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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 2017

The Board wishes to announce the audited consolidated annual results of the Group for FY 2017 together with the comparative figures for FY 2016 as follows:–

#### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

|                                                  | Notes | 2017<br>RMB'000        | 2016<br>RMB'000         |
|--------------------------------------------------|-------|------------------------|-------------------------|
| <b>Revenue</b>                                   | 4     | <b>648,890</b>         | 84,584                  |
| Cost of sales                                    |       | <u>(647,490)</u>       | <u>(84,178)</u>         |
| <b>Gross profit</b>                              |       | <b>1,400</b>           | 406                     |
| Other income and gains                           | 4     | <b>4,653</b>           | 17                      |
| Selling and distribution costs                   |       | <b>(297)</b>           | (871)                   |
| Administrative expenses                          |       | <b>(35,579)</b>        | (44,918)                |
| 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                                   |       | <b>(7,673)</b>         | (15,251)                |
| Finance (expense)/income, net                    | 6     | <u><b>(9,706)</b></u>  | <u>4,391</u>            |
| <b>Loss before tax</b>                           | 5     | <b>(47,202)</b>        | (543,511)               |
| Income tax expense                               | 7     | <u><b>(241)</b></u>    | <u>–</u>                |
| <b>Loss for the year</b>                         |       | <u><b>(47,443)</b></u> | <u><b>(543,511)</b></u> |

|                                                                                        | <i>Notes</i> | <b>2017</b><br><b><i>RMB'000</i></b> | 2016<br><i>RMB'000</i>  |
|----------------------------------------------------------------------------------------|--------------|--------------------------------------|-------------------------|
| <b>Other comprehensive income</b>                                                      |              |                                      |                         |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods: |              |                                      |                         |
| Exchange differences on translation of foreign operations                              |              | <u>7</u>                             | <u>—</u>                |
| <b>Other comprehensive income for the year, net of tax</b>                             |              | <u>7</u>                             | <u>—</u>                |
| <b>Total comprehensive loss for the year</b>                                           |              | <b><u>(47,436)</u></b>               | <b><u>(543,511)</u></b> |
| Loss attributable to:                                                                  |              |                                      |                         |
| Owners of the Company                                                                  |              | <b>(46,545)</b>                      | (538,055)               |
| Non-controlling interests                                                              |              | <u>(898)</u>                         | <u>(5,456)</u>          |
|                                                                                        |              | <b><u>(47,443)</u></b>               | <b><u>(543,511)</u></b> |
| Total comprehensive loss attributable to:                                              |              |                                      |                         |
| Owners of the Company                                                                  |              | <b>(46,570)</b>                      | (538,055)               |
| Non-controlling interests                                                              |              | <u>(866)</u>                         | <u>(5,456)</u>          |
|                                                                                        |              | <b><u>(47,436)</u></b>               | <b><u>(543,511)</u></b> |
| <b>LOSS PER SHARE ATTRIBUTABLE TO<br/>ORDINARY EQUITY HOLDERS OF THE COMPANY</b>       |              |                                      |                         |
| Basic and diluted ( <i>RMB cent</i> )                                                  | 9            | <b><u>(1.16)</u></b>                 | <b><u>(13.45)</u></b>   |

Details of the dividends payable and proposed for the year are disclosed in Note 8.

# **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

31 December 2017

|                                                     | Notes | 2017<br>RMB'000 | 2016<br>RMB'000 |
|-----------------------------------------------------|-------|-----------------|-----------------|
| <b>Non-current assets</b>                           |       |                 |                 |
| Property, plant and equipment                       | 10    | 266,162         | 270,267         |
| Intangible assets                                   | 11    | 938             | 938             |
| Prepaid land lease payments                         | 12    | 1,266           | 1,307           |
|                                                     |       | <u>268,366</u>  | <u>272,512</u>  |
| <b>Current assets</b>                               |       |                 |                 |
| Inventories                                         | 13    | 5,452           | 9,193           |
| Trade and bills receivables                         | 14    | 77,331          | 38,331          |
| Prepayments, deposits and other receivables         | 15    | 49,910          | 32,807          |
| Cash and bank balances                              | 16    | 373,598         | 402,844         |
|                                                     |       | <u>506,291</u>  | <u>483,175</u>  |
| <b>Current liabilities</b>                          |       |                 |                 |
| Trade and bills payables                            | 17    | 79,074          | 2,682           |
| Other payables and accruals                         | 18    | 92,175          | 87,752          |
| Interest-bearing bank borrowing                     |       | 208,975         | 223,625         |
| Income tax payables                                 |       | 7,875           | 7,634           |
|                                                     |       | <u>388,099</u>  | <u>321,693</u>  |
| <b>Net current assets</b>                           |       | <u>118,192</u>  | <u>161,482</u>  |
| <b>Total assets less current liabilities</b>        |       | <u>386,558</u>  | <u>433,994</u>  |
| <b>Non-current liability</b>                        |       |                 |                 |
| Long-term payable                                   |       | 500             | 500             |
| <b>Net assets</b>                                   |       | <u>386,058</u>  | <u>433,494</u>  |
| <b>Equity</b>                                       |       |                 |                 |
| <b>Equity attributable to owners of the Company</b> |       |                 |                 |
| Share capital                                       |       | 331,960         | 331,960         |
| Reserves                                            |       | 58,346          | 104,916         |
|                                                     |       | <u>390,306</u>  | <u>436,876</u>  |
| <b>Non-controlling interests</b>                    |       | <u>(4,248)</u>  | <u>(3,382)</u>  |
| <b>Total equity</b>                                 |       | <u>386,058</u>  | <u>433,494</u>  |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

|                                                           | Attributable to owners of the Company |                       |                  |                              |                    | Non-controlling interests | Total equity   |
|-----------------------------------------------------------|---------------------------------------|-----------------------|------------------|------------------------------|--------------------|---------------------------|----------------|
|                                                           | Share capital                         | Share premium account | Capital reserves | Exchange fluctuation reserve | Accumulated losses |                           |                |
|                                                           | RMB'000                               | RMB'000               | RMB'000          | RMB'000                      | RMB'000            | RMB'000                   | RMB'000        |
| At 1 January 2016                                         | 331,960                               | 719,871               | 80,864           | –                            | (157,764)          | 974,931                   | 977,005        |
| Loss for the year                                         | –                                     | –                     | –                | –                            | (538,055)          | (538,055)                 | (543,511)      |
| Other comprehensive income for the year                   | –                                     | –                     | –                | –                            | –                  | –                         | –              |
| Total comprehensive loss for the year                     | –                                     | –                     | –                | –                            | (538,055)          | (538,055)                 | (543,511)      |
| At 31 December 2016 and 1 January 2017                    | 331,960                               | 719,871               | 80,864           | –                            | (695,819)          | 436,876                   | 433,494        |
| Loss for the year                                         | –                                     | –                     | –                | –                            | (46,545)           | (46,545)                  | (47,443)       |
| Other comprehensive income/(loss) for the year:           |                                       |                       |                  |                              |                    |                           |                |
| Exchange differences on translation of foreign operations | –                                     | –                     | –                | (25)                         | –                  | (25)                      | 7              |
| Total comprehensive loss for the year                     | –                                     | –                     | –                | (25)                         | (46,545)           | (46,570)                  | (47,436)       |
| At 31 December 2017                                       | <u>331,960</u>                        | <u>719,871*</u>       | <u>80,864*</u>   | <u>(25)*</u>                 | <u>(742,364)*</u>  | <u>390,306</u>            | <u>386,058</u> |

\* These reserve accounts comprise the consolidated reserves of RMB58,346,000 (2016: RMB104,916,000) in the consolidated statement of financial position.

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
*Year ended 31 December 2017*

|                                                           | <i>Notes</i> | <b>2017</b><br><b>RMB'000</b> | <b>2016</b><br><b>RMB'000</b> |
|-----------------------------------------------------------|--------------|-------------------------------|-------------------------------|
| <b>Cash flows from operating activities</b>               |              |                               |                               |
| Loss before tax                                           |              | <b>(47,202)</b>               | (543,511)                     |
| Adjustments for:                                          |              |                               |                               |
| Depreciation of items of property, plant and equipment    | 5            | <b>4,761</b>                  | 10,730                        |
| Amortisation of intangible assets                         | 5            | —                             | 210                           |
| Amortisation of prepaid land lease payments               | 5            | <b>41</b>                     | 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 receivable                            | 5            | —                             | 313                           |
| Impairment loss on prepayments                            |              | —                             | 12,987                        |
| Write-down of inventories to net realisable value         | 5            | <b>1,888</b>                  | 5,991                         |
| Write-off of items of property, plant and equipment       | 5            | <b>470</b>                    | 694                           |
| Write-off of inventories                                  | 5            | —                             | 749                           |
| Finance expense/(income), net                             | 6            | <b>9,706</b>                  | (4,391)                       |
| <b>Cash flows before working capital changes</b>          |              | <b>(30,336)</b>               | (41,829)                      |
| Decrease/(increase) in inventories                        |              | <b>1,853</b>                  | (2,017)                       |
| Increase in trade and bills receivables                   |              | <b>(39,000)</b>               | (35,502)                      |
| Increase in prepayments, deposits and other receivables   |              | <b>(17,351)</b>               | (5,367)                       |
| Decrease/(increase) in restricted bank deposits           |              | <b>1,152</b>                  | (274)                         |
| Increase/(decrease) in trade and bills payables           |              | <b>76,392</b>                 | (1,663)                       |
| Increase in other payables and accruals                   |              | <b>17,955</b>                 | 18,293                        |
| <b>Cash from/(used in) operations</b>                     |              | <b>10,665</b>                 | (68,359)                      |
| Interest received                                         |              | <b>6,042</b>                  | 11,453                        |
| Bank charges paid                                         |              | <b>(545)</b>                  | (4)                           |
| <b>Net cash flows from/(used in) operating activities</b> |              | <b>16,162</b>                 | (56,910)                      |
| <b>Cash flows from investing activities</b>               |              |                               |                               |
| Purchase of items of property, plant and equipment        |              | <b>(15,144)</b>               | (3,806)                       |
| <b>Net cash flows used in investing activities</b>        |              | <b>(15,144)</b>               | (3,806)                       |
| <b>Cash flows from financing activities</b>               |              |                               |                               |
| Increase in restricted bank deposits                      |              | <b>(208,975)</b>              | —                             |
| Repayment of bank borrowings                              |              | —                             | (77,625)                      |
| Interest paid                                             |              | <b>(4,499)</b>                | (6,606)                       |
| <b>Net cash flows used in financing activities</b>        |              | <b>(213,474)</b>              | (84,231)                      |
| <b>Net decrease in cash and cash equivalents</b>          |              | <b>(212,456)</b>              | (144,947)                     |
| Cash and cash equivalents at beginning of year            |              | <b>401,378</b>                | 529,041                       |
| Effect of foreign exchange rate changes, net              |              | <b>(24,613)</b>               | 17,284                        |
| <b>Cash and cash equivalents at end of year</b>           |              | <b>164,309</b>                | 401,378                       |
| <b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>  |              |                               |                               |
| Cash and bank balances                                    |              | <b>373,598</b>                | 402,844                       |
| Restricted bank balances                                  |              | <b>(209,289)</b>              | (1,466)                       |
| <b>Cash and cash equivalents at end of year</b>           |              | <b>164,309</b>                | 401,378                       |

## Notes:

### 1. CORPORATE INFORMATION

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

During the 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 (the “IASB”) 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 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 revised IFRSs for the first time for the current year’s financial statements.

|                                                                                              |                                                                                             |
|----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
| Amendments to IAS 7                                                                          | <i>Disclosure Initiative</i>                                                                |
| Amendments to IAS 12                                                                         | <i>Recognition of Deferred Tax Assets for Unrealised Losses</i>                             |
| Amendments to IFRS 12 included in<br><i>Annual Improvements to<br/>IFRSs 2014-2016 Cycle</i> | <i>Disclosure of Interests in Other Entities: Clarification of<br/>the Scope of IFRS 12</i> |

None of the above amendments to IFRSs has had a significant financial effect on the Group’s financial statements. Disclosure has been made in Note 19 upon the adoption of amendments to IAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The nature and the impact of the amendments are described below:

- (a) Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in Note 19.
- (b) Amendments to IAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has not recognised any deductible temporary differences or assets that are in the scope of the amendments.

- (c) Amendments to IFRS 12 clarify that the disclosure requirements in IFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of IFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements as the Group did not have any disposal group held for sale as at 31 December 2017.

## 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 Transactions<sup>1</sup></i>                    |
| Amendments to IFRS 4                    | <i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts<sup>1</sup></i>                 |
| IFRS 9                                  | <i>Financial Instruments<sup>1</sup></i>                                                                 |
| Amendments to IFRS 9                    | <i>Prepayment Features with Negative Compensation<sup>2</sup></i>                                        |
| Amendments to IFRS 10 and IAS 28 (2011) | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>4</sup></i> |
| IFRS 15                                 | <i>Revenue from Contracts with Customers<sup>1</sup></i>                                                 |
| Amendments to IFRS 15                   | <i>Clarifications to IFRS 15 Revenue from Contracts with Customers<sup>1</sup></i>                       |
| IFRS 16                                 | <i>Leases<sup>2</sup></i>                                                                                |
| IFRS 17                                 | <i>Insurance Contracts<sup>3</sup></i>                                                                   |
| Amendments to IAS 40                    | <i>Transfers of Investment Property<sup>1</sup></i>                                                      |
| IFRIC-Int 22                            | <i>Foreign Currency Transactions and Advance Consideration<sup>1</sup></i>                               |
| IFRIC-Int 23                            | <i>Uncertainty over Income Tax Treatments<sup>2</sup></i>                                                |
| Annual Improvements 2014-2016 Cycle     | <i>Amendments to IFRS 1 and IAS 28<sup>1</sup></i>                                                       |

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>4</sup> No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

### IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt IFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of IFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements are summarised as follows:

#### (a) *Classification and measurement*

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value.

