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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)**

## **CONTINUING CONNECTED TRANSACTION**

### **MASTER PURCHASE AGREEMENT**

#### **MASTER PURCHASE AGREEMENT**

On 25 April 2017, the Company (for itself and as trustee for the benefit of its subsidiaries) as purchaser and SCIT as supplier entered into the Master Purchase Agreement in relation to the purchase and supply of iron ore which shall, subject to approval by the Independent Shareholders, become effective on 25 April 2017 and expire on 31 December 2019.

Pursuant to the Master Purchase Agreement, the Group may enter into separate Purchase Contracts with SCIT for the purchase of iron ore from SCIT from time to time during the continuance of the Master Purchase Agreement, with reference to the pricing method and procedures as explained in the paragraph headed “Pricing method and procedures” in this announcement. Under the Master Purchase Agreement, the Group shall not be restricted from purchasing any iron ore from any third party supplier, and SCIT shall not be restricted from selling any iron ore to any third party customer. The continuing connected transactions contemplated under the Master Purchase Agreement will be subject to the proposed Annual Caps in respect of the years ending 31 December 2017, 2018 and 2019.

#### **LISTING RULES IMPLICATIONS**

As at the date of this announcement, SCIT is an indirect wholly-owned subsidiary of Shougang Concord, which is controlled as to approximately 47.78% by Shougang Hong Kong, a substantial shareholder of the Company holding an aggregate of approximately 27.46% of the total number of Shares in issue through its subsidiaries. As such, SCIT is an associate of Shougang Hong Kong and a connected person of the Company under the Listing Rules, and the transactions contemplated under the Master Purchase Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the Annual Caps for each of the three years ending 31 December 2019 are expected to represent more than 5% of the applicable percentage ratios under the Listing Rules and are expected to exceed HK\$10 million, the transactions contemplated under the Master Purchase Agreement and the Annual Caps are subject to reporting, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

## **GENERAL**

An EGM will be convened and held for, among others, the Independent Shareholders to consider and, if thought fit, to approve the Master Purchase Agreement and the Annual Caps for each of the three years ending 31 December 2019.

The Company has established the Independent Board Committee comprising all three independent non-executive Directors to advise the Independent Shareholders as to whether the continuing connected transactions under the Master Purchase Agreement and the Annual Caps are fair and reasonable, and whether the continuing connected transactions under the Master Purchase 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, and to advise the Independent Shareholders on how to vote at the EGM, after taking into account the recommendations of the IFA. Euto Capital Partners Limited has been appointed as the IFA to advise the Independent Board Committee and the Independent Shareholders as to the foregoing matters.

A circular including, among other information, (i) a letter from the Board containing further information on the continuing connected transactions under the Master Purchase Agreement and the Annual Caps; (ii) recommendations of the Independent Board Committee to the Independent Shareholders; (iii) a letter from the IFA containing its advice in connection with the aforesaid; and (iv) a notice convening the EGM and the proxy form, will be despatched to the Shareholders on or before 23 May 2017.

**Since the Master Purchase Agreement is 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.**

## **THE MASTER PURCHASE AGREEMENT**

Reference is made to the announcement of the Company dated 1 November 2016 in relation to, among others, the Group's plan to explore other business pursuits in the upstream and downstream markets of the steelmaking industry and the construction industry, including the supply and trading of iron ores, other commodities and construction materials, with a view to bringing in new income stream and hence enhancing the Group's performance, and the annual report of the Company for the year ended 31 December 2016 in which it was mentioned that the Group would consider to liaise with the leading enterprises in this industry about the possibility of business cooperation and intended to continue to expand the iron ore trading business to an economically viable scale.

The Board announces that on 25 April 2017, the Company (for itself and as trustee for the benefit of its subsidiaries) as purchaser and SCIT as supplier entered into the Master Purchase Agreement in relation to the purchase and supply of iron ore which shall, subject to approval by the Independent Shareholders, become effective on 25 April 2017 and expire on 31 December 2019.

Further details of the Master Purchase Agreement are set out below.

