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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)

CONNECTED TRANSACTION

ASSIGNMENT AND NOVATION AGREEMENT IN RELATION TO THE LONG TERM HEMATITE SUPPLY AGREEMENT

ASSIGNMENT AND NOVATION AGREEMENT

On 31 May 2019, Shougang Concord International and the Company entered into the Assignment and Novation Agreement, pursuant to which Shougang Concord International shall assign and novate, and shall procure SCIT to assign and novate their respective Rights and Obligations under the Long Term Hematite Supply Agreement to the Company and Ace Profit respectively for the Consideration of HK\$150 million.

On the date of the Assignment and Novation Agreement, the Company and Ace Profit have entered into the conditional Novation Deed with Shougang Concord International and SCIT and the other parties to the Long Term Hematite Supply Agreement, namely MGI and Koolan, to effectuate the novation of the Rights and Obligations contemplated under the Assignment and Novation Agreement, as well as the amendment and restatement of the Long Term Hematite Supply Agreement.

Under the Restated Long Term Hematite Supply Agreement, Koolan shall supply and sell and Ace Profit shall purchase hematite ore to be derived from the Hematite Mine in such annual quantity as equals 80% of Koolan's total available production during each contract year at the agreed market pricing formulae during the period from the Effective Time to the date of permanent cessation of Koolan's mining operations at the Hematite Mine. The Company, as the guarantor, shall unconditionally and irrevocably guarantee to Koolan the compliance of Ace Profit, as the buyer, with its obligations in connection with the Restated Long Term Hematite Supply Agreement. In addition, under the Deed of Guarantee and Indemnity, VMSIG shall unconditionally and irrevocably guarantee to Koolan the due and punctual performance of Ace Profit's obligations under the Restated Long Term Hematite Supply Agreement and to indemnify Koolan against all losses, actions, proceedings and judgments arising from any default or delay in the performance of such obligations, with the liability of VMSIG for all claims thereunder capped at US\$75 million.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Shougang Concord International is controlled as to an aggregate of approximately 46.06% by Shougang Group through its subsidiaries, and Shougang Group is a substantial Shareholder indirectly holding an aggregate of approximately 27.46% of the total number of Shares in issue through its subsidiaries Shougang Hong Kong, Lord Fortune and Plus All. As such, Shougang Concord International and SCIT, being an indirect wholly owned subsidiary of Shougang Concord International, are each an associate of Shougang Group and a connected person of the Company under the Listing Rules, and the transaction contemplated under the Assignment and Novation Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined in Chapter 14A of the Listing Rules) exceed(s) 5% and the Consideration exceeds HK\$10 million, the connected transaction contemplated under the Assignment and Novation Agreement is subject to the announcement, circular, Independent Shareholders' approval and reporting requirements under Chapter 14A of the Listing Rules.

GENERAL

An EGM will be convened and held for the Independent Shareholders to, among others, consider and, if thought fit, approve the Assignment and Novation Agreement and the connected transaction contemplated thereunder.

The Company has established the Independent Board Committee comprising all the three independent non-executive Directors to advise the Independent Shareholders as to whether the terms and conditions of the Assignment and Novation Agreement are fair and reasonable, whether the connected transaction contemplated under the Assignment and Novation Agreement is on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, and how to vote at the EGM in respect of the connected transaction contemplated under the Assignment and Novation Agreement, after taking into account the recommendations of the IFA. The Company has appointed Halcyon Capital Limited as the IFA to advise the Independent Board Committee and the Independent Shareholders as to the foregoing matters.

A circular containing, among others, (i) a letter from the Board providing further information on the Assignment and Novation Agreement and the connected transaction contemplated thereunder; (ii) a letter from the Independent Board Committee with its advice to the Independent Shareholders in connection with the foregoing matters; (iii) a letter from the IFA setting out its advice to the Independent Board Committee and the Independent Shareholders in connection with the foregoing matters; and (iv) a notice convening the EGM, together with the proxy form for the EGM, is expected to be despatched to the Shareholders on or before 24 June 2019.

Since the Assignment and Novation Agreement, the Novation Deed, the Deed of Guarantee and Indemnity and the Restated Long Term Hematite Supply Agreement and the transactions contemplated thereunder are subject to the fulfilment of the conditions precedent set out therein and may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

BACKGROUND

MGI, Koolan (as seller), Shougang Concord International (as guarantor) and SCIT (as the current buyer) are the parties to the Koolan Island long term ore sale agreement in relation to the supply of hematite ore by Koolan to SCIT from time to time, which was first executed on 22 November 2008 and has subsequently been novated, amended, supplemented and restated from time to time (the “**Long Term Hematite Supply Agreement**”). Pursuant to the Long Term Hematite Supply Agreement, Koolan, an indirect wholly owned subsidiary of MGI, shall supply and sell and SCIT shall purchase hematite ore to be derived from the Hematite Mine in such annual quantity as equals 80% of Koolan’s total available production during each contract year at the agreed market pricing formulae during the period from 1 July 2009 to the date of permanent cessation of Koolan’s mining operations at the Hematite Mine. Shougang Concord International, as the guarantor, shall unconditionally and irrevocably guarantee to Koolan the compliance of SCIT, its indirect wholly owned subsidiary, with SCIT’s obligations in connection with the Long Term Hematite Supply Agreement. Hematite ore is iron ore of high grade for direct shipping ore sales.