**(b) Impairment**

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months.

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15, issued in May 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group will adopt IFRS 15 on from 1 January 2018 and plans to adopt the full retrospective approach. During 2017, the Group has performed a detailed assessment on the impact of the adoption of IFRS 15.

The Group's principal activities consist of trading business, mining, processing and sale of iron concentrates and gabbro-diabase and stone products and car-park business. The expected impacts arising from the adoption of IFRS 15 on the Group are summarised as follows:

**(a) Principal versus agent considerations for the trading business**

The Group engages in commodity trading business and recognised revenue based on the sales contracts and has been considered as a principal after evaluation the four indicators for principal versus agent considerations.

Under IFRS 15, an entity is a principal (and, therefore, records revenue on a gross basis) if it controls a promised good or service before transferring that good or service to the customer. An entity is an agent (and, therefore, records as revenue the net amount that it retains for its agency services) if its role is to arrange for another entity to provide the goods or services. In order for an entity to conclude that it is providing the good or service to the customer, it must first control that good or service.

This is a change from IAS 18, under which an entity evaluates the indicators in order to make its principal versus agent determination. The three indicators in IFRS 15.B37 are similar to some of those included in current IFRS. However, the indicators in IFRS 15 are based on the concepts of identifying performance obligations and the transfer of control of goods and services. That is, under the new standard, an entity must first identify the specified good or service and determine whether it controls that specified good or service before evaluating the indicators. The indicators serve as support for the entity's control determination and are not a replacement of it. In addition, the new standard does not carry forward some indicators from IAS 18 (e.g., those relating to exposure to credit risk and the form of the consideration as a commission).

Upon the adoption of IFRS 15, the Group will consider the principal versus agent (if any) to evaluate whether a gross or net presentation is appropriate and are not expected to have any significant impact on the Group's results for the year.

**(b) Presentation and disclosure**

The presentation and disclosure requirements in IFRS 15 are more detailed than those under the current IAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in IFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on determining the transaction prices of those contracts that include variable consideration (if any), how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation. In addition, as required by IFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

**IFRS 16 Leases**

IFRS 16, issued in January 2016, replaces *IAS 17 Leases*, *IFRIC-4 Determining whether an Arrangement contains a Lease*, *SIC-15 Operating Leases – Incentives* and *SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt IFRS 16 from 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB5,570,000. Upon adoption of IFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

Except for the above, the Group is in the process of making an assessment of the impact of these new standards, amendment to standards and interpretations upon initial application. The Group is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

### **3. SEGMENT INFORMATION**

#### **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 Concentrate Business         | – | mining, processing and sale of iron concentrates                                              |
| Gabbro-Diabase and Stone Business | – | 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 profit/loss before tax. The adjusted profit/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<br>Concentrate<br>Business<br>RMB'000 | Gabbro-<br>Diabase<br>and Stone<br>Business<br>RMB'000 | Trading<br>Business<br>RMB'000 | Car-Park<br>Business<br>RMB'000 | Total<br>RMB'000 |
|----------------------------------------------------------------------------------------|--------------------------------------------|--------------------------------------------------------|--------------------------------|---------------------------------|------------------|
| <b>Year ended 31 December 2017</b>                                                     |                                            |                                                        |                                |                                 |                  |
| <b>Segment Revenue:</b>                                                                |                                            |                                                        |                                |                                 |                  |
| Sales to external customers                                                            | <u>–</u>                                   | <u>1,762</u>                                           | <u>644,730</u>                 | <u>2,398</u>                    | <u>648,890</u>   |
| <b>Segment Results</b>                                                                 | <b>6,140</b>                               | <b>(15,203)</b>                                        | <b>1,341</b>                   | <b>(1,437)</b>                  | <b>(9,159)</b>   |
| <b>Reconciliation:</b>                                                                 |                                            |                                                        |                                |                                 |                  |
| Interest income                                                                        |                                            |                                                        |                                |                                 | 6,244            |
| Corporate and other unallocated expenses                                               |                                            |                                                        |                                |                                 | (38,863)         |
| Interest expenses                                                                      |                                            |                                                        |                                |                                 | <u>(5,424)</u>   |
| Loss before tax                                                                        |                                            |                                                        |                                |                                 | <u>(47,202)</u>  |
| <b>Segment assets</b>                                                                  | <b>270,700</b>                             | <b>11,660</b>                                          | <b>94,496</b>                  | <b>1,865</b>                    | <b>378,721</b>   |
| Corporate and other unallocated assets                                                 |                                            |                                                        |                                |                                 | <u>395,936</u>   |
| Total assets                                                                           |                                            |                                                        |                                |                                 | <u>774,657</u>   |
| <b>Segment liabilities</b>                                                             | <b>15,923</b>                              | <b>51,346</b>                                          | <b>89,870</b>                  | <b>3,194</b>                    | <b>160,333</b>   |
| Corporate and other unallocated liabilities                                            |                                            |                                                        |                                |                                 | <u>228,266</u>   |
| Total liabilities                                                                      |                                            |                                                        |                                |                                 | <u>388,599</u>   |
| <b>Other segment information:</b>                                                      |                                            |                                                        |                                |                                 |                  |
| Write-off of items of property,<br>plant and equipment                                 | 318                                        | –                                                      | –                              | –                               | 318              |
| Corporate and other unallocated write-off of<br>items of property, plant and equipment |                                            |                                                        |                                |                                 | <u>152</u>       |
|                                                                                        |                                            |                                                        |                                |                                 | <u>470</u>       |
| Write-down of inventories to<br>net realisable value                                   | –                                          | 1,888                                                  | –                              | –                               | 1,888            |
| Depreciation and amortisation                                                          | 3,566                                      | 768                                                    | –                              | 52                              | 4,386            |
| Corporate and other unallocated depreciation                                           |                                            |                                                        |                                |                                 | <u>416</u>       |
|                                                                                        |                                            |                                                        |                                |                                 | <u>4,802</u>     |
| <b>Capital expenditure</b>                                                             | <b>–</b>                                   | <b>1,061</b>                                           | <b>–</b>                       | <b>26</b>                       | <b>1,087</b>     |
| Corporate and other unallocated<br>capital expenditure                                 |                                            |                                                        |                                |                                 | <u>50</u>        |
|                                                                                        |                                            |                                                        |                                |                                 | <u>1,137</u>     |

|                                                        | Iron<br>Concentrate<br>Business<br>RMB'000 | Gabbro-<br>Diabase<br>and Stone<br>Business<br>RMB'000 | Trading<br>Business<br>RMB'000 | Car-Park<br>Business<br>RMB'000 | Total<br>RMB'000 |
|--------------------------------------------------------|--------------------------------------------|--------------------------------------------------------|--------------------------------|---------------------------------|------------------|
| <b>Year ended 31 December 2016</b>                     |                                            |                                                        |                                |                                 |                  |
| <b>Segment Revenue:</b>                                |                                            |                                                        |                                |                                 |                  |
| Sales to external customers                            | <u>–</u>                                   | <u>4,753</u>                                           | <u>79,641</u>                  | <u>190</u>                      | <u>84,584</u>    |
| <b>Segment Results</b>                                 | (405,056)                                  | (118,389)                                              | 155                            | (237)                           | (523,527)        |
| <b>Reconciliation:</b>                                 |                                            |                                                        |                                |                                 |                  |
| Interest income                                        |                                            |                                                        |                                |                                 | 11,154           |
| Corporate and other unallocated expenses               |                                            |                                                        |                                |                                 | (23,493)         |
| Interest expenses                                      |                                            |                                                        |                                |                                 | <u>(7,645)</u>   |
| Loss before tax                                        |                                            |                                                        |                                |                                 | <u>(543,511)</u> |
| <b>Segment assets</b>                                  | 270,597                                    | 15,928                                                 | 43,060                         | 782                             | 330,367          |
| Corporate and other unallocated assets                 |                                            |                                                        |                                |                                 | <u>425,320</u>   |
| Total assets                                           |                                            |                                                        |                                |                                 | <u>755,687</u>   |
| <b>Segment liabilities</b>                             | 34,172                                     | 38,975                                                 | –                              | 2,279                           | 75,426           |
| Corporate and other unallocated liabilities            |                                            |                                                        |                                |                                 | <u>246,767</u>   |
| Total liabilities                                      |                                            |                                                        |                                |                                 | <u>322,193</u>   |
| <b>Other segment information:</b>                      |                                            |                                                        |                                |                                 |                  |
| Impairment loss on property,<br>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<br>lease payments      | 1,959                                      | –                                                      | –                              | –                               | 1,959            |
| Impairment of trade receivable                         | –                                          | 313                                                    | –                              | –                               | 313              |
| Impairment loss on prepayments                         | 12,987                                     | –                                                      | –                              | –                               | 12,987           |
| Write-off of items of property,<br>plant and equipment | 690                                        | 4                                                      | –                              | –                               | 694              |
| Write-off of inventories                               | –                                          | 749                                                    | –                              | –                               | 749              |
| Write-down of inventories to<br>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>11,041</u>    |
| <b>Capital expenditure</b>                             | 1,234                                      | 1,886                                                  | –                              | 143                             | 3,263            |
| Corporate and other unallocated<br>capital expenditure |                                            |                                                        |                                |                                 | <u>233</u>       |
|                                                        |                                            |                                                        |                                |                                 | <u>3,496</u>     |

## Geographical Segment Information

### (a) Revenue from external customers

|                | 2017<br>RMB'000 | 2016<br>RMB'000 |
|----------------|-----------------|-----------------|
| Hong Kong      | 439,836         | 190             |
| North America  | 86,906          | —               |
| Mainland China | 79,225          | 46,070          |
| Asia           | 42,923          | 38,324          |
|                | <u>648,890</u>  | <u>84,584</u>   |

### (b) Non-current assets

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

## Information about major customers

The analysis of the Group's major customers, which a single external customer has contributed 10% or more to the Group's revenue, is as follows:

|            | 2017<br>RMB'000 | 2016<br>RMB'000 |
|------------|-----------------|-----------------|
| Customer A | 178,967         | —               |
| Customer B | 86,906          | —               |
| Customer C | 79,712          | —               |
| Customer D | 79,655          | —               |
| Customer E | 77,463          | —               |
| Customer F | 67,733          | —               |
| Customer G | —               | 41,318          |
| Customer H | —               | 38,323          |
|            | <u>—</u>        | <u>38,323</u>   |

The revenue contributed by the above major customers are attributable to the Trading Business segment in both years.

#### 4. REVENUE AND OTHER INCOME AND GAINS

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 service rendered.

An analysis of revenue and other income and gains is as follows:

##### Revenue

|                        | 2017<br><i>RMB'000</i> | 2016<br><i>RMB'000</i> |
|------------------------|------------------------|------------------------|
| Sale of iron ore       | 644,730                | 79,641                 |
| Sale of stone products | 1,762                  | 4,753                  |
| Car-parking fee income | 2,398                  | 190                    |
|                        | <u>648,890</u>         | <u>84,584</u>          |

##### Other Income and Gains

|                                                                       | 2017<br><i>RMB'000</i> | 2016<br><i>RMB'000</i> |
|-----------------------------------------------------------------------|------------------------|------------------------|
| Gross rental income from the short-term leasing of moveable equipment | 1,709                  | —                      |
| Insurance compensation received                                       | 2,144                  | —                      |
| Others                                                                | 800                    | 17                     |
|                                                                       | <u>4,653</u>           | <u>17</u>              |

## 5. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

|                                                                                           |       | 2017    | 2016    |
|-------------------------------------------------------------------------------------------|-------|---------|---------|
|                                                                                           | Notes | RMB'000 | RMB'000 |
| Cost of inventories sold                                                                  |       | 644,567 | 83,913  |
| Cost of services provided                                                                 |       | 2,923   | 265     |
| Depreciation of items of property, plant and equipment                                    | 10    | 4,761   | 10,730  |
| Amortisation of intangible assets                                                         | 11    | –       | 210     |
| Amortisation of prepaid land lease payments                                               | 12    | 41      | 101     |
| Impairment of trade receivable                                                            | 14    | –       | 313     |
| Minimum lease payments under operating leases for office tenancy and a car-park           |       | 3,583   | 1,182   |
| Auditor's remuneration (including out-of-pocket expenses)                                 |       | 2,014   | 1,800   |
| Write-off of items of property, plant and equipment                                       |       | 470     | 694     |
| Write-off of inventories                                                                  |       | –       | 749     |
| Write-down of inventories to net realisable value                                         |       | 1,888   | 5,991   |
| (Write-back of interest)/interest on construction sum payable arising from the litigation |       | (4,761) | 4,761   |
| Estimated possible payments on the outstanding gabbro-diabase resources fee payable       |       | 12,201  | 8,735   |
| Gross rental income from the short-term leasing of moveable equipment                     |       | (1,709) | –       |
| Less: Direct operating expenses                                                           |       | 388     | –       |
| Net rental income                                                                         |       | (1,321) | –       |
| Employee benefit expense (excluding directors' remuneration)                              |       |         |         |
| – Wages, salaries and allowances                                                          |       | 10,050  | 9,614   |
| – Pension scheme contributions                                                            |       | 313     | 489     |

## 6. FINANCE (EXPENSE)/INCOME

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

|                                                  | 2017    | 2016    |
|--------------------------------------------------|---------|---------|
|                                                  | RMB'000 | RMB'000 |
| Bank interest income                             | 5,493   | 11,154  |
| Interest income from trade and bills receivables | 751     | –       |
| Interest on bank borrowing                       | (3,951) | (6,590) |
| Interest on trade and bills payables             | (549)   | –       |
| Other borrowing costs                            | (924)   | (1,055) |
| Net foreign exchange (losses)/gains              | (9,981) | 886     |
| Bank charges                                     | (545)   | (4)     |
| Finance (expense)/income, net                    | (9,706) | 4,391   |

## 7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year (2016: Nil).

The provision for the PRC corporate income tax ("CIT") is based on the CIT rate applicable to the entities located in or deemed to be operating in Mainland China as determined in accordance with the relevant income tax rules and regulations of the PRC for the years ended 31 December 2017 and 2016.

|                                 | 2017<br><i>RMB'000</i> | 2016<br><i>RMB'000</i> |
|---------------------------------|------------------------|------------------------|
| Current tax charge for the year |                        |                        |
| – Hong Kong                     | 241                    | –                      |
| – Mainland China                | –                      | –                      |
|                                 | <u>241</u>             | <u>–</u>               |

## 8. DIVIDEND

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2017 (2016: Nil).