## **Date**

25 April 2017

## **Parties**

- (1) The Company (for itself and as trustee for the benefit of its subsidiaries); and
- (2) SCIT

## **Principal terms**

Pursuant to the Master Purchase Agreement, the Group may enter into separate Purchase Contracts with SCIT for the purchase of iron ore from SCIT from time to time during the continuance of the Master Purchase Agreement on normal commercial terms and with reference to the pricing method and procedures as explained below. Each Purchase Contract to be entered into pursuant to the Master Purchase Agreement shall specify the quantity, typical quality standard and specifications of the iron ore, the unit selling price and the formula(s) for any adjustment thereof by reference to the quality and specifications (such as the chemical and physical content) of the iron ore delivered, delivery period and other terms on which the iron ore is to be supplied as agreed among the parties to the Purchase Contracts based on the principal provisions set out in the Master Purchase Agreement and on normal commercial terms.

Under the Master Purchase Agreement, the Group shall not be restricted from purchasing any iron ore from any third party supplier, and SCIT shall not be restricted from selling any iron ore to any third party customer.

SCIT shall ensure that all iron ore supplied to the Group will meet the quantity, quality standard and specifications of the iron ore, delivery period and such other requirements as may be prescribed in the Purchase Contracts.

The Company shall procure that the relevant member of the Group will make payment of the relevant purchase price to SCIT within the period and manner laid down in the Purchase Contracts.

## **Pricing method and procedures**

The transactions under the Master Purchase Agreement shall be on normal commercial terms and the prices payable by the Group for the iron ore will be agreed between SCIT and the relevant member of the Group from time to time on an arm's length basis by reference to the prevailing comparable market prices of the iron ore at the relevant time, which shall be determined by reference to:

- (i) the comparable market price shown for the iron ore in the applicable Platts Iron Ore Index in SBB Steel Markets Daily (or such other index that is commonly used in the iron ore industry and recognised to have authoritative or reference value) (the "**Reference Index Price**"); or
- (ii) in the event that no Reference Index Price can be taken as a reference, any cost quotation to be obtained by the Group from its Independent Third Parties supplier for similar iron ore with similar quantity, typical quality standard and specifications.

The Platts Iron Ore Index is recognised as a benchmark assessment of the spot price of physical iron ore. It is commonly used as a primary physical market pricing reference for the determination of the price of seaborne iron ore delivered into the PRC. The Platts Iron Ore Index is published on a daily basis and therefore the prices payable by the Group under the Master Purchase Agreement are expected to be highly transparent in the open market.

The Group did not purchase any iron ore from SCIT in the past. All iron ores of the Group were previously purchased from Independent Third Parties suppliers. For all such iron ore purchases with Independent Third Parties suppliers, the Platts Iron Ore Index had been used to determine the iron ore price payable by the Group to such Independent Third Parties suppliers. Accordingly, the pricing method set out in point (i) above is consistent with that of previous dealings with the Independent Third Parties suppliers of the Group.

In order to ensure that the pricing method in the Master Purchase Agreement is adhered to and that the purchase to be entered into by the Group under each Purchase Contract will be on normal commercial terms, the Group will adopt the following measures:

- (1) the Group will check whether the Reference Index Price has been adopted in the formula for determining the unit selling prices, and obtain other information of the transaction price(s) of iron ore of similar quantity, typical quality standard and specifications on industry website(s) for comparison with those offered by SCIT; and
- (2) where the Reference Index Price is not available, the Group shall compare the prices offered by SCIT with the unit selling prices payable by the Group to its Independent Third Parties suppliers in its recent purchases of iron ore of similar quantity, typical quality standard and specifications or (where such information is not available) any cost quotation to be obtained by the Group from its Independent Third Parties suppliers in respect of iron ore of similar quantity, typical quality standard and specifications.

In addition to those set out above, the Group will also adopt the following measures:

- (i) dedicated personnel of the Group will be responsible for regular monitoring of the continuing connected transactions to ensure that the Annual Caps will not be exceeded;
- (ii) internal review will be conducted by the Group to assess, on a periodic basis, whether the purchases of iron ore have been made in accordance with the terms of the Master Purchase Agreement;
- (iii) the Company will engage its auditors to conduct an annual review of the continuing connected transactions conducted pursuant to the Master Purchase Agreement; and
- (iv) the independent non-executive Directors will review the continuing connected transactions entered into pursuant to the Master Purchase Agreement on an annual basis and confirm in the annual reports of the Company for the years ending 31 December 2017, 2018 and 2019 whether such continuing connected transactions have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better, and in accordance with the Master Purchase Agreement on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Directors consider that the above internal control measures can ensure that the transactions under the Master Purchase Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders.