On 31 May 2019, Shougang Concord International and the Company entered into the Assignment and Novation Agreement, pursuant to which Shougang Concord International shall assign and novate, and shall procure SCIT to assign and novate their respective Rights and Obligations under the Long Term Hematite Supply Agreement to the Company and Ace Profit respectively for the Consideration of HK\$150 million. The assignment and novation of the Rights and Obligations shall be effected by way of the execution of the conditional Novation Deed on the date of the Assignment and Novation Agreement. In addition, under the Deed of Guarantee and Indemnity, VMSIG shall unconditionally and irrevocably guarantee to Koolan the due and punctual performance of Ace Profit’s obligations under the Restated Long Term Hematite Supply Agreement and to indemnify Koolan against all losses, actions, proceedings and judgments arising from any default or delay in the performance of such obligations, with the liability of VMSIG for all claims thereunder capped at US\$75 million.

ASSIGNMENT AND NOVATION AGREEMENT

The following sets forth further details of the Assignment and Novation Agreement:

Parties

- (1) Shougang Concord International
- (2) The Company

Date

31 May 2019

Subject Matter

Shougang Concord International shall assign and novate, and shall procure SCIT to assign and novate their respective Rights and Obligations under the Long Term Hematite Supply Agreement to the Company and Ace Profit respectively. Such assignment and novation shall be effected by way of the execution of the conditional Novation Deed by all the parties to the Long Term Hematite Supply Agreement (namely MGI, Koolan, Shougang Concord International and SCIT), the Company and Ace Profit on the date of the Assignment and Novation Agreement.

Consideration

The Consideration for the assignment and novation of the Rights and Obligations under the Long Term Hematite Supply Agreement payable by the Company to Shougang Concord International shall be an aggregate amount of HK\$150,000,000, among which:

- (1) HK\$100,000,000 shall be paid on the Completion Date; and
- (2) HK\$50,000,000 shall be paid on or before 31 December 2019 (the “**Second Instalment**”), provided that if, after the Completion Date, the production activities at the Hematite Mine are suspended or ceased for a continuous period of two months or more and as at 31 December 2019 (other than any suspension or cessation caused by any act, omission or default of the Company, Ace Profit and/or any of their respective affiliates), (i) such production activities have not resumed; or (ii) such production activities have resumed but have not been operated on a full-scale basis for at least two consecutive months after the resumption date, the due date of the Second Instalment shall be postponed to the date falling two months after such production activities have resumed and continued at the Hematite Mine on a full-scale basis for two consecutive months. For the purpose of the foregoing, the production activities at the Hematite Mine shall be deemed to be operated on a full-scale basis if, for the consecutive two-month period, Koolan has completed the delivery of at least five shipments of hematite ore to Ace Profit pursuant to the Restated Long Term Hematite Supply Agreement.

Where, during the period commencing on the date of the Assignment and Novation Agreement and ending on 31 December 2020, the amount of hematite ore which is available for derivation from the Hematite Mine falls below 17 million metric tonnes (estimated based on 80% of the mineral resources and ore reserves information of the Hematite Mine as publicly announced or disclosed by MGI from time to time), the Company may give written notice (the “**Adjustment Notice**”) to Shougang Concord International, whereby the Consideration shall be deemed to be reduced by the amount determined based on the following formula (the “**Adjustment Amount**”):

$$\text{Adjustment Amount} = P \times S$$

where

“P” shall be HK\$8.82/metric tonne, being the Consideration divided by 17 million metric tonnes; and

“S” shall be the difference between the volume of hematite ore that Koolan will be able to supply to Ace Profit under the Restated Long Term Hematite Supply Agreement during the term thereof (in metric tonnes) and 17 million metric tonnes, provided that no such adjustment will be made if S is equal to or less than 0.85 million metric tonnes.

To the extent that any portion of the Second Instalment payable by the Company to Shougang Concord International has not been paid under the terms of the Assignment and Novation Agreement, the Adjustment Amount shall first be applied to reduce such portion of the Second Instalment, and to the extent that there is any balance of the Adjustment Amount remaining, Shougang Concord International shall pay to the Company such balance within one month after the date of the Adjustment Notice. Where the Second Instalment has been paid in full by the Company, Shougang Concord International shall refund the full amount of the Adjustment Amount to the Company within one month after the date of the Adjustment Notice.

The Consideration was determined after arm's length negotiations among the parties to the Assignment and Novation Agreement taking into account, among others, the proved and probable ore reserves and expected average iron grade of the Hematite Mine, the price offered by Koolan for the supply of hematite ore to be derived from the Hematite Mine under the Restated Long Term Hematite Supply Agreement, and the value of the Rights and Obligations as at 31 March 2019 as appraised by the Valuer at HK\$150 million using the discounted cash flow method. Further details of the valuation are set out in the section headed "Principal Assumptions of the Valuation" below. The Consideration approximates to the reported value of the Rights and Obligations. On the basis of the above and given the mechanisms under which the payment of the Second Instalment may be deferred in the event of a suspension of two months or longer in the production activities at the Hematite Mine after the Completion Date and the Consideration may be adjusted where the amount of hematite ore available for derivation from the Hematite Mine falls below the expected level during the period commencing on the date of the Assignment and Novation Agreement and up to 31 December 2020, the Directors (other than the independent non-executive Directors whose views will be given after taking the advice from the IFA) consider the Consideration to be fair and reasonable.

