December 2016 are as follows:

	Recoverable amount RMB’000	Carrying amount RMB’000	Impairment provision RMB’000
Iron concentrate CGU	259,000	635,256	376,256
Gabbro-diabase and stone CGU	<u>5,599</u>	<u>103,641</u>	<u>98,042</u>

The impairment provision on iron concentrate CGU and gabbro-diabase and stone CGU as at 31 December 2016 resulted in impairment on the following assets:

Impairment loss recognised on property, plant and equipment

An impairment loss of RMB423,549,000 was recognised during the year to write down the carrying amounts of the property, plant and equipment of iron concentrate CGU and gabbro-diabase and stone CGU to their respective recoverable amounts of RMB256,714,000 and RMB5,599,000 respectively as at 31 December 2016.

Impairment loss recognised on intangible assets

An impairment loss of RMB48,790,000 (*Note 10*) was recognised during the year to write down the carrying amounts of the mining right of iron concentrate CGU and gabbro-diabase and stone CGU to their respective recoverable amounts of RMB938,000 and nil respectively as at 31 December 2016.

Impairment loss recognised on prepaid land lease payments

An impairment loss of RMB1,959,000 (*Note 11*) was recognised during the year to write down the carrying amount of the prepaid land lease payments of iron concentrate CGU to its recoverable amount of RMB1,348,000 as at 31 December 2016.

10. INTANGIBLE ASSETS

The Group's intangible assets represent mining rights at the Yanjiazhuang Mine located in Lincheng County, Hebei Province, the PRC. The mining permit is valid until 26 July 2017.

	2016 RMB'000	2015 <i>RMB'000</i>
Cost:		
At beginning of year and end of the year	<u>50,088</u>	<u>50,088</u>
Accumulated amortisation and impairment:		
At beginning of the year	(150)	(89)
Amortisation during the year	(210)	(61)
Impairment recognised for the year (<i>Note 9</i>)	<u>(48,790)</u>	<u>–</u>
At end of the year	<u>(49,150)</u>	<u>(150)</u>
Net carrying amount:		
At end of the year	<u><u>938</u></u>	<u><u>49,938</u></u>

At 31 December 2016, the impairment provision of RMB48,790,000 (2015: Nil) was made for certain of the intangible assets, details of which are included in Note 9.

11. PREPAID LAND LEASE PAYMENTS

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Carrying amount at 1 January	3,408	3,509
Recognised during the year	(101)	(101)
Impairment recognised for the year (<i>Note 9</i>)	<u>(1,959)</u>	<u>–</u>
Carrying amount at 31 December	1,348	3,408
Current portion included in prepayments, deposits and other receivables	<u>(41)</u>	<u>(101)</u>
Non-current portion	<u><u>1,307</u></u>	<u><u>3,307</u></u>

The Group's leasehold lands are situated in the PRC with lease terms of 40 years and the land use right certificates expiring in September 2049.

At 31 December 2016, the impairment provision of RMB1,959,000 (2015: Nil) was made for the prepaid land lease payments, details of which are included in Note 9.

12. INVENTORIES

The Group's inventories are carried at cost or net realisable value.

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Raw material and spare parts	3,706	3,927
Semi-finished products	3,751	5,707
Finished products – Gabbro-Diabase and Stone	<u>9,607</u>	<u>6,162</u>
	17,064	15,796
Inventory provision	<u>(7,871)</u>	<u>(1,880)</u>
	<u><u>9,193</u></u>	<u><u>13,916</u></u>

13. TRADE AND BILLS RECEIVABLES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Trade receivable	313	3,142
Bills receivable	<u>38,331</u>	<u>–</u>
	38,644	3,142
Less: Impairment	<u>(313)</u>	<u>–</u>
Total	<u><u>38,331</u></u>	<u><u>3,142</u></u>

The Group's trading terms with its customers generally require letters of credit or deposits 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.

An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2016 RMB'000	2015 <i>RMB'000</i>
Within 1 month	38,331	—
1 to 3 months	<u>—</u>	<u>3,142</u>
Total	<u>38,331</u>	<u>3,142</u>

The movements in provision for impairment of trade receivables are as follows:

	2016 RMB'000	2015 <i>RMB'000</i>
At beginning of year	—	—
Impairment loss recognised (<i>Note 4</i>)	<u>313</u>	<u>—</u>
At end of year	<u>313</u>	<u>—</u>

Included in the above provision for impairment of trade receivables is a full provision for individually impaired trade receivable of RMB313,000 (2015: Nil).

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 RMB'000	2015 <i>RMB'000</i>
Advances to suppliers	26,479	21,921
Other tax receivables	12,705	12,799
Deposits	3,740	2,983
Bank interest receivables	589	888
Prepaid land lease payments, current portion	41	101
Others	<u>2,240</u>	<u>2,094</u>
	45,794	40,786
Impairment of prepayments	<u>(12,987)</u>	<u>—</u>
	<u>32,807</u>	<u>40,786</u>

The above impairment of prepayments represented full provision for certain individually impaired prepayments (2015: Nil).

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

The carrying amounts of prepayments, deposits and other receivables closely approximate to their respective fair values.

15. CASH AND BANK BALANCES

	2016 RMB'000	2015 <i>RMB'000</i>
Cash and bank balances	77,125	14,388
Time deposits	<u>325,719</u>	<u>515,845</u>
	402,844	530,233
<i>Less: Restricted bank balances (Note 18)</i>	<u>(1,466)</u>	<u>(1,192)</u>
Cash and cash equivalents	<u>401,378</u>	<u>529,041</u>

Cash and bank balances are denominated in RMB as at 31 December 2016 and 2015, except for the following:

	2016 RMB'000	2015 <i>RMB'000</i>
(RMB equivalent)		
Cash and bank balances denominated in:		
US\$	64,701	49
HK\$	<u>233,628</u>	<u>6,222</u>
	<u>298,329</u>	<u>6,271</u>

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods ranging from one day to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

The carrying amounts of the cash and bank balances in the consolidated statement of financial position approximate to their fair values.

16. 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:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Within 6 months	124	4,165
6 months to 1 year	1,426	6
Over 1 year	1,132	174
	<u>2,682</u>	<u>4,345</u>

The trade payables are non-interest-bearing and normally settled on 60-day terms.

17. OTHER PAYABLES AND ACCRUALS

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Payables to suppliers or contractors for the addition of items of property, plant and equipment (<i>Note a</i>)	25,420	33,267
Gabbro-diabase resources fee payable, current portion (<i>Note b</i>)	21,480	14,320
Accrued interest expenses	5,746	4,707
Due to related parties	2,250	—
Other payables	32,856	17,940
Total	<u>87,752</u>	<u>70,234</u>

- (a) During the year, the Group has written-back the construction sum payable of RMB6,084,000 on several constructions upon the judgements in relation to the litigation become final and binding (*Note 18*).
- (b) In respect of the mining permit for gabbro-diabase at the Yanjiazhuang Mine, the fourth and the fifth instalments of the gabbro-diabase resources fee payable, which amounted to RMB14.3 million, in aggregate, together with the associated cost of funds, was already due for settlement in August 2015 and 2016 respectively but remained unpaid. In view of the unfavourable economic and market outlook, the management has been in communication with the relevant government authorities and seeking to negotiate for more favourable payment terms, which include the extension of payment schedule for the remaining resources fee payable. However, the negotiations have yet to turn into any attainment.