## 9. 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 2017 and 2016.

The calculation of basic loss per share is based on:

|                                                                                                                     | 2017<br><i>RMB'000</i> | 2016<br><i>RMB'000</i> |
|---------------------------------------------------------------------------------------------------------------------|------------------------|------------------------|
| <b>Loss</b>                                                                                                         |                        |                        |
| Loss attributable to owners of the Company,<br>used in the basic loss per share calculation                         | <u>(46,545)</u>        | <u>(538,055)</u>       |
|                                                                                                                     | <i>'000</i>            | <i>'000</i>            |
| <b>Shares</b>                                                                                                       |                        |                        |
| Weighted average number of ordinary shares in issue during the year<br>used in the basic loss per share calculation | <u>4,000,000</u>       | <u>4,000,000</u>       |

Diluted loss per share was the same as the basic loss per share as the Company had no potentially dilutive ordinary shares in issue during the years ended 31 December 2017 and 2016.

## 10. PROPERTY, PLANT AND EQUIPMENT

|                                                     | Buildings<br><i>RMB'000</i> | Motor<br>vehicles,<br>fixtures and<br>others<br><i>RMB'000</i> | Machinery<br><i>RMB'000</i> | Mining<br>infrastructure<br><i>RMB'000</i> | Construction<br>in progress<br><i>RMB'000</i> | Total<br><i>RMB'000</i> |
|-----------------------------------------------------|-----------------------------|----------------------------------------------------------------|-----------------------------|--------------------------------------------|-----------------------------------------------|-------------------------|
| <b>Cost:</b>                                        |                             |                                                                |                             |                                            |                                               |                         |
| At 1 January 2016                                   | 62,239                      | 5,936                                                          | 104,490                     | 164,575                                    | 408,705                                       | 745,945                 |
| Additions                                           | –                           | 162                                                            | 7                           | –                                          | 3,327                                         | 3,496                   |
| Write-off                                           | –                           | –                                                              | (116)                       | (34)                                       | (9,249)                                       | (9,399)                 |
| At 31 December 2016 and<br>1 January 2017           | <b>62,239</b>               | <b>6,098</b>                                                   | <b>104,381</b>              | <b>164,541</b>                             | <b>402,783</b>                                | <b>740,042</b>          |
| Additions                                           | –                           | 76                                                             | 15                          | 658                                        | 388                                           | 1,137                   |
| Write-off                                           | –                           | –                                                              | –                           | –                                          | (470)                                         | (470)                   |
| Exchange realignment                                | –                           | (13)                                                           | –                           | –                                          | –                                             | (13)                    |
| At 31 December 2017                                 | <b>62,239</b>               | <b>6,161</b>                                                   | <b>104,396</b>              | <b>165,199</b>                             | <b>402,701</b>                                | <b>740,696</b>          |
| <b>Accumulated depreciation and<br/>impairment:</b> |                             |                                                                |                             |                                            |                                               |                         |
| At 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<br>during the year            | (30,901)                    | (310)                                                          | (45,508)                    | (95,950)                                   | (250,880)                                     | (423,549)               |
| Write-off                                           | –                           | –                                                              | 34                          | 7                                          | –                                             | 41                      |
| At 31 December 2016 and<br>1 January 2017           | <b>(41,098)</b>             | <b>(4,151)</b>                                                 | <b>(75,077)</b>             | <b>(98,569)</b>                            | <b>(250,880)</b>                              | <b>(469,775)</b>        |
| Provided for the year                               | <b>(1,210)</b>              | <b>(602)</b>                                                   | <b>(2,949)</b>              | –                                          | –                                             | <b>(4,761)</b>          |
| Exchange realignment                                | –                           | 2                                                              | –                           | –                                          | –                                             | 2                       |
| At 31 December 2017                                 | <b>(42,308)</b>             | <b>(4,751)</b>                                                 | <b>(78,026)</b>             | <b>(98,569)</b>                            | <b>(250,880)</b>                              | <b>(474,534)</b>        |
| <b>Net carrying amount:</b>                         |                             |                                                                |                             |                                            |                                               |                         |
| At 31 December 2017                                 | <b>19,931</b>               | <b>1,410</b>                                                   | <b>26,370</b>               | <b>66,630</b>                              | <b>151,821</b>                                | <b>266,162</b>          |
| At 31 December 2016                                 | <b>21,141</b>               | <b>1,947</b>                                                   | <b>29,304</b>               | <b>65,972</b>                              | <b>151,903</b>                                | <b>270,267</b>          |

### Impairment assessment in 2017

In accordance with the Group's accounting policies, each asset or cash-generating unit ("CGU") is evaluated at least annually at the 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.

For the purposes of impairment assessment, the Group's non-current assets are mainly located at the Yanjiazhuang Mine and divided among the iron concentrate CGU (also known as the Iron Concentrate Business segment) and the gabbro-diabase and stone CGU (also known as the Gabbro-Diabase and Stone Business segment), which are treated as two separate CGUs.

### ***Iron concentrate CGU:***

During the year ended 31 December 2017, the Group has yet to resume the trial production of the Iron Concentrate Business at the Yanjiazhuang Mine as affected by the land expropriation disputes and disturbances around, together with local issues and nuisance brought by the Disaster and the expiration of the Mining Permit in July 2017.

In view of these, management has performed an impairment assessment on the carrying amounts of the Group's property, plant and equipment, intangible assets and prepaid land lease payments of the iron concentrate CGU at 31 December 2017.

In assessing whether an impairment is required, the carrying value of the assets of the 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 its value in use ("VIU"). The recoverable amount of the iron concentrate CGU was estimated based on its VIU as determined by discounting the future cash flows to be generated from the continuing use of this CGU, rather than its fair value less costs of disposal which could not capture its future earning potential, and with reference to the valuation report issued by independent professionally qualified valuers. There was no change in the valuation method adopted in 2017 as compared with that in 2016. The recoverable amount of the iron concentrate CGU was determined based on a VIU calculation using cash flow projections according to financial budgets covering the six-year period (2016: five-year period) approved by management with a pre-tax discount rate of approximately 22% (2016: approximately 21%). The CGU cash flows beyond the six-year period (2016: five-year period) are extrapolated using a 2% (2016: 2%) growth rate, which was the expected inflation rate, until the depletion of estimated proved and probable ore reserves. Other key assumptions used in the estimation of VIU for the iron concentrate CGU are summarised as follows:

Recoverable reserves – Economic recoverable reserves represent Xingye Mining management's expectations at the time of impairment testing, which comprise estimated proved and probable ore reserves of approximately 260 Mt (2016: approximately 260 Mt) based on independent technical report of the Yanjiazhuang Mine dated 21 June 2011 (the "ITR"). In addition, the Mining Permit had expired in July 2017. The application for the Renewal had been made by the management of Xingye Mining, the registered holder of the Mining Permit, to the relevant government authorities in the PRC. The Renewal application is still in progress, while the Group has not received any notice in respect of the rejection of the Renewal application or the withdrawal of the Mining Permit from the relevant government authorities. Given the uncertainty inherent in the changing environmental protection requirements and policies towards heavily polluting industries, the management of Xingye Mining expects that it may need more time and effort to work on the aforesaid Renewal matters, including but not limited to liaising with the relevant government authorities about the Renewal options, the reduction and/or payment terms of remaining resources fee payable for gabbro-diabase, and obtain the required governmental approval for forestry ecology planning covering the Yanjiazhuang Mine area, so as to complete the Renewal process as soon as practicable. Xingye Mining will also endeavor to identify the alternatives that could help on the Renewal so as to give impetus to the application process and progress. Therefore, the estimated cash flow projections have been extended to future periods until the depletion of estimated proved and probable ore reserves.

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins of the first six-year period in the range of 25% to 30% (2016: first five-year period in the range of 25% to 30%) are based on the industry average gross margin achieved, adjusted for Xingye Mining management’s expectations for possible changes in the production costs and estimated market prices. The budgeted gross margins beyond the first six-year period are based on estimated long term sales price of iron concentrates as reference to relevant market and/or analyst researches of approximately RMB630 per tonne (2016: beyond the first five-year period of approximately RMB600 per tonne) and unit production cost of about 57% of sales (2016: about 60% of sales) according to the ITR recommendation with inflation adjustment. These market inputs have been changed as there were changes in market expectations and conditions from time to time. In addition to the above, in order to foster the local villagers to resolve the local matters in an agreeable manner, the management of Xingye Mining devised a preliminary proposal that, by allowing the local villagers to participate in Xingye Mining’s mining operations at the Yanjiazhuang Mine, the local villagers could be awarded based on the sales performance of the Iron Concentrate Business (when resumed). Such award sharing proposal, when crystallised, represents the additional costs to the Yanjiazhuang Mine and inevitably leads to the possible reduction in profitability of the iron concentrate CGU in the long run. 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. The award to the local villagers was included in the impairment testing as additional costs in both years.

Production volumes and production start date – Estimated production volumes of the first six-year period of approximately 2.6 Mt (2016: first five-year period of approximately 2.6 Mt), in aggregate, and production start date are based on the detailed mine plans and take into account development plans of the Yanjiazhuang Mine agreed by Xingye Mining management. The production volumes beyond the aforesaid period largely follow the ITR.

Discount rate – The discount rate used is pre-tax and reflects specific risks associated with the Group and/or its business under review and takes into account the industry’s capital structure and applicable market borrowing costs at the time of impairment test. The applicable discount rate increased to approximately 22% in 2017 (2016: approximately 21%) so as to reflect the increase in uncertainty in connection with the Renewal.

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

#### ***Gabbro-diabase and stone CGU:***

For the Gabbro-Diabase and Stone Business of the Group, in the first half of 2016, Xingye Mining received a notice from the local Environmental Protection Authority (the “EPA”) that it was required to carry out the Environmental Upgrade. The management of Xingye Mining had then been formulating a preliminary plan for the Environmental Upgrade. However, the Disaster brings new demands from the local villagers to Xingye Mining. Such new demands entail additional time for the management of Xingye Mining to negotiate and discuss with the local villagers with a view to settling or satisfying such demands. As such, the originally planned Environmental Upgrade has to be postponed. In July 2017, on the other hand, the Mining Permit had expired. The Renewal application is still in progress, while the Group has not received any notice in respect of the rejection of the Renewal application or the withdrawal of the Mining Permit from the relevant government authorities. Since the late 2017, Xingye Mining has been pushing forward the remaining outstanding works on the Environmental Upgrade with an aim to attain the requirements for the Environmental Upgrade and shall then arrange for an on-site inspection by the EPA of the environmental protection measures at the Yanjiazhuang Mine. Also, the management of Xingye Mining has been actively addressing the demands in relation to the Disaster, including the dredging of reservoirs, repair or construction of retaining walls and dams near the local villages and repairs of damaged roads as a result of the Disaster, with the village representatives. It is believed that, by satisfying these demands in an agreeable manner, the village representatives will focus on the negotiation with the Group in relation to the award sharing proposal put forward by the Group with a view to achieve consensus and swift settlement of the disputes and other issues surrounding the Yanjiazhuang Mine.

Having regard to the suspension of production pending for the Environmental Upgrade, the above mentioned postponement in Environmental Upgrade and the Renewal matters, management has performed an impairment assessment on the carrying amounts of the Group's property, plant and equipment and intangible assets of the gabbro-diabase and stone CGU at 31 December 2017.

In assessing whether an impairment is required, the carrying value of the assets of the gabbro-diabase and stone CGU is compared with its recoverable amount, which is the higher of the fair value less costs of disposal and its VIU. Attributed to the absence of reliably estimated cash flow projections in view of the Disaster and the suspension of production of the Gabbro-Diabase and Stone Business since 2016, a formal estimate of the recoverable amount is performed and the recoverable value of the gabbro-diabase and stone CGU was determined based on fair value less costs of disposal, and with reference to the valuation report issued by independent professionally qualified valuers.

Fair values are measured using valuation techniques including analytical trending method and analysis of observable market inputs from recognised sources or prices (or the replacement costs) of similar or comparable assets from a secondary market with adjustments for inflation (with reference to the relevant producer price index), useful life calculation, deterioration, obsolescence, marketability and other relevant factors. Fair value represents the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement of the gabbro-diabase and stone CGU was categorised under level 3 fair value hierarchy. The significant unobservable inputs used to determine fair value for 2017 were (i) the marketability, (ii) the useful life calculation and (iii) the residual value.