The payment of the Consideration will be funded by the internal resources and/or borrowings of the Group.

Conditions Precedent

The Completion is conditional upon the fulfilment of the following conditions:

- (1) all necessary approvals, consents, clearance and waivers (if any) as may be required under the Listing Rules and/or any other applicable law, rule or regulation for the consummation of the transactions contemplated under the Assignment and Novation Agreement having been obtained by Shougang Concord International, the Company and MGI and remaining in full force and effect;
- (2) all necessary approvals (if any) by the Shareholders and the shareholders of MGI as may be required under the Listing Rules and/or any other applicable law, rule or regulation in respect of the Assignment and Novation Agreement and the transactions contemplated thereunder having been granted and remaining in full force and effect;
- (3) the Novation Deed having become unconditional in all respects in accordance with its terms;
- (4) no order or judgment (whether temporary, preliminary or permanent) of any relevant governmental authority or under any applicable law or regulation which has the effect of making it unlawful for any party to complete, or otherwise prohibiting or restricting or limiting any party from completing any transaction contemplated under the Assignment and Novation Agreement having been issued or made prior to the Completion;
- (5) Shougang Concord International's warranties (except for those warranties which are expressly made in respect of matters as at dates other than the Completion Date, in which case such warranties shall be true and accurate in all respects and not misleading in any respect as at such dates) remaining true and accurate in all respects and not misleading in any respect as at the Completion Date;
- (6) the Company's warranties remaining true and accurate in all respects and not misleading in any respect as at the Completion Date; and

- (7) the resumption of the production activities at the Hematite Mine (as supported by certain shipping and sailing schedules and the relevant written confirmation of laydays given by Koolan to SCIT and the relevant written approval or written notice of alternative schedule given by SCIT to Koolan in accordance with the provisions of the Long Term Hematite Supply Agreement).

At any time before the Long Stop Date, the Company may at its discretion waive (in whole or in part, whether conditionally or unconditionally) in writing condition (5) above, and Shougang Concord International may at its discretion waive (in whole or in part, whether conditionally or unconditionally) in writing condition (6) above. All other conditions as set out above may not be waived or varied at the option of either party. If any of the conditions set out above is not fulfilled or, as the case may be, waived at or before 12:00 noon on the Long Stop Date, then (without prejudice to any other remedy available to the other party) the obligations of the parties shall cease and determine forthwith and neither party shall have any claim under the Assignment and Novation Agreement against the other save in respect of any antecedent breach thereof.

Completion

Subject to fulfilment or waiver (as the case may be) of the conditions set out in the paragraph headed “Conditions Precedent” above, the Completion shall take place at 10:00 a.m. on the Completion Date, being the 10th business day after the last condition precedent is satisfied or waived in accordance with the Assignment and Novation Agreement, or such other date as the parties may agree in writing.

NOVATION DEED

On the date of the Assignment and Novation Agreement, the Company and Ace Profit have entered into the conditional Novation Deed with Shougang Concord International and SCIT and the other parties to the Long Term Hematite Supply Agreement, namely MGI and Koolan, to effectuate the novation of the Rights and Obligations contemplated under the Assignment and Novation Agreement, as well as the amendment and restatement of the Long Term Hematite Supply Agreement. Completion shall be conditional upon, among others, the Novation Deed having become unconditional in all respect in accordance with its terms.

The Novation Deed is conditional upon the fulfilment of the following conditions:

- (1) all necessary approvals, consents, clearance and waivers (if any) as may be required under the Listing Rules and/or any other applicable law, rule or regulation for the consummation of the transactions contemplated under the Novation Deed having been obtained by Shougang Concord International and the Company and remaining in full force and effect;
- (2) all necessary approvals (if any) by the shareholders of Shougang Concord International and the Shareholders as may be required under the Listing Rules and/or any other applicable law, rule or regulation in respect of the Novation Deed and the transactions contemplated thereunder having been granted and remaining in full force and effect;
- (3) Koolan having received from VMSIG one counterpart of the Deed of Guarantee and Indemnity duly executed by it contemporaneously with the execution of the Novation Deed; and
- (4) Koolan having received a legal opinion reasonably acceptable to Koolan in relation to the execution by the parties to the Novation Deed (other than MGI and Koolan) and the enforceability of the Novation Deed and the Deed of Guarantee and Indemnity as Koolan reasonably requires.

Conditions (3) and (4) above may be waived by Koolan and MGI in writing. All other conditions cannot be waived or varied by any of the parties. Any party may by notice to the other parties terminate the Novation Deed at any time if any of conditions (1) to (2) above is not satisfied within 90 days of the date of the execution thereof, or in the case of condition (4), not satisfied or waived within 14 days of the date of execution of the Novation Deed.