Except for the current portion of gabbro-diabase resources fee payable and the construction sum payable that related to the litigation (*Note 18*), which bear interest at floating rates linked to the RMB loan prime rate, other payables are unsecured and non-interest-bearing.

18. LEGAL MATTERS UPDATE

Since March 2013, a subsidiary of the Company (the “Defendant”) was involved in litigation as a defendant regarding construction sum payable arising out of the ordinary course of business (the “Litigation”). After trial, judgement (the “Trial Judgement”) was issued by the Higher People’s Court of Hebei in March 2016 in relation to the Litigation, and the Defendant made an appeal against the Trial Judgement in April 2016 to the Supreme People’s Court of the PRC. In mid-August 2016, the Supreme People’s Court of the PRC issued its judgement (the “Appeal Judgement”). Such Appeal Judgement was served on the Defendant in late August 2016. Pursuant to the Appeal Judgement, the Supreme People’s Court of the PRC upheld the Trial Judgement, and ruled that, among others:

- (a) the Defendant shall pay to the Plaintiff the outstanding construction fees of about RMB16.4 million, and the interest accrued on the outstanding construction fees up to the date on which the payment is made in full, at the then prevailing interest rates as announced by the People’s Bank of China for the comparable loans;
- (b) the Defendant shall bear the litigation costs and expenses of about RMB0.9 million in aggregate; and
- (c) the Defendant’s counterclaim was dismissed.

Following the delivery of the Appeal Judgement, the plaintiff has been taking legal steps to recover the outstanding construction fees and related costs and interests (the “Judgement Sum”) from the Defendant. As a result, some of the machineries and equipment of the Defendant had been freezed by the local court so that they may not be transferred, pledged or disposed of pending settlement of the Judgement Sum. Certain bank balances of approximately RMB1.3 million of the Defendant have also been withdrawn by a local court as partial settlement to the plaintiff during the year, and the usage of certain bank balances of RMB1.5 million (*Note 15*) of the Defendant is subject to restrictions. The Defendant has been in close contact with the plaintiff and the local court to ascertain the settlement plan of the remaining Judgement Sum payable to the plaintiff.

The Judgement Sum (including the outstanding construction fee payable of about RMB16.4 million) had already been fully recognised as the Group’s other payables and accruals (*Note 17*) in its audited consolidated financial statements for the year ended 31 December 2016.

Subsequent to the end of Reporting Period, in March 2017, certain machineries and equipment of the Defendant, with net carrying value amounting to approximately RMB8.9 million as at 31 December 2016, has been freezed by the local court pursuant to the Trial and Appeal Judgements.

CHAIRMAN'S STATEMENT

The Group has been pursuing various business opportunities in 2016.

2016 was the first year of the 13th Five-Year Plan of the PRC, witnessing the establishment of five development concepts of “Innovation, Coordination, Green, Opening-up and Sharing”. The PRC’s long term strategy to facilitate all-round economic and social development resulted in rapid growth of industry and local community, and had driven the development of infrastructure including high-speed rails and highways in Mainland China, facilitating the increase in the demand for crushed stone and railway ballast. Amid the steady development of China’s economy and indirectly due to the implementation of the industrial reform and overcapacity cutting policy in heavy polluted industries, the import price of iron ore rose during 2016, bringing opportunities for the Group to expand into trading business.

During the Reporting Period, the Group recorded revenue of approximately RMB84.6 million, representing a significant increase as compared to the Corresponding Prior Period, mainly attributable to the Group’s iron ore trading business.

Unfortunately, a sudden rainstorm havocked the facilities and roads in Yanjiazhuang area, forcing the Yanjiazhuang Mine to suspend its production once again, further hindering the Group’s business development in the area. This, coupled with the unresolved land expropriation issue, has led to further demands from local villagers, and has resulted in the continued suspension of the trial production of iron concentrates at the Yanjiazhuang Mine during the Reporting Period and the postponement of the Environmental Upgrade. The management of Xingye is trying to address the new demands of local villagers and actively negotiating with the local village representatives and the local authorities to seek a complete solution to the matters. The Board will pay close attention to the negotiation and the latest development, and adopt appropriate measures so as to safeguard the interests of the Group and its Shareholders.

It is encouraging that the Group has diversified its income source by developing into an iron mining downstream business during the year in respect of iron ore trading business. The Group also caught the opportunity in the car-park business. Such diversification provides the Group with an opportunity to strengthen its performance in the long run.

Looking into the future, the Group will pay close attention to the business development at the Yanjiazhuang Mine and the requirements of relevant laws and regulations. The mining permit of the Yanjiazhuang Mine will expire in July 2017. Complications and difficulties are expected to be encountered during the renewal process. The Group will monitor the progress so as to formulate a strategy in respect of the Yanjiazhuang Mine. I hope the management and all our staff members can sustain the momentum and expand the iron ore trading business and car-park business to an economically viable scale, bringing benefits to the Shareholders in the long run. The Group will prudently explore the mergers and acquisitions opportunities and seek collaboration and market possibilities, enabling further diversification of the Group’s business and revenue so as to reach the Group’s goal for sustainable development.

I would like to 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 would like to express my sincere thanks to the Shareholders, customers, suppliers, banks and business partners for their support.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

In 2016, the PRC's gross domestic product grew by approximately 6.7% when compared to that of previous year, representing a steady economic growth as anticipated at the beginning of the year.

Following the promotion of an integrated transport network by the PRC government amid steady economic growth, the development of infrastructure projects including high-speed rails and highways in Hebei and surrounding provinces increased the demand for crushed stone and railway ballast, thus bringing potential business opportunities for the Group's gabbro-diabase and stone business.

In terms of steel sector, the PRC government's strict enforcement of laws and regulations in relation to environmental protection, reduction of energy consumption, quality control, production safety and technology and its policies on industrial reform, coupled with Mainland China (especially Hebei) was seriously affected by the haze weather, the tightening up of discharge standards on pollutants from industrial enterprises by local governments and authorities and to meet the target of cutting overcapacity ahead of schedule, have resulted in the overall decrease in the production output of iron ore in Mainland China.

Despite these, the development of the Group's trading business during the Reporting Period has benefited from the rebound in iron ore prices in 2016 boosted by the decreasing iron ore supply resulting from resolving overcapacity, the impressive trade performance of iron ore in the commodities market, and the relatively strong support for iron ore import prices in Mainland China. Steel prices had suffered from an early stagger in 2017, as a result of the weak steel market outlook due to higher-than-expected inventory built up. The Group will pay close attention to the supply and demand in the market as well as the changes in inventory level to seek opportunities and ways to expand the trading business.