## Proposed Annual Caps

The Group proposes that the below Annual Caps be set for the continuing connected transactions contemplated under the Master Purchase Agreement in respect of the years ending 31 December 2017, 2018 and 2019.

	For the year ending 31 December		
	2017	2018	2019
	<i>US\$' million</i>	<i>US\$' million</i>	<i>US\$' million</i>
Proposed Annual Caps	<u>51</u>	<u>67</u>	<u>83</u>

In 2016, the Group sold approximately 0.14 million tonnes of iron ore and recognised revenue of approximately RMB79.6 million. In 2017 (up to the date of this announcement), the Group entered into contracts with Independent Third Parties suppliers to purchase approximately 0.5 million tonnes of iron ore. As further explained in the paragraphs headed “Reasons for the continuing connected transactions” below, the Board intends to further expand the Group’s trading business. To accommodate such business expansion, the Group intends to purchase iron ore from SCIT in 2017 and the years to come (subject to approval by Independent Shareholders at the EGM), in addition to those purchases of iron ore from Independent Third Parties suppliers.

Iron ore price had experienced great volatility in the past, with the Platts Iron Ore Index (62% Fe fines) fluctuated in a range between approximately US\$49 per tonne and US\$92 per tonne during the past 12-month period from 1 April 2016 to 31 March 2017. In view of such volatility, the highest index amount for the past 12-month period of US\$92 per tonne is applied in determining the Annual Cap for the year ending 31 December 2017.

As for the anticipated iron ore purchase price in the year ending 31 December 2018, it is estimated by the Directors (other than the independent non-executive Directors whose view will be given after taking the advice from the IFA) taking into account iron ore price forecasts recently made by two international investment banks. In the respective forecasts, one international investment bank anticipated that the price of iron ore spot China CFR (62% Fe) would be US\$55 per tonne, while the other international investment bank expected that the iron ore spot would be US\$48 per tonne in the year ending 31 December 2018. The highest iron ore price forecast of US\$55 per tonne is adopted in determining the Annual Cap for the year ending 31 December 2018. As for the anticipated iron ore purchase price in the year ending 31 December 2019, no estimate has been provided by the two international investment banks; however, one of them predicted that the long term price of iron ore spot China CFR (62% Fe) would be US\$62 per tonne. Accordingly, the iron ore price of US\$62 per tonne is adopted in formulating the Annual Cap for the year ending 31 December 2019.

For the years ending 31 December 2017, 2018 and 2019, the Group is expected to purchase not more than 0.55 million tonnes, 1.21 million tonnes and 1.33 million tonnes of iron ore from SCIT, respectively.

For the year ending 31 December 2017, it is expected that the Group will purchase from SCIT not more than 0.55 million tonnes of iron ore, which is estimated with reference to the contracted quantity of iron ore purchase in 2017 (up to the date of this announcement).

The annual quantity of iron ore to be purchased from SCIT is expected to grow in both of the years ending 31 December 2018 and 2019 due to the anticipated continuous expansion of the Group's trading business. On this basis, the annual quantity of iron ore to be purchased from SCIT is expected not to exceed 1.21 million tonnes (being the annualised expected maximum purchase quantity from SCIT in 2017 plus a 10% growth) in the year ending 31 December 2018. Likewise, the expected maximum annual quantity of iron ore to be purchased from SCIT of 1.33 million tonnes for the year ending 31 December 2019 represents a 10% growth from that of the previous year.

On the aforesaid bases together with the rounding up of the dollar amount to the nearest million, the Directors (other than the independent non-executive Directors whose view will be given after taking the advice from the IFA) expect that the aggregate purchase prices payable by the Group to SCIT for the purchase of iron ore under the Master Purchase Agreement would not exceed US\$51 million, US\$67 million and US\$83 million for each of the three years ending 31 December 2017, 2018 and 2019 respectively.