Based on the above-mentioned impairment assessments, the recoverable amounts, carrying amounts and impairment provision of the iron concentrate CGU and the gabbro-diabase and stone CGU as at 31 December 2017 are as follows:

|                              | <b>Recoverable<br/>amounts<br/>RMB'000</b> | <b>Carrying<br/>amounts<br/>RMB'000</b> | <b>Impairment<br/>provision<br/>RMB'000</b> |
|------------------------------|--------------------------------------------|-----------------------------------------|---------------------------------------------|
| Iron concentrate CGU         |                                            |                                         |                                             |
| – 2017                       | <b>260,000</b>                             | <b>255,073</b>                          | –                                           |
| – 2016                       | 259,000                                    | 635,256                                 | 376,256                                     |
| Gabbro-diabase and stone CGU |                                            |                                         |                                             |
| – 2017                       | <b>6,440</b>                               | <b>5,890</b>                            | –                                           |
| – 2016                       | <u>5,599</u>                               | <u>103,641</u>                          | <u>98,042</u>                               |

Since the recoverable amounts of the iron concentrate CGU and the gabbro-diabase and stone CGU are approximate to their carrying amounts as at 31 December 2017, no impairment provision was made during the year ended 31 December 2017.

The impairment provision for the iron concentrate CGU and the 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 in the prior year to write down the carrying amounts of the property, plant and equipment of the iron concentrate CGU and the 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 11*) was recognised in the prior year to write down the carrying amounts of the mining right of the iron concentrate CGU and the 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 12*) was recognised in the prior year to write down the carrying amount of the prepaid land lease payments of the iron concentrate CGU to its recoverable amount of RMB1,348,000 as at 31 December 2016.

## 11. INTANGIBLE ASSETS

The Group's intangible assets represent Mining Permit located in Lincheng County, Hebei Province, the PRC. The Mining Permit had expired on 26 July 2017. The application for the Renewal had been made by the management of Xingye Mining, the registered holder of the Mining Permit, to the relevant government authorities in the PRC. The Renewal application is still in progress, while the Group has not received any notice in respect of the rejection of the Renewal application or the withdrawal of the Mining Permit from the relevant government authorities.

|                                                       | 2017<br>RMB'000   | 2016<br>RMB'000   |
|-------------------------------------------------------|-------------------|-------------------|
| <b>Cost:</b>                                          |                   |                   |
| At beginning of the year and end of the year          | <u>50,088</u>     | <u>50,088</u>     |
| <b>Accumulated amortisation and impairment:</b>       |                   |                   |
| At beginning of the year                              | (49,150)          | (150)             |
| Amortisation during the year                          | –                 | (210)             |
| Impairment recognised for the year ( <i>Note 10</i> ) | <u>–</u>          | <u>(48,790)</u>   |
| At end of the year                                    | <u>(49,150)</u>   | <u>(49,150)</u>   |
| <b>Net carrying amount:</b>                           |                   |                   |
| At end of the year                                    | <u><u>938</u></u> | <u><u>938</u></u> |

During the year ended 31 December 2017, no impairment provision was made for the intangible assets of the iron concentrate CGU and the gabbro-diabase and stone CGU (2016: impairment provision of RMB48,790,000) and details of these assessments are included in Note 10.

## 12. PREPAID LAND LEASE PAYMENTS

|                                                                         | 2017<br><i>RMB'000</i> | 2016<br><i>RMB'000</i> |
|-------------------------------------------------------------------------|------------------------|------------------------|
| Carrying amount at 1 January                                            | 1,348                  | 3,408                  |
| Amortisation during the year                                            | (41)                   | (101)                  |
| Impairment recognised for the year ( <i>Note 10</i> )                   | —                      | (1,959)                |
|                                                                         | <hr/>                  | <hr/>                  |
| Carrying amount at 31 December                                          | 1,307                  | 1,348                  |
| Current portion included in prepayments, deposits and other receivables | (41)                   | (41)                   |
|                                                                         | <hr/>                  | <hr/>                  |
| Non-current portion                                                     | <u>1,266</u>           | <u>1,307</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.

During the year ended 31 December 2017, no impairment provision was made for the prepaid land lease payments of the iron concentrate CGU (2016: impairment provision of RMB1,959,000) and details of these assessments are included in Note 10.

## 13. INVENTORIES

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

|                                              | 2017<br><i>RMB'000</i> | 2016<br><i>RMB'000</i> |
|----------------------------------------------|------------------------|------------------------|
| Raw material and spare parts                 | 3,623                  | 3,706                  |
| Semi-finished products                       | 3,751                  | 3,751                  |
| Finished products – gabbro-diabase and stone | 7,837                  | 9,607                  |
|                                              | <hr/>                  | <hr/>                  |
|                                              | 15,211                 | 17,064                 |
| Inventory provision                          | (9,759)                | (7,871)                |
|                                              | <hr/>                  | <hr/>                  |
|                                              | <u>5,452</u>           | <u>9,193</u>           |

## 14. TRADE AND BILLS RECEIVABLES

|                   | 2017<br><i>RMB'000</i> | 2016<br><i>RMB'000</i> |
|-------------------|------------------------|------------------------|
| Trade receivables | 4,425                  | 313                    |
| Bills receivable  | 73,219                 | 38,331                 |
|                   | <hr/>                  | <hr/>                  |
|                   | 77,644                 | 38,644                 |
| Less: Impairment  | (313)                  | (313)                  |
|                   | <hr/>                  | <hr/>                  |
| Total             | <u>77,331</u>          | <u>38,331</u>          |

The Group's trading terms with its customers generally require usance letter of credit up to a tenor of 120 days or deposits in advance, except for creditworthy customers to whom credits are granted. The credit periods generally range from seven days to four 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 receivables balances. As of 31 December 2017, apart from the bills receivable of RMB72,675,000 which bears interest at 3% per annum, the remaining trade and bills receivables are non-interest-bearing (2016: non-interest-bearing).

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

|                | <b>2017</b><br><b>RMB'000</b> | 2016<br><i>RMB'000</i> |
|----------------|-------------------------------|------------------------|
| Within 1 month | <b>8</b>                      | 38,331                 |
| 1 to 3 months  | <b>77,323</b>                 | —                      |
|                | <u>77,331</u>                 | <u>—</u>               |
| Total          | <b><u>77,331</u></b>          | <b><u>38,331</u></b>   |

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

|                                              | <b>2017</b><br><b>RMB'000</b> | 2016<br><i>RMB'000</i> |
|----------------------------------------------|-------------------------------|------------------------|
| At beginning of the year                     | <b>313</b>                    | —                      |
| Impairment loss recognised ( <i>Note 5</i> ) | <u>—</u>                      | <u>313</u>             |
| At end of the year                           | <b><u>313</u></b>             | <b><u>313</u></b>      |

Included in the above provision for impairment of trade receivable is a full provision for individually impaired trade receivable of RMB313,000 as at 31 December 2017 and 2016.

## 15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

|                                              | <b>2017</b><br><b>RMB'000</b> | 2016<br><i>RMB'000</i> |
|----------------------------------------------|-------------------------------|------------------------|
| Advances to suppliers                        | <b>38,342</b>                 | 26,479                 |
| Other tax receivables                        | <b>12,700</b>                 | 12,705                 |
| Deposits                                     | <b>8,032</b>                  | 3,740                  |
| Bank interest receivables                    | <b>791</b>                    | 589                    |
| Prepaid land lease payments, current portion | <b>41</b>                     | 41                     |
| Others                                       | <b><u>2,991</u></b>           | <u>2,240</u>           |
|                                              | <b>62,897</b>                 | 45,794                 |
| Impairment of prepayments                    | <b><u>(12,987)</u></b>        | <u>(12,987)</u>        |
|                                              | <b><u>49,910</u></b>          | <b><u>32,807</u></b>   |

The above impairment of prepayments represented full provision for certain individually impaired prepayments as at 31 December 2017 and 2016.

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 the remaining prepayments, deposits and other receivables closely approximate to their respective fair values.

## 16. CASH AND BANK BALANCES

|                                                                 | 2017<br><i>RMB'000</i> | 2016<br><i>RMB'000</i> |
|-----------------------------------------------------------------|------------------------|------------------------|
| Cash and bank balances                                          | 13,914                 | 77,125                 |
| Time deposits                                                   | <u>359,684</u>         | <u>325,719</u>         |
|                                                                 | 373,598                | 402,844                |
| Less: Restricted bank balances                                  | (314)                  | (1,466)                |
| Restricted time deposits for interest-bearing<br>bank borrowing | <u>(208,975)</u>       | <u>—</u>               |
| Cash and cash equivalents                                       | <u><u>164,309</u></u>  | <u><u>401,378</u></u>  |

The Group's cash and bank balances and cash and cash equivalents are denominated in the following currencies as at 31 December 2017 and 2016:

|                                           | 2017<br><i>RMB'000</i> | 2016<br><i>RMB'000</i> |
|-------------------------------------------|------------------------|------------------------|
| Cash and bank balances denominated in:    |                        |                        |
| RMB                                       | 5,660                  | 104,515                |
| HK\$                                      | 217,071                | 233,628                |
| US\$                                      | <u>150,867</u>         | <u>64,701</u>          |
|                                           | <u><u>373,598</u></u>  | <u><u>402,844</u></u>  |
| Cash and cash equivalents denominated in: |                        |                        |
| RMB                                       | 5,346                  | 103,049                |
| HK\$                                      | 8,096                  | 233,628                |
| US\$                                      | <u>150,867</u>         | <u>64,701</u>          |
|                                           | <u><u>164,309</u></u>  | <u><u>401,378</u></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.

## 17. TRADE AND BILLS PAYABLES

A significant portion of the Group's purchases is usance letter of credit up to a tenor of 120 days. An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

|                    | 2017<br><i>RMB'000</i> | 2016<br><i>RMB'000</i> |
|--------------------|------------------------|------------------------|
| Within 3 months    | 77,164                 | 122                    |
| 3 to 6 months      | –                      | 2                      |
| 6 months to 1 year | –                      | 1,426                  |
| Over 1 year        | <u>1,910</u>           | <u>1,132</u>           |
|                    | <u><b>79,074</b></u>   | <u><b>2,682</b></u>    |

Included in the trade and bills payables is a trade payable of RMB4,103,000 (2016: Nil) due to an indirect wholly-owned subsidiary of a 30%-controlled company of a substantial shareholder of the Company which are repayable within 90 days, which represents credit terms similar to those offered by the indirect wholly-owned subsidiary of a 30%-controlled company of a substantial shareholder of the Company to their major customers.

As of 31 December 2017, apart from the bills payables of RMB72,516,000 which bears interest at 3% per annum, the remaining trade and bills payables are non-interest bearing (2016: non-interest bearing).

## 18. OTHER PAYABLES AND ACCRUALS

|                                                                                                     | 2017<br><i>RMB'000</i> | 2016<br><i>RMB'000</i> |
|-----------------------------------------------------------------------------------------------------|------------------------|------------------------|
| Payables to suppliers or contractors for the addition of items of property, plant and equipment     | 10,227                 | 25,420                 |
| Gabbro-diabase resources fee payable                                                                | 21,480                 | 21,480                 |
| Accrual for the estimated possible payments on the outstanding gabbro-diabase resources fee payable | 20,936                 | 8,735                  |
| Advances from customers                                                                             | 13,036                 | 320                    |
| Accrued interest expenses                                                                           | 6,671                  | 5,746                  |
| Due to related parties                                                                              | 3,190                  | 2,250                  |
| Other payables                                                                                      | <u>16,635</u>          | <u>23,801</u>          |
| Total                                                                                               | <u><b>92,175</b></u>   | <u><b>87,752</b></u>   |

In respect of the Mining Permit for gabbro-diabase at the Yanjiazhuang Mine, the remaining three instalments of the resources fee payable, which amounted to approximately RMB21.5 million, in aggregate, together with the associated cost of funds, were due for settlement, but remained unpaid up to date. In view of the unfavourable economic and market outlook, the management of Xingye Mining has been in communication with the relevant government authorities and seeking to negotiate for more favourable payment terms. However, the negotiations have yet to turn into any attainment.

Except for the gabbro-diabase resources fee payable which bears interest at floating rates linked to the RMB loan prime rate, other payables are unsecured and non-interest-bearing.

## 19. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### Changes in liabilities arising from financing activities

Interest-  
bearing  
bank  
borrowing  
RMB'000

|                           |             |
|---------------------------|-------------|
| At 1 January 2017         | 223,625     |
| Foreign exchange movement | (14,650)    |
|                           | <hr/>       |
| At 31 December 2017       | 208,975     |
|                           | <hr/> <hr/> |

## 20. EVENTS AFTER THE REPORTING PERIOD

In March 2018, a wholly owned subsidiary of the Group (the “PRC Subsidiary”) entered into a coal purchase agreement (the “Coal Purchase Agreement”) for the supply of coal, pursuant to which, among others, the PRC Subsidiary secured the supply of not less than 500,000 tonnes of coal from the designated coal distributor of a coal mining company (the “Seller”) and shall pay to the Seller a sum of RMB50 million as the deposit for the coal supply. Based on the anticipated market demands from time to time, the PRC Subsidiary and the Seller shall enter into monthly purchase contracts setting out the quantity of coal to be purchased by the PRC Subsidiary for the specified period. The Coal Purchase Agreement shall have a term commencing from the date thereof and ending on 31 December 2018, and may be renewed thereafter by mutual agreement of the PRC Subsidiary and the Seller.