Lastly, the Hong Kong government has commenced a review on parking policy to accord priority in considering and meeting the parking demand of commercial vehicles and will explore improvement measures depending on the review results. The Group believes car-park business has great potential for development and expansion, attributable to the increasing car-park charges resulting from limited supply of parking spaces in the short term. The Hong Kong government's intention to increase the number of parking spaces and the ongoing policy review will create an environment suitable for business development in the long term, stabilising the market while reducing vicious competition.

Business Review

The Group's business remained staggering in 2016. During the Reporting Period, although the Group was pursuing its business promotion for highway crushed stone and railway ballast progressively, the production at Yanjiazhuang Mine were suspended again due to the unforeseen requirement for an environmental protection upgrade and the floods and damages caused by heavy rains in the region, which further hampered our business development in the area. Conformed to the Group's development strategy to continuously explore and expand its business portfolio, the management proactively considered diversifying the Group's business and commenced the trading business and car-park business during the year, which could form a basis for the Group's business expansion in 2017.

Gabbro-Diabase and Stone Business

The demand for highway crushed stone and railway ballast was on the increase with the infrastructure development in Mainland China, such as high-speed rails and highway. The Group also hopes to generate continuous cash flow from the production and sales of gabbro-diabase, highway crushed stone and railway ballast products.

In line with the general trend in the policy for environmental protection and emission reduction in Mainland China and with the purpose of constructing an environmental friendly mine and enhancing the utilisation rate of ore resources, the Group installed environmental protection structures at its production facilities for highway crushed stone and railway ballast and other sites for the production of gabbro-diabase, so as to mitigate any adverse impact on surrounding area during the production process. The Group also places great emphasis on production safety at the production facilities for highway crushed stone and railway ballast, making every effort to provide staff with a safe working environment.

However, the environmental protection authority (the “EPA”) has been conducting the evaluation of environmental risk associated with the closure, suspension and relocation of the relevant enterprises as part of the PRC government’s efforts to attain the overall objective of carrying out green growth, development and improving the quality of the ecosystem and environmental quality under the 13th Five-Year Plan. In the first half of 2016, Xingye received a notice from the local EPA that it was required to upgrade the environmental protection measures of the production facilities at the Yanjiazhuang Mine for highway crushed stone and railway ballast (the “Environmental Upgrade”). The management of Xingye has then been developing a preliminary plan for the Environmental Upgrade. However, inclement weather took place in Hebei Province, the PRC in late July 2016, causing floods and landslides in the region as well as life and economic losses and business disruption (the “Disaster”). Certain roads in Yanjiazhuang area and other safety facilities were damaged by the Disaster so that Xingye was not able to carry out its sales and production as usual and causing the originally planned Environmental Upgrade to be postponed. Attributed to the Disaster and in view of these damages, the management of Xingye had been facing new demands from the local villagers, which could not have been foreseen earlier or satisfied. Liaisons with local villages in this respect have been ongoing, and more time would be required to ascertain, settle or satisfy these new demands. In view of the foregoing and considering that the disputes with the local villagers arising from the land expropriation and other local issues (including the above new demands) surrounding the Yanjiazhuang Mine, the management of Xingye informed local employees of production, operation and sales functions to suspend from attending work on a temporary basis until further notice so as to reduce losses. It is believed that this staffing arrangement will help to reduce the operating and administrative costs of Xingye.

During the Reporting Period, the Group recorded revenue of approximately RMB4.8 million (Corresponding Prior Period: approximately RMB3.4 million) from the sales of highway crushed stone and railway ballast products. The slight increase in the revenue was primarily attributable to the marketing efforts of Xingye to expand its customer network in the first half of 2016, hoping to enhance the Group’s revenue.

Apart from business operation, in respect of the mining permit for gabbro-diabase at the Yanjiazhuang Mine, the fourth and fifth instalments of the resources fee payable, which amounted to RMB14.3 million in aggregate, together with the associated cost of funds, were already due for settlement in August 2015 and 2016 respectively but remained unpaid. In view of the unfavourable economic and market outlook, the management of Xingye has been in communication with the relevant government authorities and seeking to negotiate for more favourable payment terms, which include the extension of payment schedule for the remaining resources fee payable. However, the negotiations have yet to turn into any attainment.

With respect to the progress in the application for a production safety permit for the gabbro-diabase business, because of the tightening of the environmental protection policy by the PRC government, Xingye has not yet received further information regarding the issue of the permit after its submission of required documents to the relevant authorities for approval, and the representatives from the Safety Authority completed the on-site inspection, assessment and acceptance procedures and confirming the Group's production safety qualification. The Group expects that it may take longer time for the government authorities to coordinate and arrange for the issuance of the permit, which is beyond the control of the Group. As such, the management could not ascertain the timing for Xingye to obtain the permit, which has added uncertainties to the future development of the Group's gabbro-diabase and stone business. The Group will continue to follow up the progress in the issue of the permit.

Since the production of gabbro-diabase and stone business was suspended as a result of the postponement in the Environmental Upgrade at the Yanjiazhuang Mine due to the aforesaid unfavourable factors, the Group recognised an impairment loss of approximately RMB98.0 million related to the assets of the gabbro-diabase and stone business of the Yanjiazhuang Mine for FY 2016.

Further discussion of the infrastructure development for the gabbro-diabase and stone business carried out during the Reporting Period is set out in the section headed "Capital Expenditure and Infrastructure Development".

Iron Concentrate Business

During the Reporting Period, the Group has yet to resume the trial production of the iron concentrate business at the Yanjiazhuang Mine as affected by local issues and nuisance together with the Disaster happened in July 2016. However, the Group is still endeavoring to explore the possibility of resuming the trial production at the Yanjiazhuang Mine.

Despite a slight rebound in the market prices of iron concentrate from last year during the Reporting Period, the original target to resume the trial production at the Yanjiazhuang Mine had to be further postponed due to the impact of the Disaster. As stated in the earlier discussion, the management of Xingye is handling the new demands from the local villagers associated with the Disaster, and Xingye needs more time to negotiate and discuss with the local villagers to resolve or satisfy these new demands. To cope with the resumption of the iron concentrate business, in order to foster the local villagers to resolve the local matters in an agreeable manner, the management of Xingye has preliminary proposal that, by allowing the local villagers to participate in Xingye's mining operations at the Yanjiazhuang Mine, the local villagers could be awarded based on the performance of the iron concentrate business (when resumed). Such proposal is however still subject to more negotiations with the local village representatives as well as the local authorities, and finalisation and also to the renewal of the mining permit of the Yanjiazhuang Mine. The management of Xingye will also continue to explore more alternatives and consider other collaboration possibilities as appropriate with the aim to bring back the operation at the Yanjiazhuang Mine.

Moreover, the judgements in relation to the litigation regarding construction sum payable out of the ordinary course of business of the Group become final and binding in August 2016, and the Group has adjusted for the related accounts payable and recognised the relevant costs and expenses and finance charges according to the judgements in the consolidated financial statements for FY 2016. For details of the litigation, please refer to the section headed "Legal Matters Update".