Deed of Guarantee and Indemnity

Under the Deed of Guarantee and Indemnity executed contemporaneously with the Novation Deed, VMSIG, a substantial Shareholder interested in an aggregate of approximately 28.74% of the issued Shares directly and through its direct wholly owned subsidiary, Fast Fortune, as at the date of this announcement and hence a connected person of the Company, agrees to unconditionally and irrevocably guarantee to Koolan the due and punctual performance of Ace Profit's obligations under the Restated Long Term Hematite Supply Agreement and to indemnify Koolan against all losses, actions, proceedings and judgments arising from any default or delay in the performance of such obligations. The provision of guarantee and indemnity under the Deed of Guarantee and Indemnity by VMSIG helps secure the Novation Deed and the Restated Long Term Hematite Supply Agreement, which provides the Group with the supply of quality hematite ores from an established producer, the MGI Group. The Company has agreed with VMSIG for a maximum annual fee of HK\$5 million for its provision of guarantee and indemnity and continual financial assistance to the Company. The liability of VMSIG for all claims under the Deed of Guarantee and Indemnity is capped at US\$75 million. As a form of financial assistance (as defined in the Listing Rules) to be received by the Group from a connected person of the Company, the provision of guarantee and indemnity under the Deed of Guarantee and Indemnity will be conducted on normal commercial terms and will not be secured by the assets of the Group. Accordingly, such financial assistance is fully exempt from the shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

Principal terms of the Restated Long Term Hematite Supply Agreement

In accordance with the provisions of the Novation Deed, with effect from the Effective Time, the respective Rights and Obligations of Shougang Concord International and SCIT shall be novated to the Company and Ace Profit respectively, and the terms and conditions of the Long Term Hematite Supply Agreement shall be amended and restated in the form set out in the schedule thereto.

Under the Restated Long Term Hematite Supply Agreement, Koolan shall supply and sell and Ace Profit shall purchase hematite ore to be derived from the Hematite Mine in such annual quantity as equals 80% of Koolan's total available production during each contract year at the agreed market pricing formulae during the period from the Effective Time to the date of permanent cessation of Koolan's mining operations at the Hematite Mine. Koolan shall not enter into any further offtake agreements for the sale of hematite ore derived from the Hematite Mine which, at any point in time during the term of the Restated Long Term Hematite Supply Agreement, forms its available production and the subject matter of the Restated Long Term Hematite Supply Agreement without first obtaining the written consent of Ace Profit which it may give at its sole discretion, unless specifically provided for in the Restated Long Term Hematite Supply Agreement, such that the proportion of total output of hematite ore derived from the Hematite Mine which Ace Profit receives under the Restated Long Term Hematite Supply Agreement in any contract year shall not decrease in any subsequent contract year. The Company, as the guarantor, shall unconditionally and irrevocably guarantee to Koolan the compliance of Ace Profit, as the buyer, with its obligations in connection with the Restated Long Term Hematite Supply Agreement.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, all the other parties to the Novation Deed (other than Shougang Concord International and SCIT) and their ultimate beneficial owners are Independent Third Parties.

PRINCIPAL ASSUMPTIONS OF THE VALUATION

According to the Valuation Report, the value of the Rights and Obligations under the Restated Long Term Hematite Supply Agreement as at 31 March 2019 as appraised by the Valuer using the discounted cash flow approach is HK\$150 million. The Valuation constitutes a profit forecast under rule 14.61 of the Listing Rules.

The following sets forth the principal assumptions, including commercial assumptions, upon which the Valuation was based:

- (a) the stage of development of the Hematite Mine and the total production volume of the Hematite Mine from the estimated remaining mine life, as disclosed in its projected production plan;
- (b) the agreed percentage of the output from the Hematite Mine will be supplied under the Restated Long Term Hematite Supply Agreement;
- (c) the iron ores will be purchased at the prevailing agreed price formulae, and delivered and sold to the PRC market at the forecasted iron ore prices with 65% iron quality with reference to applicable market indexes;
- (d) the prevailing applicable Hong Kong profits tax rates have been applied; and
- (e) the discount rate of 11% (at which each annual net cash flow was discounted to present value) was based on the estimated weighted average cost of capital, which incorporates the cost of equity and debt, weighted by the proportionate amount of each source of capital in the capital structure, and the risk-free rate and the risk premium appropriate for the Valuation.

Other key assumptions adopted in the Valuation are:

- no major changes are expected in political, legal and economic conditions in Hong Kong, China and Australia;
- the regulatory environment and market conditions for the global steel and iron ore industry will be developing according to the prevailing market expectations;
- there will be no major changes in the current taxation law applicable to the Restated Long Term Hematite Supply Agreement;
- the Group will not be constrained by the availability of finance;
- the future movement of exchange rates and interest rates will not differ materially from the prevailing market expectations; and
- the Group will retain competent management, key personnel and technical staff to support the ongoing operations under the Restated Long Term Hematite Supply Agreement.

The Directors have reviewed and discussed with the Valuer the principal assumptions upon which the Valuation was based and are of the view that the Valuation was made after due care and enquiry.