## CHAIRMAN'S STATEMENT

Dear Shareholders,

In 2017, the Group recorded revenue of approximately RMB648.9 million, representing an increase by approximately 6.7 times as compared to the Corresponding Prior Period. Leveraging our experiences in iron ore industry, with the overall recovery of iron ore and steel prices and demand in 2017, and the support from our suppliers and the management's effort to extend the customer reach, the Group's Trading Business has been growing steadily at a fast pace in 2017, which became our primary income stream for the Reporting Period. Nevertheless, the development of the Group's businesses remains challenging and contains uncertainties.

Despite our efforts and focus on the Renewal of the Mining Permit of the Yanjiazhuang Mine, the Renewal process could not be expedited and the Mining Permit had expired in July 2017. As far as I know, the Renewal application is still in progress and, under the prevailing overwhelming environmental concerns in China, it could be foreseen that Xingye Mining and the relevant government authorities will need more time and effort to work on the Renewal options and the related assessments and approvals, so as to complete the Renewal process. Our management team endeavors to identify the possible ways and alternatives so as to give impetus to the application process and progress. Also, I have instructed them to keep pushing forward the solutions and/or alternatives in resolving the local issues surrounding the Yanjiazhuang Mine so that we can resume the Mining Businesses as soon as practicable. Nevertheless, the Group shall monitor the progress in respect of the Renewal and other permits and issues surrounding the Yanjiazhuang Mine so as to formulate a strategy thereon.

Besides, we shall continue our momentum towards the development of our new business pursuits – the iron ore Trading Business with the staunch support of our suppliers and customers. Recently, we have secured the supply of coal from coal mines in Inner Mongolia with a view to expanding our product offerings in the Trading Business. I hope the Group could gradually build up its reputation and market presence in the commodity trading and supply market through various channels, thus bringing new income stream and enhancing the profitability of the Group.

Meanwhile, we have also started some strategic moves on mining and resources related projects. The Group has set up its first business establishment in Inner Mongolia, which is well known for its affluent mining reserves and resources. Through business networks and other collaborations, the Group could further identify mining and resources projects with potentials for development and/or investment. Currently, we have entered into memorandums of understanding for two mining projects. Our management team will continue to look for and evaluate mining and resources projects with potentials in order to enrich the Group's business portfolio. I am looking forward to seeing new development on these mergers and acquisitions opportunities so as to create value and sustainable development for the Group.

Lastly, I would like to express my heartfelt gratitude to my fellow Board members, our 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 2017, the PRC's gross domestic product grew by approximately 6.9% when compared to that of previous year, representing further consolidation of steady economic growth. Moreover, the world economy grew by 3% in 2017, one-third of which came from the PRC.

China's economic development is gradually shifting from high growth to high quality. The PRC government implemented the supply-side reform in the iron and steel industries, continued the measures in eliminating the over-capacity of steel production and early achieved the annual overcapacity cutting target of 50 million tonnes of steel production in 2017. This helps to push forward the optimisation and upgrade of the steel mills in the PRC. Also, the overall reduction in the production capacity and supply of steel products had driven up the commodity price significantly which, together with the impact of relatively low inventory level of iron ore in steel mills, led to the overall recovery and general increase in the price of iron ore. On the other hand, the PRC government policies in closing small mines with heavy pollution emission in recent years also led to the increase in demand for imported iron ore. The import of iron ore from overseas remains an important source to meet local steel production demand, bringing opportunities for expanding the Group's iron ore downstream Trading Business in 2017 and the future.

The pollution issue in Hebei Province remains serious and it is expected that the PRC government will keep pushing forward the industrial reform and overcapacity cutting policy and other environmental protection measures to fight against the pollution issue. The Group will keep abreast of the PRC government's policies on environmental protection, production safety as well as the mining industry development and considers the impact thereof so as to build an environmental friendly mine at the Yanjiazhuang area and to set out the direction of the Group's long-term business development.

### **Business Review**

In 2017, the Group is principally engaged in two businesses, namely, the Trading Business of iron ore, other commodities and construction materials and the Mining Businesses at the Yanjiazhuang Mine (i.e. the Iron Concentrate Business and the Gabbro-Diabase and Stone Business). The Group strives to develop a harmonious and environmental friendly mine at the Yanjiazhuang area, and a safe workplace for the stakeholders. Apart from the businesses at the Yanjiazhuang Mine, the Group continues to explore new business and investment opportunities, including the Car-Park Business, with an aim to enhance the corporate development and strengthen its income source. During the Reporting Period, the Group continued its effort to extend the customer reach in the Trading Business, which became the primary income stream for the Reporting Period. Nevertheless, the development of the Group's businesses remained challenging and contained uncertainties in 2018 and the foreseeable future.

The overall recovery of iron ore and steel prices in 2017 as compared to prior years brought an increase in demand for overseas iron ores by steel mills and traders, which together with the management's effort to extend the customer reach, stimulated the growth in the Trading Business in 2017. As a result, the Group recorded an overall increase in revenue by about 6.7 times to approximately RMB648.9 million, as compared to the Corresponding Prior Period. Besides the Trading Business, the Group, through Xingye Mining, concentrated its management efforts to proceed with the Renewal matters with the aim to obtain the Renewal approval as appropriate in the circumstances while liaison with the local village representatives as a means to smooth out the local issues and nuisance so as to allow Xingye Mining to resume the production at the Yanjiazhuang Mine has been continued.

## ***Trading Business***

In 2017, leveraging from the Group's experience in the Iron Concentrate Business and in iron ore trading gained in 2016, the Trading Business has been growing significantly and the Group sold approximately 1.4 Mt (2016: approximately 0.1 Mt) of iron ore and recognised revenue of approximately RMB644.7 million (2016: approximately RMB79.6 million). The increase in revenue of the Trading Business was mainly due to the initial acceptance of iron ore supplied by the Group by traders and other market players and the Group's effort to secure new supplies and extend the customer reach. The overall recovery of iron ore and steel prices in 2017 led to the increase in demand for overseas iron ores by steel mills and traders, which also stimulated the growth in the Trading Business in 2017.

Following the rebound in 2016, the international iron ore market price went up to over USD90 per tonne in early 2017 and then cooled down and stabilised at about USD70 per tonne for the second half of 2017. As a result, the average selling price of the iron ore of the Group decreased by 18% as compared to that for the Corresponding Prior Period, which is in line with the aforesaid trend of the international iron ore market prices.

To secure stable supply of iron ore of quality at preferential purchase cost, in April 2017, the Group entered into the Master Purchase Agreement with SCIT, a well-known trader in the iron ore industry, pursuant to which, the Group may purchase iron ore from SCIT with reference to the agreed pricing method and procedures. The Master Purchase Agreement and the transactions contemplated thereunder constituted continuing connected transactions of the Company and were approved by the independent Shareholders at the extraordinary general meeting of the Company held on 15 June 2017.

Iron ore supplied by SCIT are mainly sourced from mainstream mines of relatively better and more stable quality. In addition to the purchases from SCIT, the Group also started the supply relationship with an iron mine in Australia in the second half of 2017 which allows the Group to earn the extra margin that would otherwise be charged by intermediary trader-suppliers by procuring iron ore from the iron mine directly. By further cooperation with SCIT and the Australian mine, the Group wishes to strengthen the mutual trust so as to secure a more stable and continual iron ore supply with them at preferential purchase cost after repeated purchases.

Apart from securing the stable supply, the Group has been putting efforts to diversify the customer base during the Reporting Period. With the support of our experienced sales team and the strong demand for iron ore, particularly imported iron ore in China, the Group has been establishing its customer base and securing sales orders with them. The major customers of the Trading Business included the trading arms of steel mills and certain State-owned enterprises. It is believed that with widened customer base, market share and reputation over time, the Group can gradually increase its business volume and seek higher margin by way of delivering iron ore of quality with more stable specifications and obtaining preferential purchase costs through repeated purchases.

Nevertheless, the Group will continue to explore and develop new business relationship with other mines, traders and market players as sources for commodity supply with an aim to further expand the Trading Business and to broaden the income spectrum.

Having noted that the recovery of the coal price in 2017 which was driven by market dynamics in the PRC whereby (1) domestic coal supplies have been lowered as a result of the governmental measures to crackdown illegal coal mining and to tackle over-capacity; and (2) coal demand is likely to remain stable and concerns about policy impact from coal-to-gas conversion should ease, the Group has recently started the negotiation for the offtake of coal from coal mines located in Inner Mongolia. Subsequent to the Reporting Period, in March 2018, the Group entered into the Coal Purchase Agreement, pursuant to which, among others, the Group secured the supply of not less than 500,000 tonnes of coal from the Seller. The offtake of coal is considered to be an opportunity to diversify the product offerings in the Trading Business and bring a new income stream to the Group. This strategic development also evidenced the establishment of the Group's business presence in Inner Mongolia, which is well known for its affluent mining reserves and resources. In view of the stable demand for coal in the Northern China for industrial use, power supply and heating, and the close proximity of the coal mines to the customers, it is believed that the Group could, through the trading of coals, improve its operating and financial performances.

With the continual effort of the Group's management and through the above product diversification and business collaboration, it is believed that the Trading Business could continue to grow and bring in strong income, profit and cash flow to support the development of the Group in the long run.

### ***Iron Concentrate Business***

The Group, through Xingye Mining, owns and operates the Yanjiazhuang Mine in Hebei Province, the PRC. The Yanjiazhuang Mine is a large-scale open-pit iron ore and gabbro-diabase mine occupying a mining area of about 5.22 sq. km. Throughout the Reporting Period, the management of Xingye Mining has been working closely with various PRC government authorities in respect of the Renewal. However, the Mining Permit had expired in July 2017. The Renewal application is still in progress, and the Group has not received any notice in respect of the rejection of the Renewal application or the withdrawal of the Mining Permit from the relevant government authorities as at the date of this announcement. Given the uncertainty inherent in the changing environmental protection requirements and policies towards heavily polluting industries, the management of Xingye Mining expects that it may need more time and effort to work on the aforesaid Renewal matters, including but not limited to liaising with the relevant government authorities about the Renewal options and the reduction and/or payment terms of remaining resources fee payable for gabbro-diabase, and obtain the required governmental approval for forestry ecology planning covering the Yanjiazhuang Mine area (the "Land Use Adjustment"), so as to complete the Renewal process as soon as practicable. Recently, the management of Xingye Mining has been in regular contact with the relevant government authorities so as to give impetus to the assessment and approval process regarding the Land Use Adjustment.

Apart from the Mining Permit, Xingye Mining had also made application for the renewal of a production safety permit for the Iron Concentrate Business in a prior year. Because of the tightening of the environmental protection policy by the PRC government, Xingye Mining has not yet received further information regarding the renewal of the production safety permit after its submission of required documents to the relevant authorities for approval, and the representatives from the Safety Authority completing the on-site inspection, assessment and acceptance procedures and confirming the Group's production safety qualification. The management of Xingye Mining expects that it may take longer time for the government authorities to coordinate and arrange for the issuance of the production safety permit, which is beyond the control of the Group. Upon the completion of the Renewal, Xingye Mining shall submit documents to the Safety Authority and other regulatory bodies for the update of Mining Permit information. In light of the repeated delays in the renewal of the production safety permit over the past few years, the management of Xingye Mining could not ascertain the timing for Xingye Mining to obtain the production safety permit, which has added uncertainties to the future development of the Iron Concentrate Business. The management of Xingye Mining will continue to follow up the renewal of the production safety permit as and when the Renewal is expedited.

Moreover, 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 Mining has been under discussions with governmental and village representatives and has proposed an award sharing proposal so that the villagers will be entitled to benefit from the resumption, smooth operation and performance of the Yanjiazhuang Mine in the long run. Taking into account the demands of local villagers, it is believed that, by increasing the Group's effort in explaining and transmitting such proposal among local villagers, this proposal has a higher chance of receiving general acceptance by the local villagers. Besides, the management of Xingye Mining will also continue to explore more alternatives and consider other collaboration possibilities as appropriate with the aim to bring back the operations at the Yanjiazhuang Mine.

The judgements in relation to the litigation regarding construction sum payable out of the ordinary course of business of the Group became final and binding in August 2016. During the Reporting Period, Xingye Mining agreed with the plaintiff on the settlement arrangements. As a result, certain frozen machineries and equipment and restricted bank balances of Xingye Mining have been released in December 2017.

In view of the above-mentioned circumstances, the expansion plans for the Yanjiazhuang Mine were hindered and the Group did not incur any material capital expenditure or carry out any material infrastructure development for the Iron Concentrate Business.

### ***Gabbro-Diabase and Stone Business***

Aiming to capture the business opportunities arising from the infrastructure development of highways and high-speed rails in the region, the Group built two production facilities for producing highway crushed stone and railway ballast at the Yanjiazhuang Mine in prior years.

In line with the general trend in the policy for environmental protection and emission reduction in 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 these production facilities 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 placed great emphasis on production safety at these production facilities, making every effort to provide staff with a safe working environment. However, attributed to the requirements for the Environmental Upgrade and local new demands and nuisance as a result of the Disaster, the Group's production at these production facilities has been suspended. As such, the management of Xingye Mining implemented certain cost-saving measures so as to reduce the operating and administrative costs of the Yanjiazhuang Mine.

During the Reporting Period, the Group recognised sales of highway crushed stone of approximately RMB1.8 million (Corresponding Prior Period: sales of railway ballast of approximately RMB4.8 million), attributed to the continual infrastructure development of highways and high-speed rails in the region. The decrease in revenue for the Reporting Period was primarily attributable to the damage to roads caused by the Disaster which limited the outward transportation for most of the time in 2017.