Having regard to the above postponement in the resumption of iron concentrate trial production at the Yanjiazhuang Mine due to the above unfavourable factors, and also the possible reduction in profitability of the iron concentrate business in the long run, as well as the persistent oversupply situation leading to a generally falling trend of iron concentrate prices from 2013 to 2016 and market outlook, the Group has recognised an impairment loss of approximately RMB376.3 million related to the assets of the iron concentrate business of the Yanjiazhuang Mine for FY 2016.

Regarding the permits, the mining permit in respect of the Yanjiazhuang Mine will expire in July 2017. The management of Xingye has started to look into its renewal arrangements and is planning to initiate the renewal application in the coming months. Consultation has been made with PRC legal advisers and the relevant authorities on the steps and approvals required from the relevant authorities for such renewal. However, as the mining operation at the Yanjiazhuang Mine has been suspended for a certain period of time, the management anticipates that Xingye would encounter complications and difficulties during the renewal process, and need more efforts and time to communicate with the relevant authorities and to complete the renewal process. Xingye will also endeavor to identify the alternatives that could help on the renewal of the mining permit so as to give impetus to the upcoming application progress.

With respect to the progress in the renewal of a production safety permit for iron mining, because of the tightening of the environmental protection policy by the PRC government, Xingye has not yet received further information regarding the renewal of the permit after its submission of required documents to the relevant authorities for approval, and the representatives from the Safety Authority completed the on-site inspection, assessment and acceptance procedures and confirming the Group's production safety qualification. The Group expects that it may take longer time for the government authorities to coordinate and arrange for the issuance of the permit, which is beyond the control of the Group. As such, the management could not ascertain the timing for Xingye to obtain the permit, which has added uncertainties to the future development of the Group's iron concentrate business. The Group will continue to follow up the progress in the renewal of the permit.

During the Reporting Period, the expansion plans for the Yanjiazhuang Mine were hindered by the disputes over the land expropriation. For details, please refer to the section headed "Capital Expenditure and Infrastructure Development".

Trading Business

In addition to the operations at the Yanjiazhuang Mine, the Group has been actively pursuing other business and investment opportunities so as to achieve the objectives of carrying out sustainable development and diversifying its business and revenue source, thereby enhancing its overall performance. In particular, the Group has been looking into the possibility and taking the appropriate steps to expand its iron concentrate business to the downstream trading business of iron ore and steel products.

In the second half of 2016, the Group started its trading business through a newly formed wholly-owned subsidiary. The trading business primarily involves the supply and sales of commodities (iron ore) at this stage. The Group is striving to expand the trading business to the supply and trading of other commodities, steel products and other building and construction materials so as to broaden its revenue source and expand its business portfolio.

During the Reporting Period, the Group sold approximately 137,000 tonnes of iron ore and recognised revenue of approximately RMB79.6 million. The management is targeting to expand the trading business in an orderly manner, and will consider to liaise with the leading enterprises in this industry about the possibility of business cooperation, or even the opportunity for the Group to carry out long-term business cooperation with overseas mines and factories directly so as to pave the way for the Group's long-term development.

Car-Park Business

During the Reporting Period, the Group also started to engage in the car-park business through a non-wholly owned subsidiary attempting to look for possibilities in operating and managing car-parks. The Group is soliciting the operating rights or management contracts for car-parks by way of tendering or business negotiation.

In November 2016, the Group was awarded a contract for car-park operation in a commercial building situated in a prime location on the Hong Kong Island by an independent third party for a tenor of three years. At present, the car-park business is generating rental income for the Group based on the occupancy of the relevant car-parks. During the Reporting Period, the Group recognised revenue of approximately RMB0.2 million from the car-park business.

Going forward, the Group will continue to actively look for additional opportunities in car-park operation or management projects in Hong Kong and Mainland China to make the business grow to a commercial scale and generate stable cash flow for the Group.

Other Businesses

Last but not the least, the Group set up a wholly-owned subsidiary in September 2016 to engage in the securities investment and treasury management business (the "Securities and Treasury Investment Business") and to engage in debt investment and provision of finance business (the "Debt Investment and Financing Business"). The Securities and Treasury Investment Business will involve short-term trading and short-to-mid-term investment of equity securities, derivatives and treasury products. The Debt Investment and Financing Business will involve short-to-mid-term investment of debt securities and also the provision of secured or unsecured financing to corporations. To streamline the operations and to strengthen the internal control procedures of the Group in light of the new business development as mentioned above, the Board has established an investment committee for the purposes of, among others, reviewing and providing recommendations to the Board for appropriate securities dealing, investment and treasury strategies, and considering, reviewing, evaluating, approving and/or making recommendations to the Board on different investment opportunities from time to time proposed by the management team of the Group.

Subsequently, in view of the working capital requirements for the development of other businesses (including the trading business), the Group has slowed down the implementation plan and resource allocation for the Securities and Treasury Investment Business as well as the Debt Investment and Financing Business at the present stage. Subject to, among other things, financial resources of the Group and market conditions, the Group would evaluate the feasibility of developing Securities and Treasury Investment Business as well as Debt Investment and Financing Business.

Capital Expenditure and Infrastructure Development

During the Reporting Period, the Group incurred capital expenditure amounting to approximately RMB3.5 million, mainly relating to the preliminary Environmental Upgrade surrounding the two crushed stone and railway ballast production facilities and the adjustment for construction progress upon the judgements in relation to the litigation become final and binding, details of which are set out in the section headed “Legal Matters Update”.

Gabbro-Diabase and Stone Business

During the Reporting Period, the Group had carried out the preliminary Environmental Upgrade surrounding the two crushed stone and railway ballast production facilities.

Capital expenditure of the gabbro-d diabase and stone business during the year ended 31 December 2016 and 2015 are indicated below:

	2016 <i>RMB' million</i>	2015 <i>RMB' million</i>
Construction costs	1.8	0.7
Equipment and others	0.1	6.0
Total	<u>1.9</u>	<u>6.7</u>

During the Reporting Period, the new contracts and commitments entered into by the Group for the gabbro-d diabase and stone business including those related to infrastructure projects (road and railway), subcontracting agreements and purchases of equipment amounted to approximately RMB2.1 million (2015: approximately RMB5.8 million).

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. Because of the judgement in relation to the litigation become final and binding, details of which are set out in the section headed “Legal Matters Update”, the Group has adjusted for the construction costs of several constructions of the iron concentrate business during the year ended 31 December 2016 amounted to approximately RMB1.2 million (2015: Nil).

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 years ended 31 December 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 RMB4.5 million, as recognised in the cost of sales during the Reporting Period (2015: approximately RMB2.1 million).

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Processing costs		
– Subcontracting fees	<u>3,220</u>	<u>1,718</u>
Overheads		
– Depreciation and amortisation	265	240
– Hauling	899	2
– Staff costs	49	119
– Others	<u>23</u>	<u>60</u>
	<u>1,236</u>	<u>421</u>
Total production costs for the gabbro-diabase and stone business	<u><u>4,456</u></u>	<u><u>2,139</u></u>

Iron Concentrate Business

During the years ended 31 December 2016 and 2015, the Group's iron concentrate production had not yet resumed and therefore no production cost of iron concentrates was recorded.