### **Duration**

Subject to approval of the Master Purchase Agreement and the transactions contemplated thereunder, including the Annual Caps, by the Independent Shareholders, the Master Purchase Agreement shall become effective on 25 April 2017 and expire on 31 December 2019. If the approval by the Independent Shareholders cannot be obtained on or before 31 August 2017 (or such other date as the parties to the Master Purchase Agreement may agree in writing), the Master Purchase Agreement shall forthwith determine and no party shall be entitled to any rights or benefits or be under any obligations under or in respect of the Master Purchase Agreement.

### **REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS**

As explained in the annual report of the Company for the year ended 31 December 2016, although the Group was pursuing its business promotion for highway crushed stone and railway ballast progressively, the Group's business remained staggering in 2016 since the production and operations at the Yanjiazhuang Mine were suspended again due to the unforeseen requirement for an environmental protection upgrade from the government authorities and the floods and damages caused by heavy rains in the region which had further hampered the business development in the area. As such, the Group's development strategy has been to continuously explore and expand its business portfolio. In addition to the operations at the Yanjiazhuang Mine, the Group has been actively pursuing other business and investment opportunities so as to achieve the objectives of carrying out sustainable development and diversifying its business and revenue source, thereby enhancing its overall performance. In particular, as set out in the Company's announcement dated 1 November 2016, the Group has been looking into the possibility and taking the appropriate steps to expand its iron concentrate business to the downstream trading business of iron ore and steel products.

In the second half of 2016, the Group started its trading business through a newly formed wholly-owned subsidiary, primarily involving the supply and sales of iron ore at this stage. During the year ended 31 December 2016, the Group sold approximately 0.14 million tonnes of iron ore and recognised revenue of approximately RMB79.6 million, which was the major contributor to the significant increase in the overall revenue of the Group for the year as compared with that for the preceding financial year. In view of this, the management of the Group targets to expand the trading business in an orderly manner and 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.

By entering into the Master Purchase Agreement, the Group may purchase iron ore from SCIT to satisfy the Group's growing demand for iron ore as a result of the expansion in its iron ore business, thereby facilitating the future growth and the long-term development of the Group.

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

The Directors (other than the independent non-executive Directors whose view will be given after taking the advice from the IFA) are also of the view that the proposed Annual Caps for the continuing connected transactions under the Master Purchase Agreement for each of the three years ending 31 December 2017, 2018 and 2019 respectively are fair and reasonable and in the interests of the Company and the Shareholders as a whole. None of the Directors has or is deemed to have a material interest in the Master Purchase Agreement and the transactions contemplated thereunder, including the Annual Caps, and is required to abstain from voting on the relevant resolution at the board meeting.

#### **IMPLICATIONS UNDER THE LISTING RULES**

As at the date of this announcement, SCIT is an indirect wholly-owned subsidiary of Shougang Concord, which is controlled as to approximately 47.78% by Shougang Hong Kong, a substantial shareholder of the Company holding an aggregate of approximately 27.46% of the total number of Shares in issue through its subsidiaries, Lord Fortune and Plus All. As such, SCIT is an associate of Shougang Hong Kong and a connected person of the Company under the Listing Rules, and the transactions contemplated under the Master Purchase Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the Annual Caps for each of the three years ending 31 December 2019 are expected to represent more than 5% of the applicable percentage ratios under the Listing Rules and are expected to exceed HK\$10 million, the transactions contemplated under the Master Purchase Agreement and the Annual Caps are subject to reporting, announcement, circular and independent shareholders' approval 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 on the continuing connected transactions under the Master Purchase Agreement and the Annual Caps at the EGM. In accordance with the Listing Rules, the voting at the EGM will be taken by poll. Shougang Hong Kong, Lord Fortune, Plus All and their respective associates, and any Shareholders who are materially interested in the continuing connected transactions under the Master Purchase Agreement are required to abstain from voting on the respective resolutions proposed to be passed at the EGM for approving the continuing connected transactions under the Master Purchase Agreement and the Annual Caps.

The Company has established the Independent Board Committee comprising all three independent non-executive Directors to advise the Independent Shareholders as to whether the continuing connected transactions under the Master Purchase Agreement and the Annual Caps are fair and reasonable, and whether the continuing connected transactions under the Master Purchase 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, and to advise the Independent Shareholders on how to vote at the EGM, after taking into account the recommendations of the IFA. Euto Capital Partners Limited has been appointed as the IFA to advise the Independent Board Committee and the Independent Shareholders as to the foregoing matters.