As mentioned in the “Iron Concentrate Business” section, the management of Xingye Mining has been working closely on the Renewal matters during the Reporting Period. The Mining Permit had expired in July 2017. Before its expiration, the Renewal application had been made by the management of Xingye Mining to the relevant government authorities in the PRC. Xingye Mining, in light of environmental protection measures in the region and overall green development direction of the PRC government, had submitted proposals to the relevant government authorities regarding various Renewal options, including but not limited to the feasibility of adjustment in mining capacity and/or reduction of resources fee in relation to gabbro-diabase. The Renewal application is still in progress, while the Group has not received any notice in respect of the rejection of the Renewal application or the withdrawal of the Mining Permit from the relevant government authorities as at the date of this announcement.

In respect of the Mining Permit for gabbro-diabase at the Yanjiazhuang Mine, the remaining three instalments of the resources fee payable, which amounted to approximately RMB21.5 million, in aggregate, together with the associated cost of funds, were due for settlement, but remained unpaid up to date. In view of the unfavourable economic and market outlook, the management of Xingye Mining has been in communication with the relevant government authorities and seeking to negotiate for more favourable payment terms under the Renewal. However, the negotiations have yet to turn into any attainment.

Given the uncertainty inherent in the changing environmental protection requirements and policies towards heavily polluting industries, the management of Xingye Mining expects that it may need more time and effort to work on the aforesaid Renewal matters, including but not limited to liaising with the relevant government authorities about the Renewal options and the reduction and/or payment terms of remaining resources fee payable for gabbro-diabase, and obtain the required governmental approval for the Land Use Adjustment, so as to complete the Renewal process as soon as practicable. The management of Xingye Mining will keep working closely with various PRC government authorities in respect of the Renewal. Recently, the management of Xingye Mining has been in regular contact with the relevant government authorities so as to give impetus to the assessment and approval process regarding the Land Use Adjustment.

Apart from the Mining Permit, Xingye Mining had also made application for a production safety permit for the Gabbro-Diabase Business in a prior year. Because of the tightening of the environmental protection policy by the PRC government, Xingye Mining has not yet received further information regarding the issue of the production safety permit after its submission of required documents to the relevant authorities for approval, and the representatives from the Safety Authority completing the on-site inspection, assessment and acceptance procedures and confirming the Group’s production safety qualification. The management of Xingye Mining expects that it may take longer time for the government authorities to coordinate and arrange for the issuance of the production safety permit, which is beyond the control of the Group. Upon the completion of the Renewal, Xingye Mining shall submit documents to the Safety Authority and other regulatory bodies for the update of Mining Permit information. In light of the repeated delays in obtaining the production safety permit over the past few years, the management of Xingye Mining could not ascertain the timing for Xingye Mining to obtain the production safety permit, which has added uncertainties to the future development of the Gabbro-Diabase and Stone Business. The management of Xingye Mining will continue to follow up the issue of the production safety permit as and when the Renewal is expedited.

Since the late 2017, Xingye Mining has been pushing forward the remaining outstanding works on the Environmental Upgrade with an aim to attain the requirements for the Environmental Upgrade and shall then arrange for an on-site inspection by the EPA of the environmental protection measures at the Yanjiazhuang Mine. Also, the management of Xingye Mining has been actively addressing the demands in relation to the Disaster, including the dredging of reservoirs, repair or construction of retaining walls and dams near the local villages and repairs of damaged roads as a result of the Disaster, with the village representatives. It is believed that, by satisfying these demands in an agreeable manner, the village representatives will focus on the negotiation with the Group in relation to the award sharing proposal put forward by the Group with a view to achieving consensus and swift settlement of the disputes and other issues surrounding the Yanjiazhuang Mine.

In view of the above-mentioned circumstances, except for the settlements of construction works on the Environmental Upgrade, the Group did not incur any material capital expenditure or carry out any material infrastructure development for the Gabbro-Diabase and Stone Business during the Reporting Period.

### ***Other business***

#### ***Car-Park Business***

The Group also engaged in operating car-parks in a commercial building in the Hong Kong Island since 2016. The Group has been pursuing opportunities for the operating rights or management contracts for car-parks by way of tendering or business negotiation. However, due to severe competition among car-parks operation and limited scale of operation, the Group failed to expand the Car-Park Business during 2017 and the Car-Park Business has been operating at a segmental loss. The Group will continue to evaluate and identify suitable opportunities in Hong Kong in order to improve the profitability of the Car-Park Business.

#### ***Other Mining Projects***

In 2017, the Group entered into several memorandums of understanding in connection with the potential investments in a metal mine in Inner Mongolia, the PRC and a gold mine in Suriname, South America. For further discussion on these projects, please refer to the section headed “Significant Investments, Acquisitions and Disposals”.

The Group will keep exploring these new mining projects and other investment and/or development opportunities with an aim to bring new business development and growth to the Group’s business portfolio and to create value for the Shareholders in the long run.

### **Capital Expenditure and Infrastructure Development**

During the Reporting Period, the Group incurred capital expenditure amounting to approximately RMB1.1 million, mainly represented the settlement of construction works in relation to the Environmental Upgrade.

### ***Gabbro-Diabase and Stone Business***

During the Reporting Period, the Group incurred settlement of construction works in relation to the Environmental Upgrade. Capital expenditure of the Gabbro-Diabase and Stone Business during the years ended 31 December 2017 and 2016 are indicated below:

|                      | 2017<br><i>RMB'million</i> | 2016<br><i>RMB'million</i> |
|----------------------|----------------------------|----------------------------|
| Construction costs   | 1.1                        | 1.8                        |
| Equipment and others | —                          | 0.1                        |
|                      | <hr/>                      | <hr/>                      |
| Total                | <u>1.1</u>                 | <u>1.9</u>                 |

In last year, Xingye Mining received a notice from the EPA requiring it to carry out the Environmental Upgrade at the Yanjiazhuang Mine. Since the late 2017, Xingye Mining has been pushing forward the remaining outstanding works on the Environmental Upgrade with an aim to attain the requirements for the Environmental Upgrade and shall then arrange for an on-site inspection by the EPA of the environmental protection measures at the Yanjiazhuang Mine. As such, there was no new contract and commitment entered into by the Group for the Gabbro-Diabase and Stone Business including those related to infrastructure projects (road and railway), subcontracting agreements and purchase of equipment during the Reporting Period (2016: approximately RMB2.1 million).

### ***Iron Concentrate Business***

Due to the land expropriation disputes and the disturbances around, together with local issues and nuisance brought by the Disaster and expiration of the Mining Permit thereafter, the remaining construction of Phase Two and Phase Three expansion plans were suspended during the Reporting Period. As such, the Group did not incur any material capital expenditure or carry out any material infrastructure development for the Iron Concentrate Business during the years ended 31 December 2017 and 2016.

There was no new contract and commitment entered into by the Group for the Iron Concentrate Business including those related to infrastructure projects (road and railway), subcontracting agreements and purchases of equipment during the years ended 31 December 2017 and 2016. It is expected that when disputes and disturbances regarding the iron concentrate production at the Yanjiazhuang Mine are smoothed out and after the completion of the Renewal, Xingye Mining will further proceed with the relevant constructions so as to support the development of the Iron Concentrate Business as and when appropriate.

### **Exploration Activities**

During the Reporting Period, the Group did not have any exploration, development or production activity nor incur any expense or capital expenditure in any such 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 RMB1.4 million as recognised in the cost of sales during the Reporting Period (2016: approximately RMB4.5 million).

The following table presents, for the periods indicated, the Group's production costs for the Gabbro-Diabase and Stone Business:

|                                                                  | 2017<br><i>RMB'000</i> | 2016<br><i>RMB'000</i> |
|------------------------------------------------------------------|------------------------|------------------------|
| <b>Processing costs</b>                                          |                        |                        |
| – Subcontracting fees                                            | <u>813</u>             | <u>3,220</u>           |
| <b>Overheads</b>                                                 |                        |                        |
| – Depreciation and amortisation                                  | 173                    | 265                    |
| – Hauling                                                        | 349                    | 899                    |
| – Staff costs                                                    | 51                     | 49                     |
| – Others                                                         | <u>70</u>              | <u>23</u>              |
|                                                                  | <u>643</u>             | <u>1,236</u>           |
| Total production costs for the Gabbro-Diabase and Stone Business | <u><u>1,456</u></u>    | <u><u>4,456</u></u>    |

### *Iron Concentrate Business*

During the years ended 31 December 2017 and 2016, 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 2017, 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<br>Mineral<br>Resource<br>Category | As at<br>31.12.2017<br>(Mt) | Average<br>iron grade<br>TFe<br>(%) | As at<br>31.12.2016<br>(Mt) | Average<br>iron grade<br>TFe<br>(%) |
|----------------------------|-----|-----------------------------------------|-----------------------------|-------------------------------------|-----------------------------|-------------------------------------|
| Percentage<br>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<br>Ore<br>Reserve<br>Category | As at<br>31.12.2017<br>(Mt) | Average<br>iron grade<br>TFe<br>(%) | As at<br>31.12.2016<br>(Mt) | Average<br>iron grade<br>TFe<br>(%) |
|----------------------------|-----|------------------------------------|-----------------------------|-------------------------------------|-----------------------------|-------------------------------------|
| Percentage<br>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.

As previously mentioned, the Renewal application is still in progress. Given the uncertainty inherent in the changing environmental protection requirements and policies towards heavily polluting industries, the management of Xingye Mining expects that it may need more time and effort to work on the aforesaid Renewal matters, including but not limited to liaising with the relevant government authorities about the Renewal options and the reduction and/or payment terms of remaining resources fee payable for gabbro-diabase and obtain the required governmental approval for the Land Use Adjustment, so as to complete the Renewal process as soon as practicable. Further discussion of the Renewal are set out in the "Business Review" section.

### Gabbro-Diabase Resource Estimates

The Mining Permit had expired in July 2017 and the production of gabbro-diabase at the Yanjiazhuang Mine was suspended during the Reporting Period. 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 2017 and 2016.

As previously mentioned, the Renewal application is still in progress. In addition, in respect of the Mining Permit for gabbro-diabase at the Yanjiazhuang Mine, the remaining three instalments of the resources fee payable, which amounts to approximately RMB21.5 million, in aggregate, together with the associated cost of funds, were due for settlement, but remained unpaid up to date. In view of the unfavourable economic and market outlook, the management of Xingye Mining has been in communication with the relevant government authorities and seeking to negotiate for more favourable payment terms under the Renewal. However, the negotiations have yet to turn into any attainment.

Given the uncertainty inherent in the changing environmental protection requirements and policies towards heavily polluting industries, the management of Xingye Mining expects that it may need more time and effort to work on the aforesaid Renewal matters, including but not limited to liaising with the relevant government authorities about the Renewal options, and the reduction and/or payment terms of remaining resources fee payable for gabbro-diabase and obtain the required governmental approval for the Land Use Adjustment, so as to complete the Renewal process as soon as practicable. Further discussion of the Renewal are set out in the "Business Review" section.

## **Production Safety and Environmental Protection**

The Group has been placing great emphasis on production safety and environmental protection. A team of trained staff are responsible for production safety and management at the Yanjiazhuang Mine. This team 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 the 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 the businesses, 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 the resumption of operation and production at Yanjiazhuang Mine.

As mentioned earlier, Xingye Mining has made applications for the renewal of a production safety permit of the Iron Concentrate Business and the grant of a production safety permit of the Gabbro-Diabase Business in a prior year. In light of the repeated delays on such matters over the past few years, the renewal or issuance of the production safety permits are beyond the control of the Group, and the management of Xingye Mining will continue to follow up on the progresses.

Moreover, in last year, Xingye Mining received a notice from the EPA requiring it to carry out the Environmental Upgrade at the Yanjiazhuang Mine. Although the management of Xingye Mining 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. Since the late 2017, Xingye Mining has been pushing forward the remaining outstanding works on the Environmental Upgrade with an aim to attain the requirements for the Environmental Upgrade and shall then arrange for an on-site inspection by the EPA of the environmental protection measures at the Yanjiazhuang Mine.

## **Dividend**

The Board does not recommend the payment of a dividend in respect of FY 2017 (2016: Nil).

## **Financial Review**

During FY 2017, the Group recognised revenue of approximately RMB648.9 million (2016: approximately RMB84.6 million), increased by about 6.7 times. The significant increase in revenue is mainly attributable to the revenue growth from the Trading Business. During the Reporting Period, the volume of iron ore traded under the Trading Business increased by approximately 1.3 Mt and therefore the revenue increased greatly by 7.1 times to approximately RMB644.7 million during the Reporting Period, as compared to approximately RMB79.6 million for the Corresponding Prior Period.

In addition to the large increase in revenue, the Group recorded a decrease in net loss for FY 2017, as compared to the Corresponding Prior Period. The net loss for FY 2017 was approximately RMB47.4 million (2016: approximately RMB543.5 million). The loss attributable to owners of the Company amounted to approximately RMB46.5 million (2016: approximately RMB538.1 million). The basic and diluted loss per share for the Reporting Period was approximately RMB1.16 cents (2016: approximately RMB13.45 cents). The overall decrease in the Group's net loss was attributed to the absence of impairment provision of non-current assets and prepayments during the Reporting Period (2016: approximately RMB474.3 million and RMB13.0 million respectively).