Iron Ore Resource and Reserve Estimates

As at 31 December 2016, details of the Group's mineral resource and ore reserve estimates at the Yanjiazhuang Mine under the JORC Code were summarised as below:

*Summary of mineral resources**

		JORC Mineral Resource Category	As at 31.12.2016 (Mt)	Average iron grade TFe (%)	As at 31.12.2015 (Mt)	Average iron grade TFe (%)
Percentage of ownership						
Yanjiazhuang Mine	99%	Measured	99.56	22.53	99.56	22.53
		Indicated	<u>211.96</u>	21.03	<u>211.96</u>	21.03
		Total	<u><u>311.52</u></u>	21.51	<u><u>311.52</u></u>	21.51

Summary of ore reserves*

		JORC Ore Reserve Category	As at 31.12.2016 (Mt)	Average iron grade TFe (%)	As at 31.12.2015 (Mt)	Average iron grade TFe (%)
Percentage of ownership						
Yanjiazhuang Mine	99%	Proved	85.56	21.39	85.56	21.39
		Probable	174.21	19.97	174.21	19.97
		Total	259.77	20.43	259.77	20.43

* Please refer to the independent technical report in the Company's prospectus dated 21 June 2011 for details of the assumptions and parameters used to calculate these iron ore resource and reserve estimates and quality of iron grade.

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 will start the renewal application process for the mining permit of the Group's Yanjiazhuang Mine in the coming months.

Gabbro-Diabase Resource Estimates

During the Reporting Period, the Group conducted mining activities with a very limited scale at the Yanjiazhuang Mine, which was later suspended due to the Disaster. The gabbro-diabase resources at the Yanjiazhuang Mine were estimated at approximately 207 million cubic metres and categorised as an Indicated Resource under the JORC Code as at 31 December 2016 and 2015.

In respect of the mining permit for gabbro-diabase at the Yanjiazhuang Mine, the fourth and the fifth instalments of the gabbro-diabase resources fee payable, which amounts to RMB14.3 million in aggregate, together with the associated cost of funds, were already due for settlement in August 2015 and 2016 respectively, but remained unpaid. In view of the unfavourable economic and market outlook, the management of Xingye has been in communication with the relevant government authorities and seeking to negotiate for more favourable payment terms, which include the extension of payment schedule for the remaining resources fee payable. However, the negotiations have yet to turn into any attainment.

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 will start the renewal application process for the mining permit of the Group's Yanjiazhuang Mine in the coming months.

Production Safety and Environmental Protection

The Group has been placing great emphasis on production safety and environmental protection. For this reason, a department responsible for production safety and management was established at Yanjiazhuang Mine. This department has been consistently promoting safety standards and strengthening environmental protection measures so as to raise the Group's sense of social responsibility and safety awareness. During the Reporting Period, no significant safety-related incidents were recorded in the operations at Yanjiazhuang Mine.

Considering the haze weather 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 impact of these policies 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 Yanjiazhuang Mine.

During the Reporting Period, Xingye received a notice from EPA requiring it to carry out the Environmental Upgrade at the Yanjiazhuang Mine. Although the management of Xingye has been developing a preliminary plan for the Environmental Upgrade, inclement weather and the Disaster in Hebei Province, the PRC, had caused the originally planned Environmental Upgrade to be postponed. Going forward, Xingye will further proceed with the Environmental Upgrade when the new demands at the Yanjiazhuang region are smoothed out.

Dividend

The Board does not recommend the payment of a dividend in respect of FY 2016 (2015: Nil).

Financial Review

During FY 2016, the Group recognised revenue of approximately RMB84.6 million (2015: approximately RMB3.4 million), increased by about 24 times. This large increase is mainly attributed to the commencement of the Group's trading business in 2016, which represented a new revenue source to the Group, of approximately RMB79.6 million during the Reporting Period.

The net loss for FY 2016 was approximately RMB543.5 million (2015: approximately RMB45.6 million). The loss attributable to owners of the Company amounted to approximately RMB538.1 million (2015: approximately RMB45.4 million). The basic and diluted loss per share for the Reporting Period was approximately RMB13.45 cents (2015: approximately RMB1.13 cents).

The overall increase in net loss was mainly attributed to impairment of assets at the Yanjiazhuang Mine (the "Impairment") of approximately RMB493.3 million, in aggregate, for FY 2016, which included (i) impairment of non-current assets at the Yanjiazhuang Mine of approximately RMB474.3 million (as further detailed in Note 9); (ii) impairment loss on and provision made for certain of the Group's prepayments and inventories of approximately RMB13.0 million and approximately RMB6.0 million respectively. Apart from the Impairment, the Group recognised an increase in administrative expenses and other expenses of approximately RMB6.6 million and RMB15.3 million respectively in FY 2016 which was partly offset by the Group's improvement in finance income by approximately RMB11.0 million, as compared to its finance expense in the Corresponding Prior Period, as further discussed below.

Revenue, Gross Profit and Gross Profit Margin

During FY 2016, the Group recognised revenue of approximately RMB84.6 million (2015: approximately RMB3.4 million), increased by about 24 times. This large increase in revenue is mainly attributed to the commencement of the Group's trading business in 2016, which represented a new revenue source to the Group, of approximately RMB79.6 million during the Reporting Period.

The Group recorded an overall gross profit of approximately RMB0.4 million (2015: approximately RMB1.3 million) and gross profit margin of 0.5% (2015: 38.2%) during the Reporting Period. The Group has adopted a relatively competitive pricing policy for its products of the trading business and the gabbro-diabase and stone business with a view to further expand the clientele, which has led to the overall decrease in gross profit during the Reporting Period.

Cost of Sales

The Group's cost of sales for the Reporting Period amounted to approximately RMB84.2 million which mainly comprised the purchases of iron concentrates from overseas suppliers for the trading business. For the Corresponding Prior Year, the Group's cost of sales of approximately RMB2.1 million arose from the production of railway ballast, crushed stone and gabbro-diabase products, and mainly comprised operating costs incurred in relation to staff, materials, power and other utilities, hauling expenses, subcontracting fees, depreciation and amortization, further details of which are set out in the section headed "Production Costs of the Yanjiazhuang Mine".

Administrative Expenses

Administrative expenses increased by 17% to approximately RMB44.9 million during the Reporting Period, as compared to approximately RMB38.3 million for the Corresponding Prior Period. The increase was mainly due to the recognition of legal and litigation costs and expenses in relation to a litigation as referred to in the paragraph "Legal Matters Update" below of approximately RMB3.9 million (2015: Nil) upon the judgements become final and binding and the write-down of inventories to net realisable value of approximately RMB6.0 million for the fall in market selling prices and slow-moving items (2015: approximately RMB1.1 million) during the Reporting Period. This increase has been partially offset by overall reduction in staff costs as a result of the measures taken to streamline the labour force and reduce the operating outlays of Xingye.

