Feishang Non-metal Materials Technology Limited
飛尚非金屬材料科技有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 8331

2015
Annual Report

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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This report, for which the directors (the "Directors") of Feishang Non-metal Materials Technology Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. XU Chengyin *(Chairman and Chief Executive Officer)*
Mr. ZHANG Pingwu
Mr. CHEN Gongbao

Independent Non-executive Directors

Mr. CHAN Chiu Hung Alex
Mr. ZHENG Shuilin
Mr. DUAN Xuechen

AUTHORISED REPRESENTATIVES

Mr. YUE Ming Wai Bonaventure
Mr. CHEN Gongbao

COMPANY SECRETARY

Mr. YUE Ming Wai Bonaventure

COMPLIANCE OFFICER

Mr. CHEN Gongbao

AUDIT COMMITTEE

Mr. CHAN Chiu Hung Alex *(Chairman)*
Mr. ZHENG Shuilin
Mr. DUAN Xuechen

NOMINATION COMMITTEE

Mr. ZHENG Shuilin *(Chairman)*
Mr. CHAN Chiu Hung Alex
Mr. DUAN Xuechen
Mr. CHEN Gongbao

REMUNERATION COMMITTEE

Mr. DUAN Xuechen *(Chairman)*
Mr. CHAN Chiu Hung Alex
Mr. ZHENG Shuilin
Mr. XU Chengyin

AUDITORS

SHINEWING (HK) CPA Limited
Certified Public Accountants
43/F, Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 2204, Shun Tak Centre
200 Connaught Road Central
Sheung Wan
Hong Kong
Telephone: +852 28589860
Fascimile: +852 28106963

COMPANY'S WEBSITE

http://www.fsnmmaterials.com

COMPANY'S STOCK CODE

8331.HK

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Corporate Information

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

LEGAL ADVISERS

(As to Hong Kong Law)
MinterEllison

(As to PRC Law)
Commerce & Finance Law Offices

(As to Cayman Islands Law)
Conyers Dill & Pearman

COMPLIANCE ADVISER

Celestial Capital Limited
21/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

PRINCIPAL BANKERS

Bank of China (Luxembourg) S.A. Brussels Branch
Bank of China Limited (Wuhu branch)
Industrial and Commercial Bank of China
(Fanchang branch)

Chairman's Statement

On behalf of the board (the "Board") of Directors of the Company, I present the results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2015 to the shareholders of the Company (the "Shareholders").

LISTING ON THE STOCK EXCHANGE

29 December 2015 marked an important milestone in the history of the Group, as the Company was successfully listed on the GEM of the Stock Exchange (the "Listing") by way of placing of 125,000,000 new shares of the Company (the "Placing"), with total gross proceeds of HK$40.0 million. This can be used to enhance the capital base of the Group, develop new products and improve the plant and equipment. Also, the new financing channel will provide strong capital guarantees for the sustainable development of the Group.

REVIEW

China's economic development has shifted from the previous high levels of growth to sustainable development. In 2015, the growth rate of China's gross domestic product was merely 6.9%, representing the lowest in the past 25 years. The economic slowdown and gloomy investment environment have resulted in decreased steel metals and mining production levels, which in turn significantly and adversely affected total bentonite consumption levels. Notwithstanding the above, east China, where the Company is located, was less severely affected as compared to other regions in China due to its high concentration of bentonite-consuming industries and diversified structure of end-use sectors for bentonite.

In 2015, the Group was able to exploit several market opportunities to pursue growth in stability, increased its marketing efforts, and enhanced product quality management, all of which contributed to a rise in the selling price of the Group's products. Notwithstanding the increase in average selling price of the Group's products, the Group recorded a slight drop in turnover and a decline in sales volume in 2015 as compared to 2014's because of the general economic downturn in China as well as the adverse weather conditions in east China in 2015, which generally hindered the progress of civil engineering projects and eventually led to a decrease in demand for drilling mud.