Ernst & Young, the Company's auditor, has reviewed the calculations for the Valuation and is of the opinion that so far as the arithmetical accuracy of the calculations of the forecast on which the Valuation is based (the "Forecast") is concerned, the Forecast has been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors.

A letter from the Board and a letter from the Company's auditor in respect of the Valuation and setting out their views above are included in the appendices to this announcement in accordance with the requirements under rules 14A.68(7) of the Listing Rules.

The following are the qualifications of the experts whose opinions and advice are included in this announcement:

Name	Qualification
D&P China (HK) Limited	Professional valuer
Ernst & Young	Certified Public Accountants

As at the date of this announcement, none of the above experts has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of the above experts has given and has not withdrawn its written consent to the publication of this announcement with its opinions and advice and all references to its name included in the form and context in which they are included.

BACKGROUND OF MGI, KOOLAN AND THE HEMATITE MINE

MGI is a company incorporated in Australia, the shares of which are listed on the Australian Securities Exchange. The MGI Group is an established producer of high quality, direct shipping grade iron ore products. The MGI Group has proven operating track records, established export facilities, a strong balance sheet, and an experienced management team to complement and grow its business as one of the major suppliers in the Asian steel industry.

Koolan and the Hematite Mine

Koolan is a company incorporated in Australia, the registered holder of the Hematite Mine and a wholly owned subsidiary of MGI. The Hematite Mine operation is situated at Koolan Island on the north coast of Western Australia. MGI acquired the Hematite Mine project in early 2007, and its exports from the Hematite Mine have reached 25 million metric tonnes.

However, the operations from the Main Pit at the Hematite Mine were suspended since November 2014 following a seawall failure which resulted in the pit flooding. In April 2017, following detailed evaluation work, MGI approved the rebuild of the main pit seawall at the Hematite Mine to resume high grade iron ore production. Following two years of redevelopment and refurbishment work at the Hematite Mine site, the first shipment of high grade iron ore sales from the Hematite Mine recommenced in late April 2019.

As disclosed in the announcement of MGI dated 20 April 2018, the latest proven and probable ore reserves estimate of the Hematite Mine is 21 million metric tonnes with an average iron grade of 65.5%. As further disclosed in the announcement of MGI dated 24 April 2019, MGI has recommenced the sales of high grade iron ores derived from the Hematite Mine which are scheduled to be mined over the next 5.5 years.

The high grade and quality of direct shipping hematite iron ores from the Hematite Mine shall be well suited to the China market with increasing focus on high quality inputs to enhance the steel manufacturing productivity and mitigate the environmental impacts, and shall provide the Group with a stable and sustainable product supply to grow the Trading Business (as defined below) and create values to the Shareholders in the long run.

REASONS FOR AND BENEFITS OF THE TRANSACTION

In the second half of 2016, the Group started its trading business which initially primarily involved the supply and sales of iron ores. The trading business has developed into the major revenue contributor of the Group over the years. During the year ended 31 December 2018, the Group recorded revenue of approximately RMB318.1 million from the supply and trading of iron ores and coals (the “**Trading Business**”). To sustain and further promote the growth of the Trading Business, the management of the Group has been liaising with leading enterprises in the iron ore industry about the possibility of long-term business cooperation, so as to pave way for the Group’s long-term development.

In 2018, the Group has been actively seeking opportunities to expand the supplier network and secure the long term supply of iron ores and other commodities from overseas mines with a view to developing the Trading Business with quality, sustainable and stable product supply. The Group has endeavoured to secure the supply of iron ores from the MGI Group at competitive market prices. Iron ores derived from Australian mines are highly endorsed in the market for their quality and are especially sought-after among the trading-arms of steel mills and state-owned enterprises in the PRC. According to industry reports, the demand for Australian-sourced iron ores remains as strong as ever; in particular, the PRC is the end destination for most of the Australian-sourced iron ore exports in 2018 and early 2019.

Since the first half of 2017, the Group has started doing businesses with the MGI Group through the sourcing of hematite ore on an individual contract basis. Capitalising on the mutual trust established with the MGI Group, the Group entered into the Assignment and Novation Agreement and the Novation Deed so as to secure the continual supply of hematite ore at competitive prices. Pursuant to the offtake arrangements contemplated under the Restated Long Term Hematite Supply Agreement, not only will the Group be able to cement its amicable long-term relationship with the MGI Group, but the Group can also secure the supply of Australian-sourced iron ores in the event of any surge in future demand and/or market prices and be assured of their stable supply with quality. As such, the Group will be poised to capture the business opportunities amid the popularity of Australian-sourced iron ores in the market.

According to research reports, the tragedy in an iron mine in Brazil in early 2019 has triggered major short-term losses in mining production and sharp narrowing of price differentials from low-grade to high-grade iron ores. The global iron ore market is presently losing a huge volume of Brazilian supplies with unclear restart timeline and Australian supplies have been hampered by recent shipment disruptions with key ports being hit by cyclones. It is believed that the Brazilian iron ore exports will inevitably drop in 2019 due to major supply interruptions resulting in the pricing for all iron ore products to increase with more upside to come in the future. The high iron ore prices could also be supported in the medium to long term by the acceleration in Chinese economic growth and the associated continual fixed-asset investments, as well as more supply disruptions and less iron mining project commissioning in the markets.