Other Expenses

Other expenses of approximately RMB15.3 million (2015: Nil) represented the estimated possible payments that may accrue on the outstanding gabbro-diabase resources fee payable of approximately RMB8.7 million, and interest accrual on the remaining construction sum payable as a result of the litigation of approximately RMB4.8 million; and the losses and damages to the Group's assets of approximately RMB1.4 million attributable to the Disaster happened at the Yanjiazhuang Mine in late July 2016.

Impairment Losses

Having regard to the postponement in the resumption of iron concentrate trial production and the Environment Upgrade at the Yanjiazhuang Mine and also the possible reduction in profitability of the iron concentrate business in the long run, as well as the persistent oversupply situation leading to a generally falling trend of iron concentrate prices from 2013 to 2016 and market outlook, the Group recognised impairment losses on property, plant and equipment of approximately RMB423.5 million, intangible assets of approximately RMB48.8 million and prepaid land lease payments of approximately RMB2.0 million. Details of these impairment losses are further set out in Notes 9, 10 and 11.

Finance Income/(Expense)

The Group recorded finance income of approximately RMB4.4 million during the Reporting Period, as compared to the finance expense of approximately RMB6.6 million in FY 2015. The improvement was driven by an increase in the Group's HKD-denominated deposits to mitigate the currency exposure arising from the HKD-denominated bank borrowings and the repayment of certain HKD-denominated bank borrowings during the Reporting Period. As a result, the Group recorded a net foreign exchange gain of approximately RMB0.9 million in FY 2016, as compared to a net foreign exchange losses of approximately RMB18.7 million in FY 2015 as a result of the unfavourable exchange movements in RMB against other currencies in that year.

Income Tax Expense

The income tax expense represented the current period provision for the Hong Kong profits tax and the PRC corporate income tax ("CIT") calculated at the tax rate applicable to the entities located in or deemed to be operating in Hong Kong or Mainland China, where applicable, as determined in accordance with the relevant income tax rules and regulations for both years.

No income tax was recognised for the Reporting Period as the Group made a loss in both years, and it is considered to be premature to recognise the deferred tax assets as at 31 December 2016 and 2015. Further details about the Group's income tax are set out in Note 6.

Property, Plant and Equipment and Intangible Assets

As at 31 December 2016, the Group's property, plant and equipment and intangible assets had net book values of approximately RMB270.3 million and approximately RMB0.9 million, respectively, (2015: approximately RMB710.4 million and approximately RMB49.9 million, respectively), representing 36% and 0% (2015: 53% and 4%) of total assets of the Group. The substantial decrease during the Reporting Period was mainly attributable to the respective impairment loss of approximately RMB423.5 million (2015: Nil) and approximately RMB48.8 million (2015: Nil).

Inventories

As at 31 December 2016, the Group's inventories amounted to approximately RMB9.2 million (2015: approximately RMB13.9 million). The decrease in inventories of 34% was mainly because of the write-down of inventories to their net realisable value by approximately RMB6.0 million for the fall in market selling prices and slow-moving items (2015: approximately RMB1.1 million) during the Reporting Period.

Trade and Bills Receivables

The Group's trade and bills receivables increased by about 11 times, from approximately RMB3.1 million as at 31 December 2015 to approximately RMB38.3 million as at 31 December 2016. The increase in receivables was attributed to the commencement of the Group's new trading business which received a bills receivable from a customer of approximately RMB38.3 million in late 2016 (2015: Nil).

Prepayments, Deposits and Other Receivables

As at 31 December 2016, the Group's balance of prepayments, deposits and other receivables was approximately RMB32.8 million (2015: approximately RMB40.8 million). It was decreased by 20% because the Group recognised an impairment of certain prepayments of approximately RMB13.0 million, in aggregate, that have been long outstanding with delays in delivery and thus considered to be irrecoverable.

Other Payables and Accruals and Long-term Payables

As at 31 December 2016, the Group's balance of other payables and accruals was approximately RMB87.8 million (2015: approximately RMB70.2 million). The overall increase in balance by 25% was mainly attributable to (i) the last instalment of gabbro-diabase resources fee payable of approximately RMB7.2 million becoming mature for payment and classified as a current liability at 31 December 2016, which was the Group's long-term payables as at 31 December 2015, (ii) the accrual for the estimated possible payments that may accrue on the outstanding gabbro-diabase resources fee payable of approximately RMB8.7 million, and (iii) the related interest accruals of approximately RMB4.8 million during the FY 2016 arising from the litigation upon the judgements become final and binding as further discussed in the section headed "Legal Matters Update".

In addition, in respect of the mining permit for gabbro-diabase at the Yanjiazhuang Mine, the fourth and fifth instalments of the gabbro-diabase resources fee payable, which amounts to RMB14.3 million, in aggregate, together with the associated cost of funds, were already due for settlement but remained unpaid, further details of which are set out in the section headed "Business Review: Gabbro-Diabase and Stone Business" and Note 17.

Liquidity and Financial Resources

As at 31 December 2016, the Group's cash and cash equivalents amounted to approximately RMB401.4 million (2015: approximately RMB529.0 million), of which 25.7% are denominated in RMB, 58.2% are denominated in HKD and 16.1% are denominated in USD (2015: 98.8% denominated in RMB and 1.2% denominated in HKD), representing 53.1% (2015: 39.1%) of total assets of the Group. In addition, the Group's restricted bank balances were approximately RMB1.5 million as at 31 December 2016 (2015: approximately RMB1.2 million), further details of which are set out in "Legal Matters Update" section.

The Group's net cash position (calculated as cash and cash equivalents less total borrowings) was approximately RMB177.8 million (2015: approximately RMB244.1 million). The liquidity ratio (calculated as current assets divided by current liabilities) was approximately 1.5 as at 31 December 2016 (2015: approximately 1.6).

During the Reporting Period, the Group paid approximately RMB3.8 million for the settlement of the Group's addition of items of property, plant and equipment (2015: approximately RMB6.7 million).

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 31 December 2016, the total equity of the Group amounted to approximately RMB433.5 million (2015: approximately RMB977.0 million).

As the Group had net cash position of approximately RMB177.8 million and RMB244.1 million as at 31 December 2016 and 2015, respectively, it is therefore not considered to have any net gearing as at these dates.

Loans, Indebtedness and Maturity Date

As at 31 December 2016, the Group's HKD-denominated bank borrowings amounted to HK\$250.0 million (equivalent to approximately RMB223.6 million) (2015: HK\$340.0 million (equivalent to approximately RMB284.9 million)). These 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 31 December 2016, no property, plant and equipment or leasehold land or land use rights were pledged for the Group's bank borrowings.

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

The Group's functional currency is RMB as its operating assets are primarily located in the PRC with transactions settled in RMB. During the Reporting Period, the Group has commenced the trading business and car-park business, with transactions settled in USD and HKD respectively, while the bank borrowings of the Group are denominated in HKD. In light of the depreciation and fluctuation of RMB against HKD and other currencies since August 2015, the Group has increased its balance of HKD-denominated deposits to mitigate the currency exposure arising from the HKD-denominated bank borrowings and the repayment of certain HKD-denominated bank borrowings during the Reporting Period. As a result, the Group recorded a net foreign exchange gain of approximately RMB0.9 million in FY 2016, as compared to a net foreign exchange loss of approximately RMB18.7 million in FY 2015 as a result of the unfavourable exchange movements in RMB against other currencies in that year. In view of the diversification of the Group's business during the year, the management will closely observe the movements in RMB exchange rates and market interest rates and consider any rearrangement of its sources of financing and deposit portfolio where appropriate.