The Company was listed on the GEM of the Stock Exchange in December 2015, with total gross proceeds of HK$40.0 million. The related listing expense is around CNY21.9 million, among which CNY15.4 million was recorded in the Statement of Profit or Loss for the year ended 31 December 2015. Due to this one-off expenditure, the total loss of the Group of CNY10.9 million was recorded for the year ended 31 December 2015. If the listing expense was excluded, the Group would be able to generate a net profit of CNY4.5 million for the year ended 31 December 2015.

In order to satisfy the needs of our customers and the demands of the ever-evolving bentonite products industry, in 2015, the Group entered into collaboration agreements with two universities and one research institution in China for the development of new technologies and new bentonite products. The Directors believe that improved production technologies and the development of new products will facilitate more effective cost control and increase the competitiveness of the Group's products, and will thereby help the Group expand its market share in the bentonite industry.

Chairman's Statement

OUTLOOK

Despite increasingly fierce competition in the bentonite industry and the complex and dynamic domestic and international economy, the Group will continue to expand its customer base, increase product recognition of its principal products, enhance the production technologies, and develop new products in order to achieve more effective cost control and increase the Group's competitiveness. At the same time, the Group will also recruit more talents to meet the needs of its development and identify other suitable non-metal mines to support and expand its business.

The Board deeply believes that maintaining a high level of internal control is essential for the healthy long-term development of the Group, so the Group has optimised work procedures and risk control in respect of quality management and compliance management. The Board will further enhance the Group's corporate governance and risk control measures on a continuing basis.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my appreciation to the staff and management team of the Group for their hard work and dedication during the year. I would also like to express my sincere gratitude to all the Shareholders for their continual support.

XU Chengyin
Chairman and Chief Executive Officer

Hong Kong, 21 March 2016

BUSINESS REVIEW

Business Strategies Review with Progress of Implementation

The Group aims to strengthen its market position in the People's Republic of China (the "PRC"). In order to achieve this objective, the Group intends to pursue the following strategies. The following table sets out a comparison of the Group's business strategies as disclosed in the prospectus of the Company dated 18 December 2015 (the "Prospectus") with the actual progress of implementation as of 31 December 2015.

Business Strategy	Implementation Plan	Progress of Implementation as of 31 December 2015
Broaden customer base and develop product recognition	(i) Collaborating with external institutions in the PRC for the development of new technologies and new bentonite products to cater for high-valued downstream markets other than iron ore pelletising and civil engineering; (ii) attending and participating in industry forums and events to network with other industry professionals and potential customers; and (iii) expanding sales and marketing team to further enhance sales and marketing activities.	No update
Development of new production technology and new products	Signing collaboration agreements with two universities and one research institute	No new product or technology has been developed so far
Recruitment of more talents	Recruiting more experienced personnel who possess abundant knowledge and rich experience in various aspects of the business, including mine design and construction, mining, processing, sales and marketing and research and development of principal products	No update
Acquisition of other non-metal mines	Evaluating any potential targets meeting the criteria when opportunities arise	Not yet identified any qualified targets
Improvement of plant and equipment	Construction of new storage facilities for pelletising clay	Completed the construction of one storage facility as planned

The Group had entered into collaboration agreements with two universities and one research institute for the development of new technologies and new bentonite products to cater for high-valued downstream markets other than iron ore pelletising and civil engineering. However, there is no assurance that research and development activities undertaken will be successful or yield the anticipated benefits. Even if such activities are successful, the Group may not be able to apply the new technologies or launch the new products in a timely manner. Market demand anticipated at the initial stages of the research and development cycle may not materialise by the end of research, and the anticipated benefits may be adversely affected and undermined by other competitors' rampant replication of similar technologies or products. The Directors will continue to closely monitor the progress of the Group's research and development activities and review the terms and conditions of collaboration agreements if necessary.

Use of Listing Proceeds

As announced on 21 March 2016, the Board has resolved to change the use of net proceeds accruing to the Group from the Placing.