According to researches, steel demand in China has also shown a seasonal rebound in the near term, and is expected to remain solid with Chinese construction activities beating expectations. Also, Chinese steel prices have risen materially since 2017 which supported the overall recovery and general increase in the prices of iron ores. However, the actual environmental policy enforcement beyond the winter period remains uncertain and any extended curtailments in steel production capacity will effectively tighten steel supply and affect iron ore demand. Recent steel mills' preference for high iron grade and low impurities content shall benefit the Group's products to be derived from the Hematite Mine. The major decline of mining capital expenditures during past few years and intensified environmental restrictions will likely cap the local iron ore supply growth in China, which shall also be advantageous for the import of iron ores offered by the Group.

The terms and conditions of the Assignment and Novation Agreement were negotiated between the parties to it on an arm's length basis. The Directors (other than the independent non-executive Directors whose views will be given after taking the advice from the IFA) are of the view that the terms and conditions of the Assignment and Novation Agreement are fair and reasonable and in the interests of the Shareholders as a whole, and the connected transaction contemplated under the Assignment and Novation Agreement are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Except for Mr. Chong Tin Lung, Benny ("**Mr. Chong**"), an executive Director of the Company, who is also a director of VMSIG and the son of Ms. Mak Siu Hang, Viola, the beneficial owner of VMSIG, none of the Directors has or is deemed to have a material interest in the Assignment and Novation Agreement, the Novation Deed, the Deed of Guarantee and Indemnity and the Restated Long Term Hematite Supply Agreement and the transactions contemplated thereunder. Mr. Chong has abstained from voting on the relevant resolutions at the Board meeting in accordance with the Articles of Association of the Company.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Shougang Concord International is controlled as to an aggregate of approximately 46.06% by Shougang Group through its subsidiaries, and Shougang Group is a substantial Shareholder indirectly holding an aggregate of approximately 27.46% of the total number of Shares in issue through its subsidiaries Shougang Hong Kong, Lord Fortune and Plus All. As such, Shougang Concord International and SCIT, being an indirect wholly owned subsidiary of Shougang Concord International, are each an associate of Shougang Group and a connected person of the Company under the Listing Rules, and the transaction contemplated under the Assignment and Novation Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined in Chapter 14A of the Listing Rules) exceed(s) 5% and the Consideration exceeds HK\$10 million, the connected transaction contemplated under the Assignment and Novation Agreement is subject to the announcement, circular, Independent Shareholders' approval and reporting requirements under Chapter 14A of the Listing Rules.

In view of the foregoing, the Company will seek to obtain the approval of the Independent Shareholders in respect of the connected transaction contemplated under the Assignment and Novation Agreement at the EGM. In accordance with the Listing Rules, the voting at the EGM will be taken by poll. Shougang Group, Shougang Hong Kong, Lord Fortune, Plus All, VMSIG, Fast Fortune, and their respective associates, and all other Shareholders with a material interest in the connected transaction contemplated under the Assignment and Novation Agreement are required to abstain from voting on the respective resolutions proposed to be passed at the EGM for approving the Assignment and Novation Agreement and the connected transaction contemplated thereunder.

The Company has established the Independent Board Committee comprising all the three independent non-executive Directors to advise the Independent Shareholders as to whether the terms and conditions of the Assignment and Novation Agreement are fair and reasonable, whether the connected transaction contemplated under the Assignment and Novation Agreement is on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, and how to vote at the EGM in respect of the connected transaction contemplated under the Assignment and Novation Agreement, after taking into account the recommendations of the IFA. The Company has appointed Halcyon Capital Limited as the IFA to advise the Independent Board Committee and the Independent Shareholders as to the foregoing matters.

GENERAL

The Company is an investment holding company. The Group is principally engaged in the supply and trading of iron ores and coals and the mining, processing and sale of iron concentrates and gabbro-diabase and stone products.

Shougang Concord International is an investment holding company. Shougang Concord International and its subsidiaries mainly focus on the management and operations of car parking assets and management of private funds that are oriented towards urban redevelopment.

An EGM will be convened and held for the Independent Shareholders to, among others, consider and, if thought fit, approve the Assignment and Novation Agreement and the connected transaction contemplated thereunder. A circular containing, among others, (i) a letter from the Board providing further information on the Assignment and Novation Agreement and the connected transaction contemplated thereunder; (ii) a letter from the Independent Board Committee with its advice to the Independent Shareholders in connection with the foregoing matters; (iii) a letter from the IFA setting out its advice to the Independent Board Committee and the Independent Shareholders in connection with the foregoing matters; and (iv) a notice convening the EGM, together with the proxy form for the EGM, is expected to be despatched to the Shareholders on or before 24 June 2019.