During the Reporting Period, the Group has transactional currency exposures. Such exposures arose from the sales and purchases of products by operating units in currencies other than the Group's functional currencies. Approximately 94% (2015: Nil) and 98% (2015: Nil) of the Group's sales and purchases, respectively, were denominated in foreign currency (the USD).

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 four reportable operating segments, the “Iron Concentrates” segment, “Gabbro-Diabase and Stone” segment, “Trading Business” segment and “Car-Park Business” segment. An analysis of the Group’s revenue by operating segment is as follows:

	2016 RMB’000	2015 RMB’000
Trading Business	79,641	—
Gabbro-Diabase and Stone	4,753	3,421
Car-Park Business	190	—
Iron Concentrates	—	—
	84,584	3,421

Further details of the Group’s segment results are set out in Note 3.

Furthermore, the majority of the Group’s non-current assets are located in the PRC in both years and an analysis of the Group’s revenue from the external customers by geographical segment is as follows:

	2016 RMB’000	2015 RMB’000
Mainland China	46,070	3,421
Asia	38,324	—
Hong Kong	190	—
	84,584	3,421

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

Capital Commitments

The Group’s commitments for capital expenditure were approximately RMB39.3 million as at 31 December 2016 (2015: approximately RMB61.6 million). 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.

Legal Matters Update

Since March 2013, a subsidiary of the Company (the “Defendant”) was involved in litigation as a defendant regarding construction sum payable arising out of the ordinary course of business (the “Litigation”). After trial, judgement (the “Trial Judgement”) was issued by the Higher People’s Court of Hebei in March 2016 in relation to the Litigation, and the Defendant made an appeal against the Trial Judgement in April 2016 to the Supreme People’s Court of the PRC. In mid-August 2016, the Supreme People’s Court of the PRC issued its judgement (the “Appeal Judgement”). Such Appeal Judgement was served on the Defendant in late August 2016. Pursuant to the Appeal Judgement, the Supreme People’s Court of the PRC upheld the Trial Judgement, and ruled that, among others:

- (a) the Defendant shall pay to the Plaintiff the outstanding construction fees of about RMB16.4 million, and the interest accrued on the outstanding construction fees up to the date on which the payment is made in full, at the then prevailing interest rates as announced by the People’s Bank of China for the comparable loans;
- (b) the Defendant shall bear the litigation costs and expenses of about RMB0.9 million in aggregate; and
- (c) the Defendant’s counterclaim was dismissed.

Following the delivery of the Appeal Judgement, the plaintiff has been taking legal steps to recover the outstanding construction fees and related costs and interests (the “Judgement Sum”) from the Defendant. As a result, some of the machineries and equipment of the Defendant had been freezed by the local court so that they may not be transferred, pledged or disposed of pending settlement of the Judgement Sum. Certain bank balances of approximately RMB1.3 million of the Defendant have also been withdrawn by a local court as partial settlement to the plaintiff during the Reporting Period, and the usage of certain bank balances of RMB1.5 million (*Note 15*) of the Defendant is subject to restrictions. The Defendant has been in close contact with the plaintiff and the local court to ascertain the settlement plan of the remaining Judgement Sum payable to the plaintiff.

The Judgement Sum (including the outstanding construction fee payable of about RMB16.4 million) had already been fully recognised as the Group’s other payables and accruals (*Note 17*) in its audited consolidated financial statements for the year ended 31 December 2016.

Subsequent to the end of Reporting Period, in March 2017, certain machineries and equipment of the Defendant, with net carrying value amounting to approximately RMB8.9 million as at 31 December 2016, has been freezed by the local court pursuant to the Trial and Appeal Judgements.

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

31 December 2016

Number of employees

136

Type	Approximate percentage to the total number of employees	
	Number of employees	of employees
Production, sale and operation	91	67
Management and administrative support	45	33
Total	136	100

As at 31 December 2016, the Group had a total of 136 (2015: 142) full-time employees in Hong Kong and Mainland China (excluding workers under the piece-rate system and workers from the independent third-party contractors).

Hit by a number of unfavorable factors and the Disaster in July 2016, the iron concentrate business continued to be suspended and the Environmental Upgrade was postponed as well. To reduce loss, the management of Xingye had informed local employees of production, operation and sales functions to suspend from attending work on a temporary basis until further notice. Pursuant to the PRC relevant laws and regulations, Xingye is required to pay the statutory minimum wages to its employees to support their living. The management of Xingye will review the situation and get the appropriate employees back to work in an orderly and timely manner.

The Group formulates its human resources allocation and 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 line with their individual performances and industry practice. Appropriate training programmes are also offered to ensure continuous staff training and development to keep the Group competitive.

Use of Net Proceeds

The net proceeds raised from the IPO of the Company in 2011 amounted to approximately RMB1,052 million. As at 31 December 2016, the application of the net proceeds raised from the IPO of the Company is set out as below.

	Net Proceeds from the IPO				
	Revised use of proceeds	Utilised			Unutilised
		At	During		
		beginning	FY	At end	At end
		of year	2016	of year	of year
	<i>RMB'</i>	<i>RMB'</i>	<i>RMB'</i>	<i>RMB'</i>	<i>RMB'</i>
	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>
Development of iron concentrate business at Yanjiazhuang Mine, the Securities and Treasury Investment Business, the Debt Investment and Financing Business and the Trading Business (<i>Note a</i>)	463	154	94	248	215
Development of gabbro-diabase business	173	91	3	94	79
Repayment of shareholders' loans	105	105	–	105	–
Working capital	32	32	–	32	–
General working capital, acquisitions and financial management (<i>Note b</i>)	279	183	96	279	–
	<u>1,052</u>	<u>565</u>	<u>193</u>	<u>758</u>	<u>294</u>

Note a: These IPO proceeds were mainly utilised for the purchases of the Group's trading business during the FY 2016.

Note b: These IPO proceeds were mainly utilised for financial management (repayment of the Group's bank borrowings) and working capital purposes during the FY 2016.

During the Reporting Period, attributed to the expansion and diversification of the Group's businesses, the Company has approved the reallocation and future application of the above unutilised net proceeds, as further detailed in the Company's announcements dated 7 October 2016 and 1 November 2016.

Outlook and Future Plans

In 2016, dramatic changes have been taking place in the global political and economic development, while the new economic policies and environmental requirements of the PRC government presented many variables and challenges to the business development of the Group. To better meet the challenges posed by these external environments, the management has been looking for other business and investment opportunities to enable it to achieve the goal of carrying out sustainable development and diversifying business and revenue sources, thereby enhancing the Group's overall performance.