Disregard the loss effect of impairment provision in FY 2016, the Group's net loss for FY 2017 decreased by approximately RMB8.8 million (or about 16%), which is mainly attributed to (i) the improvement in operating results as reflected in the increase in gross profit margin from the Trading Business and the rental income earned from the short-term leasing of moveable equipment; (ii) the resolution of certain local issues at the Yanjiazhuang Mine, including the settlement of litigation which led to the write-back of over-accrual of interest and other costs during the Reporting Period, and the recovery of insurance compensation by the Group in connection with the Disaster; and (iii) the decrease in administrative expenses as a result of the reduction in depreciation and amortisation of non-current assets of the Yanjiazhuang Mine (after the impairment provision made in last year) and inventory provision (after the Disaster).

Unfortunately, the unforeseen weakening of USD against RMB during 2017 leading to the recognition of net foreign exchange losses (net foreign exchange gains recognised for the Corresponding Prior Period), the decrease in bank interest income as a result of the change in time deposit mix to cope with the business development of the Group, and the increase in estimated possible payments that may accrue on the outstanding gabbro-diabase resources fee payable have offset part of the above loss reduction effect.

### ***Revenue, Gross Profit and Gross Profit Margin***

During the Reporting Period, the Group recognised revenue of approximately RMB648.9 million (2016: approximately RMB84.6 million), increased by about 6.7 times. The significant increase in revenue is mainly attributable to the revenue growth from the Trading Business. During the Reporting Period, the volume of iron ore traded under the Trading Business increased by approximately 1.3 Mt and therefore the revenue increased greatly by 7.1 times to approximately RMB644.7 million during the Reporting Period, as compared to approximately RMB79.6 million for the Corresponding Prior Period. Following the rebound in 2016, the international iron ore market price went up to over USD90 per tonne in early 2017 and then cooled down and stabilised at about USD70 per tonne for the second half of 2017. As a result, the average selling price of the iron ore of the Group decreased by 18% as compared to that for the Corresponding Prior Period, which is in line with the aforesaid trend of the international iron ore market prices.

The Group recorded an overall increase in gross profit to approximately RMB1.4 million (2016: approximately RMB0.4 million) but a decrease in gross profit margin to 0.2% during the Reporting Period (2016: 0.5%). During the Reporting Period, the Car-Park Business faced keen competition and it has adopted a relatively low parking fares to compete for tenants, thus recognised a larger gross loss of approximately RMB0.5 million leading to the overall gross profit margin of the Group to decrease (2016: gross loss of approximately RMB0.1 million from the Car-Park Business).

### ***Cost of Sales***

The Group's cost of sales for the Reporting Period amounted to approximately RMB647.5 million (2016: approximately RMB84.2 million), increased by about 6.7 times. The increase in cost of sales was also attributable to the surge in trading volume of iron ore from the Trading Business, which increased by 7.1 times to approximately RMB643.1 million during the Reporting Period, as compared to approximately RMB79.5 million for the Corresponding Prior Period.

Being an international commodity, iron ore prices have been subject to market fluctuation from time to time. Instead of engaging in price speculation by stocking up iron ore or entering into future contracts with its customers, the Group takes a prudent approach by securing the supply of the iron ore and confirming sales orders with the customers in short time intervals. This allows the Group to achieve a faster inventory turnover and therefore the increase in cost of sales of the Trading Business largely follows the market trends and the Group's sales revenue.

### ***Other Income and Gains***

Other income and gains of approximately RMB4.7 million (2016: Nil) mainly represented the insurance compensation received by the Group in connection with the Disaster of approximately RMB2.1 million (2016: Nil) and rental income earned from short-term leasing of movable equipment of approximately RMB1.7 million (2016: Nil).

### ***Administrative Expenses***

Administrative expenses decreased by 20.7% to approximately RMB35.6 million during the Reporting Period, as compared to approximately RMB44.9 million for the Corresponding Prior Period. The decrease was mainly due to the decrease in depreciation and amortisation charges (after the impairment provision made in last year) and write-down of inventories to net realisable value (after the Disaster) by approximately RMB5.6 million and RMB4.1 million respectively during the Reporting Period.

### ***Finance (Expense)/Income***

The Group recorded finance expense of approximately RMB9.7 million during the Reporting Period, as compared to the finance income of approximately RMB4.4 million in FY 2016. The decrease was mainly due to the recognition of net foreign exchange losses of approximately RMB10.0 million attributable to the unforeseen weakening of USD against RMB during the Reporting Period (net foreign exchange gains of approximately RMB0.9 million for the Corresponding Prior Period) and the reduction in bank interest income earned by approximately RMB5.7 million as a result of the change in time deposit mix to cope with business development of the Group.

### ***Other Expenses***

Other expenses decreased by 49.7% to approximately RMB7.7 million during the Reporting Period, as compared to approximately RMB15.3 million for the Corresponding Prior Period. Other expenses mainly represented the estimated possible payments on the outstanding gabbro-diabase resources fee payable of approximately RMB12.2 million (2016: approximately RMB8.7 million), which is partly netted off by the write-back of over-accrual for interest and other costs in relation to the litigation as a result of the agreed settlement with the plaintiff by Xingye Mining during the Reporting Period of approximately RMB4.8 million (2016: accrual of approximately RMB4.8 million).

### ***Income Tax Expense***

The income tax expense represented the current year provision for the Hong Kong profits tax on the Group's Trading Business of approximately RMB0.2 million (2016: Nil). No income tax was recognised in the PRC as the Group made losses in the PRC in both years.

Also, it is considered to be premature to recognise the deferred tax assets for tax losses arising in the PRC and Hong Kong as at 31 December 2017. Further details about the Group's income tax are set out in Note 7.

### ***Property, Plant and Equipment***

As at 31 December 2017, the Group's property, plant and equipment had a net book value of approximately RMB266.2 million (2016: approximately RMB270.3 million), representing mainly the mining and related assets at the Yanjiazhuang Mine and accounted for approximately 34.4% (2016: approximately 35.8%) of total assets of the Group. Further details about the Group's property, plant and equipment are set out in Note 10.

### ***Trade and Bills Receivables***

The Group's trade and bills receivables increased significantly from approximately RMB38.3 million as at 31 December 2016 to approximately RMB77.3 million as at 31 December 2017, as a result of the bills receivable arisen from the Trading Business during the Reporting Period.

### ***Prepayments, Deposits and Other Receivables***

As at 31 December 2017, the Group's balance of prepayments, deposits and other receivables increased by 52.1%, from approximately RMB32.8 million as at 31 December 2016 to approximately RMB49.9 million as at 31 December 2017. The increase in prepayments, deposits and other receivables was mainly attributed to the increase in advances paid to suppliers of the Trading Business for purchase of iron ore by approximately RMB12.4 million.

### ***Trade and Bills Payables***

The Group's trade and bills payables increased significantly from approximately RMB2.7 million as at 31 December 2016 to approximately RMB79.1 million as at 31 December 2017, as a result of the expansion and the increase in payables to suppliers of the Trading Business during the Reporting Period.

### ***Other Payables and Accruals***

As at 31 December 2017, the Group's balance of other payables and accruals was approximately RMB92.2 million (2016: approximately RMB87.8 million). The increase in balance by approximately 5.0% were mainly attributable to (i) the increase in accrual for the estimated possible payments on the outstanding gabbro-diabase resources fee payable by approximately RMB12.2 million for 2017 and (ii) trade deposits received from customers of the Trading Business of approximately RMB12.7 million (2016: Nil), which was partly netted off by the decrease in payables from the settlement of construction fees payable and write-back of over-accrual for interest and other costs of approximately RMB14.2 million and RMB4.8 million respectively during the Reporting Period in relation to the litigation as a result of the agreed settlement with the plaintiff by Xingye Mining.

In addition, in respect of the Mining Permit for gabbro-diabase at the Yanjiazhuang Mine, the remaining three instalments of the resources fee payable, which amounts to approximately RMB21.5 million, in aggregate, together with the associated cost of funds, were due for settlement, but remained unpaid up to date, further details of which are set out in the "Business Review" section and Note 18.

### ***Liquidity and Financial Resources***

As at 31 December 2017, the Group's cash and cash equivalents (excluding restricted bank balances and time deposits) amounted to approximately RMB164.3 million (2016: approximately RMB401.4 million), of which 3.3% are denominated in RMB, 4.9% are denominated in HKD and 91.8% are denominated in USD (2016: 25.7% are denominated in RMB, 58.2% are denominated in HKD and 16.1% are denominated in USD), representing 21.2% (2016: 53.1%) of total assets of the Group. The significant decrease in cash and cash equivalents was attributed to the utilisation of time deposits of HK\$250.0 million, in aggregate, (equivalent to approximately RMB209.0 million as at 31 December 2017) during the Reporting Period as securities for the Group's bank borrowing so as to obtain a lower borrowing interest rate from the bank. The Group would also negotiate for other new trade finance facilities with the banks so as to support the further development of the Trading Business in future.

The Group's net cash position (calculated as total cash and bank balances less total borrowings) was approximately RMB164.6 million as at 31 December 2017 (2016: approximately RMB179.2 million), while the Group's liquidity ratio (calculated as current assets divided by current liabilities) was approximately 1.3 as at 31 December 2017 (2016: approximately 1.5), both of which are considered to be steady and strong.

During the Reporting Period, the Group paid approximately RMB15.1 million for the settlement of the Group's addition of items of property, plant and equipment, mainly related to the settlement of construction fees payables (2016: approximately RMB3.8 million).

### **Capital Structure and Gearing Ratio**

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

As at 31 December 2017, the total equity of the Group amounted to approximately RMB386.1 million (2016: approximately RMB433.5 million).

As the Group had net cash position of approximately RMB164.6 million and RMB179.2 million as at 31 December 2017 and 2016, respectively, it is therefore not considered to have any net gearing as at these dates.

### **Loans, Indebtedness and Maturity Date**

As at 31 December 2017, the Group had HKD-denominated bank borrowing amounted to HK\$250.0 million (equivalent to approximately RMB209.0 million) (2016: HK\$250.0 million (equivalent to approximately RMB223.6 million)). The Group's bank borrowing as at 31 December 2017 is secured by time deposits of HK\$250.0 million, in aggregate, (equivalent to approximately RMB209.0 million) and carries interest at floating rate. The Group's bank borrowing as at 31 December 2016 was unsecured and the maturity of bank borrowing was subject to the bank's overriding right of repayment on demand.

As at 31 December 2017, no property, plant and equipment or leasehold land or land use rights were pledged for the Group's bank borrowing.

### **Pledge of Assets**

As at 31 December 2017, the time deposits of HK\$250.0 million, in aggregate, (equivalent to approximately RMB209.0 million) (2016: Nil) have been utilised as securities for the Group's bank borrowing.

### **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 borrowing and trade finance and treasury facilities.

### **Exposure to Fluctuations in Exchange Rates**

The Group's functional currency is RMB as the assets and operations at the Yanjiazhuang Mine are primarily located in the PRC with transactions settled in RMB. Since the second half of 2016, the Group has commenced the Trading Business and the Car-Park Business, with transactions settled in USD and HKD respectively.

During FY 2017, the Group has transactional currency exposures. Such exposures arose from the sales and purchases of products and other transactions of operating units in currencies other than the Group's functional currencies. Approximately 99% (2016: approximately 94%) and 99% (2016: approximately 98%) of the Group's sales and purchases, respectively during the Reporting Period, and approximately 40% of the Group's net assets as at 31 December 2017 (2016: approximately 25%) were denominated in foreign currency (the USD). Currently, the Group does not have a foreign currency hedging policy. The unforeseen strengthening of RMB against USD and HKD in FY 2017 led to the recognition of net foreign exchange losses of approximately RMB10.0 million during the Reporting Period (2016: net foreign exchange gains of approximately RMB0.9 million).

In view of the diversification of the Group's businesses and products, 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.

### 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 Concentrate Business" segment, "Gabbro-Diabase and Stone Business" segment, "Trading Business" segment and "Car-Park Business" segment. An analysis of the Group's revenue by operating segment is as follows:

|                                           | 2017<br><i>RMB'000</i> | 2016<br><i>RMB'000</i> |
|-------------------------------------------|------------------------|------------------------|
| Trading Business                          | 644,730                | 79,641                 |
| Iron Concentrate Business ( <i>Note</i> ) | —                      | —                      |
| Gabbro-Diabase and Stone Business         | 1,762                  | 4,753                  |
| Car-Park Business                         | 2,398                  | 190                    |
|                                           | <u>648,890</u>         | <u>84,584</u>          |

*Note:* No revenue had been recorded for the "Iron Concentrate Business" segment for the Reporting Period (2016: Nil) as the Group had yet to resume the trial production of the Iron Concentrate Business at the Yanjiazhuang Mine during the Reporting Period as affected by Renewal matters, disputes over land expropriation and disturbances, together with new local issues and nuisance brought by the Disaster.

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

|                | 2017<br><i>RMB'000</i> | 2016<br><i>RMB'000</i> |
|----------------|------------------------|------------------------|
| Hong Kong      | 439,836                | 190                    |
| North America  | 86,906                 | —                      |
| Mainland China | 79,225                 | 46,070                 |
| Asia           | 42,923                 | 38,324                 |
|                | <u>648,890</u>         | <u>84,584</u>          |

Further details of the Group's segment information and segment results are set out in Note 3, and discussions on segment information and business performance of the Group are set out in the sections headed "Market Overview" and "Business Review".