Since the Assignment and Novation Agreement, the Novation Deed, the Deed of Guarantee and Indemnity and the Restated Long Term Hematite Supply Agreement and the transactions contemplated thereunder are subject to the fulfilment of the conditions precedent set out therein and may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“Ace Profit”	Ace Profit Investment Limited (向利投資有限公司) , a limited company incorporated in Hong Kong and an indirect wholly owned subsidiary of the Company with its principal activities being the supply and trading of iron ores
“affiliates”	means, in relation to a body corporate, any subsidiary or holding company of such body corporate, and any subsidiary of any such holding company for the time being
“Assignment and Novation Agreement”	the conditional agreement for assignment and novation in relation to the Long Term Hematite Supply Agreement entered into between Shougang Concord International and the Company on 31 May 2019, pursuant to which Shougang Concord International shall assign and novate, and shall procure SCIT to assign and novate their respective Rights and Obligations to the Company and Ace Profit respectively
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Newton Resources Ltd, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Completion”	the completion of the Assignment and Novation Agreement in accordance with the provisions therein
“Completion Date”	the date on which the Completion takes place, being the 10th business day after the last condition precedent to which the Assignment and Novation Agreement is satisfied or waived in accordance with the provisions thereof, or such other date as the parties may agree in writing
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the total consideration for the assignment and novation of the Rights and Obligations payable by the Company to Shougang Concord International under the Assignment and Novation Agreement
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules

“Deed of Guarantee and Indemnity”	the deed of guarantee and indemnity executed by VMSIG and Koolan contemporaneously with the Novation Deed, under which VMSIG agrees to unconditionally and irrevocably guarantee to Koolan the due and punctual performance of Ace Profit’s obligations under the Restated Long Term Hematite Supply Agreement and to indemnify Koolan against all losses, actions, proceedings and judgments arising from any default or delay in the performance of such obligations, with the liability of VMSIG for all claims thereunder capped at US\$75 million
“Director(s)”	the director(s) of the Company
“Effective Time”	00:01 a.m. (Western Australia time) on the day following the date on which all of the conditions precedent set out in the Novation Deed have been satisfied or waived in accordance with its terms, being the time at which the novation of the Rights and Obligations and the amendment and restatement of the Long Term Hematite Supply Agreement under the Novation Deed becomes effective in accordance with its terms
“EGM”	the extraordinary general meeting of the Company to be convened for the Independent Shareholders to, among others, consider, and, if thought fit, approve the connected transaction contemplated under the Assignment and Novation Agreement
“Fast Fortune”	Fast Fortune Holdings Limited, a company incorporated in the British Virgin Islands, a Shareholder and a direct wholly owned subsidiary of VMSIG
“Group”	the Company and its subsidiaries from time to time
“Hematite Mine”	the hematite mine situated at Koolan Island, Western Australia which is comprised of mining leases M04/416 and M04/417 and exploration licences E04/1266
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“IFA”	Halcyon Capital Limited, the independent financial adviser appointed by the Company for the purpose of advising the Independent Board Committee and the Independent Shareholders in respect of the connected transaction contemplated under the Assignment and Novation Agreement
“Independent Board Committee”	an independent committee of the Board, comprising all the three independent non-executive Directors, established to advise the Independent Shareholders in respect of the connected transaction contemplated under the Assignment and Novation Agreement

“Independent Shareholders”	Shareholder(s) other than Shougang Group, Shougang Hong Kong, Lord Fortune, Plus All, VMSIG, Fast Fortune and their respective associates, and all other Shareholders with a material interest in the connected transaction contemplated under the Assignment and Novation Agreement
“Independent Third Party(ies)”	person(s) or company(ies) which is(are) not connected person(s) of the Company
“Koolan”	Koolan Iron Ore Pty Limited, a company incorporated in Australia, the registered holder of the Hematite Mine and an indirect wholly owned subsidiary of MGI
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time
“Long Stop Date”	the 210th day from the date of the Assignment and Novation Agreement, or such later date as the parties may agree in writing from time to time
“Lord Fortune”	Lord Fortune Enterprises Limited, a company incorporated in the British Virgin Islands, a Shareholder and a direct wholly owned subsidiary of Shougang Hong Kong
“MGI”	Mount Gibson Iron Limited, a company incorporated in Australia, the shares of which are listed on the Australian Securities Exchange
“MGI Group”	MGI and its subsidiaries from time to time
“Novation Deed”	the conditional deed of novation, amendment and restatement to effectuate the novation by Shougang Concord International and SCIT of their respective Rights and Obligations to the Company and Ace Profit respectively contemplated under the Assignment and Novation Agreement, as well as the amendment and restatement of the Long Term Hematite Supply Agreement to be entered into among all the parties to the Long Term Hematite Supply Agreement (namely MGI, Koolan, Shougang Concord International and SCIT), the Company and Ace Profit on the date of the Assignment and Novation Agreement
“PRC”	the People’s Republic of China which, for the purpose of this announcement, shall exclude Hong Kong, the Macao Special Administrative Region of the People’s Republic of China and Taiwan
“Plus All”	Plus All Holdings Limited, a company incorporated in the Samoa, a substantial Shareholder and a direct wholly owned subsidiary of Shougang Hong Kong
“Restated Long Term Hematite Supply Agreement”	the Long Term Hematite Supply Agreement as amended and restated in accordance with the Novation Deed