During the Reporting Period, the Group has successfully carried out the trading business and car-park business and expanded its business to Hong Kong and overseas countries. The Group would maintain this momentum in the next several years to further expand the existing business to a scale of economic efficiency and to create benefits for its Shareholders in the long run. The Group is striving to expand the trading business to the supply and trading of other commodities, steel products and other building and construction materials so as to broaden its revenue source and expand its business portfolio. The management is targeting to expand the trading business in an orderly manner, and will consider to liaise with the leading enterprises in this industry about the possibility of business cooperation, or even the opportunity for the Group to carry out long-term business cooperation with overseas mines and factories directly so as to pave the way for the Group's long-term development.

In addition to our efforts to expand the trading business and car-park business, the management of Xingye continues to negotiate with local village representatives and authorities and to implement various ways to resume the operations at the Yanjiazhuang Mine. We hope Xingye is able to resume the gabbro-diabase and stone business and iron concentrate business gradually and orderly in compliance with laws and regulations and under appropriate market conditions.

Regarding the permits, the tightening national requirements for 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 stepping up its control over the issuance of permits. This, together with the changes in government policies, has caused delays in the renewal and issuance of certain permits in relation to the operation at the Yanjiazhuang Mine. Xingye will continue its communications with the relevant government authorities to facilitate the renewal and issuance of the production safety permits. In addition, EPA is now conducting the evaluation of environmental risk associated with the closure, suspension and relocation of the relevant enterprises as part of the PRC government's efforts to attain the overall objective of carrying out green development and improving the quality of the ecosystem and environmental quality under the 13th Five-Year Plan. The Group will closely monitor the relevant requirements under 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.

Furthermore, the mining permit in respect of the Yanjiazhuang Mine will expire in July 2017. The management of Xingye has started to look into its renewal arrangements and is planning to initiate the renewal application in the coming months. Consultation has been made with PRC legal advisers and the relevant authorities on the steps and approvals required from the relevant authorities for such renewal. However, as the mining operation at the Yanjiazhuang Mine has been suspended for a certain period of time, the management anticipates that Xingye would encounter complications and difficulties during the renewal process, and need more efforts and time to communicate with the relevant authorities and to complete the renewal process. The Group will monitor the progress so as to formulate a strategy in respect of the Yanjiazhuang Mine.

Apart from the above business development, the Group will cautiously capture overseas mergers and acquisitions and other collaboration or investment opportunities in order to achieve sustainable development. The Group will assess, on an ongoing basis, the possible impact of external environmental factors such as political, economic, social and technological development in China, Hong Kong and the world on its existing business, and will adjust its business and investment strategies if necessary in an attempt to adapt itself to the new environment.

CORPORATE GOVERNANCE PRACTICES

The Board strongly believes that corporate governance is an integral part of the Company's mission in our pursuit of growth and value creation. The Board strives to attain and uphold a high standard of corporate governance and to maintain sound and well-established corporate governance practices for the interest of the Shareholders. During FY 2016, we adopted corporate governance principles that emphasize a quality Board, effective risk management and internal control systems, stringent disclosure practices, transparency and complete accountability towards all the stakeholders of the Company.

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 the Appendix 14 of the Listing Rules throughout the Reporting Period. So far as known to the Directors, there has been no material deviation from the CG Code during 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.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors.

Specific enquiry has been made of all the Directors and all of them have confirmed that they have complied with the required standards as set out in the Model Code throughout FY 2016.

The Company has also established written guidelines (the "Code for Securities Transactions by Relevant Employees") on no less exacting terms than the Model Code for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company. Each of the relevant employees has been given a copy of the Code for Securities Transactions by Relevant Employees.

The Company was not aware of any incident of non-compliance with the Code for Securities Transactions by Relevant Employees throughout FY 2016.

Formal notifications are sent by the Company to its Directors and relevant employees reminding them that they should not deal in the securities of the Company during the "black-out period" specified in the Model Code.

AUDIT COMMITTEE AND REVIEW OF ANNUAL RESULTS

The Audit Committee currently comprises three independent non-executive Directors, including Mr. Tsui King Fai (Chairman of the Audit Committee), who possesses the appropriate professional qualification or accounting or related financial management expertise, Mr. Lee Kwan Hung and Mr. Shin Yick, Fabian. None of the members of the Audit Committee is a former partner of the Company's existing external auditors. The specific written terms of reference of the Audit Committee, which was revised on 30 December 2015 in light of the amendment of the Listing Rules, are available on the websites of the Company and the Hong Kong Exchanges and Clearing Limited. The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting process, risk management and internal control systems. The Audit Committee has in conjunction with management reviewed the accounting principles and practices adopted by the Group and discussed risk management and internal control systems and financial reporting matters including a review of the annual results and the audited consolidated financial statements of the Group for FY 2016 and the independent auditors' report thereon.

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

During FY 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 17 May 2017 to Tuesday, 23 May 2017 (both days inclusive), during which no transfer of the Shares will be registered. In order to be eligible to attend and vote at the 2017 AGM, all transfer of the Shares accompanied by the relevant properly completed transfer forms and the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Tuesday, 16 May 2017.

ANNUAL GENERAL MEETING

The 2017 AGM of the Company for FY 2016 is scheduled to be held on Tuesday, 23 May 2017. A notice convening the 2017 AGM will be issued and disseminated to the Shareholders in due course.

CONSTITUTIONAL DOCUMENTS

The Memorandum and Articles were revised on 19 May 2016 by special resolution in the 2016 AGM in order to, among others, conform with the latest amendments to the Listing Rules and the Companies Ordinance, and the administrative efficiency and housekeeping purposes. The details of the amendments to the Memorandum and Articles were set out in the circular of the Company dated 18 April 2016 and the amended and restated Memorandum and Articles are available on the websites of the Company and the Hong Kong Exchanges and Clearing Limited.

Save as disclosed above, there was no significant change in the Company's constitutional document during FY 2016.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the websites of the Hong Kong Exchanges and Clearing Limited and the Company. The annual report 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:

“AGM”	an annual general meeting 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 on the main board of the Stock Exchange
“Companies Ordinance”	Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“Director(s)”	the director(s) of the Company
“FY 2015” or “Corresponding Prior Period”	the financial year ended 31 December 2015
“FY 2016” or “Reporting Period”	the financial year ended 31 December 2016
“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
“IPO”	the initial public offering of the Shares which were listed on the main board of the Stock Exchange on 4 July 2011
“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 Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Memorandum and Articles”	the memorandum and articles of association of the Company
“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, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Safety Authority”	the relevant government authority for the granting of production safety permit(s) for iron mining and gabbro-diabase products
“Share(s)”	existing ordinary share(s) of HK\$0.10 each in the share capital 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\$” or “USD”	the United States dollar, the lawful currency of the United States of America

“Xingye”

Lincheng Xingye Mineral Resources Co., Ltd (臨城興業礦產資源有限公司), a subsidiary of the Company as to 99.0% of its equity interest

“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
Wu Wai Leung, Danny
Non-Executive Director

Hong Kong, 29 March 2017

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 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.