## GENERAL

The Group is principally engaged in the operation of an iron and gabbro-diabase mine in the PRC and trading of iron ore. SCIT is principally engaged in the trading of iron ore, steel and related products.

An EGM will be convened and held for, among others, the Independent Shareholders to consider and, if thought fit, to approve the Master Purchase Agreement and the Annual Caps for each of the three years ending 31 December 2019.

A circular including, among other information, (i) a letter from the Board containing further information on the continuing connected transactions under the Master Purchase Agreement and the Annual Caps; (ii) recommendations of the Independent Board Committee to the Independent Shareholders; (iii) a letter from the IFA containing its advice in connection with the aforesaid; and (iv) a notice convening the EGM and the proxy form, will be despatched to the Shareholders on or before 23 May 2017.

**Since the Master Purchase Agreement is 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

The following terms shall have the meanings as set out below in this announcement, unless the context otherwise requires:

“Annual Cap(s)”	the maximum aggregate annual value of the iron ore which may be purchased by the Group from SCIT pursuant to the Master Purchase Agreement of US\$51 million, US\$67 million and US\$83 million for each of the three years ending 31 December 2017, 2018 and 2019 respectively as referred to in the section headed “The Master Purchase Agreement – Proposed Annual Caps” in this announcement
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“CFR”	an acronym of “cost and freight”, an international trade term requiring the seller of a contract to arrange for the carriage of goods by sea to a port of destination



“Company”	Newton Resources Ltd, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the main board of the Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules
“continuing connected transaction”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for, among others, considering, and if thought fit, approval by the Independent Shareholders of the continuing connected transactions contemplated under the Master Purchase Agreement and the Annual Caps for each of the three years ending 31 December 2019
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFA”	Euto Capital Partners Limited (a corporation licensed to carry on type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)), being 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 continuing connected transactions contemplated under the Master Purchase Agreement
“Independent Board Committee”	an independent committee of the Board, comprising all three independent non-executive Directors, established to advise the Independent Shareholders in respect of the continuing connected transactions contemplated under the Master Purchase Agreement and the Annual Caps
“Independent Shareholders”	Shareholder(s) other than Shougang Hong Kong, Lord Fortune, Plus All and their respective associates, and all other Shareholders interested in the Master Purchase Agreement
“Independent Third Party(ies)”	third party or parties whose ultimate beneficial owner(s) are independent of the Company and connected persons of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time

“Lord Fortune”	Lord Fortune Enterprises Limited, a company incorporated in the British Virgin Islands, being one of the Shareholders which is wholly-owned by Shougang Hong Kong
“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 shall, subject to approval by Independent Shareholders, become effective on 25 April 2017 and expire on 31 December 2019
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Plus All”	Plus All Holdings Limited, a company incorporated in the Samoa, being one of the Shareholders which is wholly-owned by Shougang Hong Kong
“Purchase Contract”	the written purchase order and/or agreement to be entered into between the relevant member of the Group and SCIT, encapsulating the contract for the sale and purchase of iron ore as the context may require, in such form as the parties to the Master Purchase Agreement shall agree from time to time
“SCIT”	SCIT Trading Limited, a company incorporated in Hong Kong which is indirectly wholly-owned by Shougang Concord
“Shares”	existing ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of issued Share(s)
“Shougang Concord”	Shougang Concord International Enterprises Company Limited, a company duly incorporated under the laws of Hong Kong, whose shares are listed on the main board of the Stock Exchange
“Shougang Hong Kong”	Shougang Holding (Hong Kong) Limited, a company incorporated in Hong Kong and a substantial shareholder of the Company and the controlling shareholder of Shougang Concord
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“US\$”	the United States dollar, the lawful currency of the United States of America

“Yanjiazhuang Mine”

Lincheng Xingye Mineral Resources Co., Ltd Yanjiazhuang Mine (臨城興業礦產資源有限公司閆家莊礦), an iron and gabbro-diabase mine located in Yanjiazhuang Mining Area, Shiwopu, Haozhuang Town, Lincheng County, Hebei Province, the PRC

“%”

per cent.

By order of the Board  
**Newton Resources Ltd**  
**Wu Wai Leung, Danny**  
*Non-executive Director*

Hong Kong, 25 April 2017

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