“Rights and Obligations”	the respective rights and obligations of Shougang Concord International as the guarantor and SCIT as the buyer under the Long Term Hematite Supply Agreement to be assigned and novated to the Company as the new guarantor and Ace Profit as the new buyer respectively pursuant to the Assignment and Novation Agreement and the Novation Deed
“RMB”	Renminbi, the lawful currency of the PRC
“SCIT”	SCIT Trading Limited, a company incorporated in Hong Kong and an indirect wholly owned subsidiary of Shougang Concord International
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of issued Share(s)
“Shougang Group”	首鋼集團有限公司 (Shougang Group Co., Ltd.*), a state-owned enterprise established in the PRC, a controlling shareholder of Shougang Concord International and a substantial shareholder of the Company
“Shougang Concord International”	Shougang Concord International Enterprises Company Limited, a company incorporated in Hong Kong, the shares of which are listed on the main board of the Stock Exchange
“Shougang Hong Kong”	Shougang Holding (Hong Kong) Limited, a company incorporated in Hong Kong, a substantial shareholder of each of the Company and Shougang Concord International and a direct wholly owned subsidiary of Shougang Group
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“US\$”	the United States dollar, the lawful currency of the United States of America
“Valuation”	the appraisal of the value of the Rights and Obligations under the Restated Long Term Hematite Supply Agreement as at 31 March 2019 using the discounted cash flow method
“Valuation Report”	the report on the Valuation prepared by the Valuer dated 31 May 2019

“Valuer”	D&P China (HK) Limited, an independent professional valuer engaged by the Company for the purpose of appraisal of the value of the Rights and Obligations under the Restated Long Term Hematite Supply Agreement
“VMSIG”	VMS Investment Group Limited, a company incorporated in the British Virgin Islands and a substantial Shareholder
“%”	per cent.

* *for identification purpose only*

By order of the Board
Newton Resources Ltd
Chong Tin Lung, Benny
Chairman and Executive Director

Hong Kong, 31 May 2019

As at the date of this announcement, the executive Directors are Mr. Chong Tin Lung, Benny, Mr. Li Changfa and Mr. Luk Yue Kan; the non-executive Director is 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.

APPENDIX I – LETTER FROM THE BOARD

31 May 2019

The Stock Exchange of Hong Kong Limited
12/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong

Dear Sirs,

We refer to the announcement of the Company dated 31 May 2019 (the “**Announcement**”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Announcement shall have the same meanings when used herein.

We refer to the Valuation Report containing details of the Valuation which constitutes a profit forecast as defined under rule 14.61 of the Listing Rules. We have reviewed the bases and assumptions based upon which the Valuation was prepared by the Valuer and discussed the same with the Valuer with a view to understand the underlying information and reasonableness thereof, and have reviewed the Valuation for which the Valuer is responsible. We have also considered the report from Ernst & Young, the Company’s auditor, confirming that, so far as the arithmetical accuracy of the calculations of the discounted cash flow forecast on which the Valuation is based (the “**Forecast**”) is concerned, the Forecast has been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors.

On the basis of the above, we are of the opinion that the Valuation prepared by the Valuer has been made after due and careful enquires.

Yours faithfully,
for and on behalf of the Board
Newton Resources Ltd
Chong Tin Lung, Benny
Chairman and Executive Director



31 May 2019

The Directors

Newton Resources Ltd

Suite 4117, 41/F, Jardine House

1 Connaught Place

Central

Hong Kong

**REPORT FROM REPORTING ACCOUNTANTS ON THE DISCOUNTED CASH FLOW FORECAST
IN CONNECTION WITH THE VALUATION OF THE RIGHTS AND OBLIGATIONS UNDER THE
RESTATED LONG TERM HEMATITE SUPPLY AGREEMENT**

Dear Sirs,

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (the “**Forecast**”) on which the valuation dated 31 May 2019 prepared by D&P China (HK) Limited in respect of the Rights and Obligations under the Restated Long Term Hematite Supply Agreement of Newton Resources Ltd (the “**Company**”) is based. The valuation is set out in the Announcement in connection with, among others, the Restated Long Term Hematite Supply Agreement, which shows that Ace Profit Investment Limited, an indirect wholly owned subsidiary of the Company, shall purchase such annual quantity as equals 80% of total available production of hematite ore of Koolan Island during each contract year at the agreed market pricing formulae during the period from the Effective Time to the date of permanent cessation of Koolan’s mining operations at the Hematite Mine. The valuation based on the Forecast is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as defined in the announcement of the Company dated 31 May 2019 (the “**Announcement**”).

Directors’ Responsibilities

The directors of the Company (the “**Directors**”) are solely responsible for the Forecast. The Forecast has been prepared using a set of bases and assumptions (the “**Assumptions**”), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out in the section headed “Principal Assumptions of the Valuation” of the Announcement.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements”, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions adopted by the Directors. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions made by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion on the Forecast.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of the Rights and Obligations under the Restated Long Term Hematite Supply Agreement. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions adopted by the Directors.

Ernst & Young

Certified Public Accountants

22/F, CITIC Tower, 1 Tim Mei Avenue, Central

Hong Kong