### **Capital Commitments**

The Group's commitments for capital expenditure for property, plant and equipment and capital contributions to joint venture upon its establishment as at 31 December 2017 were approximately RMB38.6 million and RMB1.5 million respectively (2016: approximately RMB39.3 million and Nil respectively). The sources of funding for capital expenditure include unutilised net proceeds from the IPO of the Company and internally generated funds.

### **Events after the Reporting Period**

In March 2018, the PRC Subsidiary entered into the Coal Purchase Agreement for the supply of coal, pursuant to which, among others, the PRC Subsidiary secured the supply of not less than 500,000 tonnes of coal from the Seller and shall pay to the Seller a sum of RMB50 million as the deposit for the coal supply. Based on the anticipated market demands from time to time, the PRC Subsidiary and the Seller shall enter into monthly purchase contracts setting out the quantity of coal to be purchased by the PRC Subsidiary for the specified period. The Coal Purchase Agreement shall have a term commencing from the date thereof and ending on 31 December 2018, and may be renewed thereafter by mutual agreement of the PRC Subsidiary and the Seller.

### **Significant Investments, Acquisitions and Disposals**

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

The Group has been exploring new mining and other investment and/or development opportunities with an aim to bring new business development and growth to the Group's business portfolio. In July 2017, the Group entered into two memorandums of understanding in relation to the exploration right for a metal mine in Inner Mongolia and the exploitation right for a gold mine in Suriname. After entering into the memorandums, the Group engages its advisors and mining experts with a view to obtain better understanding of these mining projects and continues to negotiate for the possible investment and/or collaboration. The Group has extended the exclusivity period for these mining projects in December 2017. Further details of these projects are set out in the announcements of the Company dated 21 July 2017, 24 July 2017, 27 December 2017 and 29 December 2017 respectively.

In addition, the Group entered into an agreement (the "JV Agreement") in October 2017 in relation to the formation of a Sino-foreign equity joint venture (the "JV"), with a view to carrying out business activities and operations aiming to make contributions to environmental restoration and greening services in the PRC, further details of which are set out in the announcement of the Company dated 30 October 2017. The parties to the JV Agreement shall contribute to the proposed registered capital of the JV of RMB10 million in proportion to their respective equity interests in the JV. The Group intends to fund its capital contribution to the JV of RMB1.5 million by internal resources. In the JV, the Group will be responsible for, among others, the provision of mining technology, project management and related services covering the recovery of residual coal and mine reclamation on environmental restoration and greening projects. It is believed that the formation of the JV will offer an opportunity for the Group to diversify its business portfolio and gain a foothold in such environmental friendly mining-related industry. The entering into of the JV Agreement and the investment in the JV are in line with the Group's business strategy, and are expected to create momentum for further growth.

The Group will continue to explore, evaluate and may proceed with these and other mining and/or investment opportunities, as appropriate, so as to create value for the Shareholders in the long run.

## **Employees and Remuneration Policies**

As at 31 December 2017, the Group had a total of 80 (2016: 136) employees in Hong Kong and Mainland China (excluding workers under the reward scheme based on production outputs and workers of the independent third-party contractors).

Hit by a number of unfavorable factors including the Disaster in 2016 and the Renewal matters, the Iron Concentrate Business continued to be suspended and the Environmental Upgrade was postponed as well. The management of Xingye Mining implemented certain cost-saving measures, and 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 the operating and administrative costs of Xingye Mining. Certain employees left the Group upon the expiry of their contracts or for other reasons. As a result, the overall number of full-time employees decreased during the Reporting Period. The management of Xingye Mining 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. In addition, the Group encourages its employees to receive training that is suitable to their job nature and caters to the needs of obtaining certain professional qualifications, such as seminars and training for different professional knowledge. Appropriate training programmes and/or seminar subsidies are also offered to ensure continuous staff training and development.

The emoluments of the Directors, comprise Director's fee, annual salary package, discretionary bonus and share options, are reviewed and determined by the Board based on the recommendation from the Remuneration Committee with reference to the Company's performance, his duties and responsibilities with the Company, and the prevailing market conditions. The Director's remuneration will be subject to annual review by the Remuneration Committee and the Board with the authorisation granted by the Shareholders at the AGM.

The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee consults with the chairman of the Board about these recommendations on remuneration policy and structure and remuneration packages. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

## 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 2017, the application of the net proceeds raised from the IPO of the Company (the “Net Proceeds”) is set out as below.

|                                                                                                                                                                                                                  | Net Proceeds from the IPO      |                               |                     |                     | Unutilised          |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|-------------------------------|---------------------|---------------------|---------------------|
|                                                                                                                                                                                                                  | Utilised                       |                               |                     |                     |                     |
|                                                                                                                                                                                                                  | Revised<br>use of<br>proceeds* | At beginning                  | During the          | At end of the       | At end of the       |
|                                                                                                                                                                                                                  |                                | of the<br>Reporting<br>Period | Reporting<br>Period | Reporting<br>Period |                     |
|                                                                                                                                                                                                                  | <i>RMB' million</i>            | <i>RMB' million</i>           | <i>RMB' million</i> | <i>RMB' million</i> | <i>RMB' million</i> |
| Development of the Iron Concentrate Business at Yanjiazhuang Mine,<br>the Securities and Treasury Investment Business,<br>the Debt Investment and Financing Business<br>and the Trading Business ( <i>Note</i> ) | 463                            | 248                           | 215                 | 463                 | –                   |
| Development of the gabbro-diabase business                                                                                                                                                                       | 173                            | 94                            | 1                   | 95                  | 78                  |
| Repayment of shareholders' loans                                                                                                                                                                                 | 105                            | 105                           | –                   | 105                 | –                   |
| Working capital                                                                                                                                                                                                  | 32                             | 32                            | –                   | 32                  | –                   |
| General working capital, acquisitions, financial management and<br>other new business                                                                                                                            | 279                            | 279                           | –                   | 279                 | –                   |
|                                                                                                                                                                                                                  | 1,052                          | 758                           | 216                 | 974                 | 78                  |

*Note:* These IPO proceeds were mainly utilised for the purchases made for the purpose of the Trading Business during the Reporting Period.

\* In 2016, the Company approved the reallocation and future application of the above unutilised Net Proceeds.

## Further Change in Use of Net Proceeds

As disclosed in the section headed “Events after the Reporting Period”, in March 2018, the PRC Subsidiary entered into the Coal Purchase Agreement for the supply of coal, pursuant to which, among others, the PRC Subsidiary shall pay to the Seller a sum of RMB50 million as the deposit for the coal supply.

In view of the latest development and status of the operation of the Group and the aforesaid new business pursuit, the Board has resolved to further change the use of the unutilised Net Proceeds of approximately RMB78 million as at the date of this announcement which had been designated for use in the development of the gabbro-diabase business (the “Unutilised Net Proceeds”), such that they will also be deployed for the Trading Business and as general working capital. It is envisaged that the Unutilised Net Proceeds may, among others, be used for the payment of the deposit and/or the purchase price for the purchases of coal under the Coal Purchase Agreement and/or iron ore. The Board believes that such further change in use of the Unutilised Net Proceeds will enable the Group to continue to grow and explore other business pursuits with a view to bringing in new income streams while seeking to achieve full resumption of the Gabbro-Diabase and Stone Business, such that the Group can achieve continual growth and improvement in its performance and results of operations.

## **Outlook and Future Plans**

The Group's business development remains challenging and contains uncertainties in 2018 and the foreseeable future.

Firstly, the Mining Permit had expired in July 2017. The management of Xingye Mining shall continue to work closely with various PRC government authorities in respect of the Renewal, including but not limited to obtaining the required governmental approval for the Land Use Adjustment and reaching an amicable settlement of remaining resources fee payable as soon as practicable. However, it can be expected that it may need more time and effort to complete the Renewal process given the uncertainty inherent in the changing environmental protection requirements and policies towards heavily polluting industries, which added greater uncertainties to the future development of the Group at the Yanjiazhuang Mine.

Secondly, the Group has been identifying and evaluating various mining and other business opportunities with an aim to create momentum and drive for value to the Group in the foreseeable future. However, the project progress depends on the negotiations, the project-specific circumstances and future changes in market and economic conditions. The Group endeavours to capture those prosperous investment opportunities as and when they arises so as to develop into new business operations and bring in new income stream to the Group.

Last but not least, the Group shall continue to develop and grow the Trading Business in 2018. The Group has successfully commenced the iron ore trading in late 2016 and recently secured the supply of coal from coal mines in Inner Mongolia in March 2018. The Group shall focus its Trading Business on widening the customer base and market share and building its reputation over time, therefore it can gradually increase its business volume and seek for higher margin. Also, in view of the stable demand for coal in Northern China for industrial use, power supply and heating, and the close proximity of the coal mines to the customers, it is believed that the Group could, through the newly established trading of coals, improve its operating and financial performances.

## **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 2017, we adopted corporate governance principles that emphasise 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, except for the Code Provisions A.2.7, A.6.7 and E.1.2 of the CG Code as noted hereunder.

Under the Code Provision A.2.7 of the CG Code, the chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. During FY 2017, the chairman of the Board was unable to hold such meeting due to other engagements. Alternatively, the other non-executive Director and all independent non-executive Directors had a meeting during FY 2017 without the executive Directors present so as to exchange their views and gather any potential concerns and/or questions that they might have and thereafter report the same to the chairman of the Board.

Under the Code Provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Due to other engagements, one non-executive Director was unable to attend the AGM held on 23 May 2017 (the “2017 AGM”) and the extraordinary general meeting held on 15 June 2017 (the “EGM”), and one independent non-executive Director was unable to attend the EGM. However, all other independent non-executive Directors and non-executive Director were invited to, and attended the 2017 AGM and EGM to ensure an effective communication with the Shareholders at such meetings.

Under the Code Provision E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting. Due to other engagements, the chairman of the Board was unable to attend the 2017 AGM. A non-executive Director, who acted as the chairman of meeting at the 2017 AGM, together with other members of the Board who attended the meeting, were of sufficient caliber for answering questions at the 2017 AGM.

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 2017.

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 2017.

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 auditor. The specific written terms of reference of the Audit Committee 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 2017 and the independent auditor's report thereon.

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

During FY 2017, 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 Thursday, 17 May 2018 to Wednesday, 23 May 2018 (both days inclusive), during which no transfer of the Shares will be registered. In order to be eligible to attend and vote at the 2018 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 Wednesday, 16 May 2018.

## **ANNUAL GENERAL MEETING**

The 2018 AGM of the Company for FY 2017 is scheduled to be held on Wednesday, 23 May 2018. A notice convening the 2018 AGM will be issued and disseminated to the Shareholders in due course.

## **CONSTITUTIONAL DOCUMENTS**

The Company did not make any change to its constitutional documents during FY 2017. The memorandum and articles of association of the Company are available on the websites of the Company and the Hong Kong Exchanges and Clearing Limited.

## SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the Group's consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows and the related notes thereto for the year then ended, as set out in this announcement have been agreed by the Company's auditor, Ernst & Young, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on this announcement.

## 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 2017 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                                                                                                                                           |
| “Audit Committee”                               | the audit committee of the Company                                                                                                                                                 |
| “Board”                                         | the board of Directors                                                                                                                                                             |
| “CG Code”                                       | the Corporate Governance Code contained in Appendix 14 of the Listing Rules                                                                                                        |
| “Company”                                       | Newton Resources Ltd, a company incorporated in the Cayman Islands with limited liability, and the shares of which are listed on the main board of the Stock Exchange              |
| “Director(s)”                                   | the director(s) of the Company                                                                                                                                                     |
| “Disaster”                                      | 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 |
| “Environmental Upgrade”                         | upgrade of the environmental protection measures of the production facilities for highway crushed stone and railway ballast at the Yanjiazhuang Mine as required by the local EPA  |
| “FY 2016” or<br>“Corresponding<br>Prior Period” | the financial year ended 31 December 2016                                                                                                                                          |

|                                         |                                                                                                                                                                                                                                                                                                                                                                     |
|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “FY 2017” or<br>“Reporting Period”      | the financial year ended 31 December 2017                                                                                                                                                                                                                                                                                                                           |
| “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                                                                                                                                                                                                                                                                                                              |
| “Inner Mongolia”                        | Inner Mongolia Autonomous Region, 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                                                                                                                                                                                                                                                                                                 |
| “Master Purchase Agreement”             | the master agreement entered into between the Company (for itself and as trustee for the benefits of its subsidiaries) as purchaser and SCIT as supplier on 25 April 2017 in relation to the purchase of iron ore by the Group from SCIT which were approved by the independent Shareholders, became effective on 25 April 2017 and will expire on 31 December 2019 |
| “Mining Permit”                         | the mining permit of Xingye Mining in respect of iron ore and gabbro-diabase at the Yanjiazhuang Mine                                                                                                                                                                                                                                                               |
| “Mt”                                    | megatonne(s)/million tonnes                                                                                                                                                                                                                                                                                                                                         |
| “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”<br>or “China” | The People’s Republic of China, which for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan                                                                                                                                                                                                  |

|                          |                                                                                                                                                                                                                         |
|--------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Remuneration Committee” | the remuneration committee of the Company                                                                                                                                                                               |
| “Renewal”                | renewal of the Mining Permit                                                                                                                                                                                            |
| “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                                                                                           |
| “SCIT”                   | SCIT Trading Limited, an indirect wholly-owned subsidiary of Shougang Concord International Enterprises Company Limited and a connected person of the Company under the Listing Rules                                   |
| “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 Mining”          | Lincheng Xingye Mineral Resources Co., Ltd (臨城興業礦產資源有限公司), an indirect non-wholly owned subsidiary of the Company                                                                                                       |
| “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 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, 27 March 2018

*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.*