The actual net proceeds from the Placing was approximately HK$12.7 million and there was approximately HK$12.6 million of the proceeds remain unutilised as at the date of this report and had been placed as short-term interest-bearing deposits with authorised financial institutions. In light of the reasons stated in the notes below and as the actual net proceeds based on HK$0.32 per placing share are less than the estimated net proceeds based on HK$0.35 per placing share, being the mid-point of the indicative placing price range, as stated in the section headed "Future Plans and Use of Proceeds" of the Prospectus, the Board has resolved to adjust the HK$3.3 million shortfall in the use of proceeds from Placing (the "Shortfall") according to the development needs as follows:

	As of 31 December 2015 (HK$ million)	For the six months ending 30 June 2016 (HK$ million)	For the six months ending 31 December 2016 (HK$ million)	For the six months ending 30 June 2017 (HK$ million)	For the six months ending 31 December 2017 (HK$ million)	Total net proceeds (HK$ million)	Approximate percentage of net proceeds %
Development of production technology for new products	–	– (Note c)	– (Note c)	– (Note c)	7.7 (Note d)	7.7	60.6
Improvement of plant and equipment	– (Note a)	0.4 (Note b)	4.6 (Note d)	–	–	5.0	39.4
Total	–	0.4	4.6	–	7.7	12.7	100.0

Notes:

(a) The original use of proceeds for improvement of plant and equipment for the period from the listing date of 29 December 2015 to 31 December 2015 was HK$0.2 million. Since the Company was listed on the GEM shortly before year ended date and due to time consideration, the Group paid the HK$0.2 million for the plant and equipment out of its own funds instead of the originally planned net proceeds.

(b) The original use of proceeds for improvement of plant and equipment for the six months ending 30 June 2016 was HK$2.6 million. After considering the uncertain prospects of the iron and steel industry which might impact the Company's business and the Shortfall, and in order to protect the interests of the shareholders, the Company has decided to postpone the construction of new storage facilities for pelletising clay which was originally scheduled in the first half of 2016, and the originally planned relevant expenditure of HK$2.2 million will be financed with the Group's own funds instead. The detailed implementation time will depend on the prospects of the iron and steel industry.

(c) The original use of proceeds for development of production technology for new products for the six months ending 30 June 2016, 31 December 2016 and 30 June 2017 were HK$0.1 million, HK$0.4 million and HK$0.4 million respectively. The Group will also apply its internal fund to finance the research and development of HK$0.9 million as a result of the Shortfall.

(d) The use of proceeds for improvement of plant and equipment for the six months ending 31 December 2016 and for development of production technology for new products for the six months ending 31 December 2017 remain unchanged as originally planned.

The Board has confirmed the above change of the use of the net proceeds accruing to the Group from the Placing and consider that such change is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Mine Property Summary

The Group holds the mining rights to Huanghu Bentonite Mine. The following table sets out certain information of the mine and details of the mining licence.

Location	Huanghu Bentonite Mine Fanchang county, Wuhu city, Anhui province	
Equity Interest held by the Group	100%	
Date of initial commercial production	Commercial production of pelletising clay in 2004 and drilling mud in 2010	
Permitted mining right area	7.2982 km^2	
Mining method	Open-pit	
Mining depth/elevation limit	From 57 mASL to -23 mASL	
Permitted annual production capacity	230,000 m^3 (equivalent to approximately 400,000 tonnes)	
Validity period of current licence	9 September 2015 to 9 March 2019	
Reserve data (as of 1 July 2015) (Note 1)	Dry	Wet
Proved reserve (metric tonnes)	1,720,000	2,151,000
Probable reserve (metric tonnes)	4,724,000	5,910,000
Total (metric tonnes)	6,444,000	8,061,000
Reserve data (as of 31 December 2015) (Note 2)	Dry	Wet
Proved reserve (metric tonnes)	1,685,000	2,104,000
Probable reserve (metric tonnes)	4,724,000	5,910,000
Total (metric tonnes)	6,409,000	8,014,000
Average quality of bentonite		
Active montmorillonite	47.0%	
Colloid index	61.1 ml/15g	
Swelling capacity	8.7 ml/g	
Capital expenditure for the year ended 31 December 2015	5,435,000	
Output for the year ended 31 December 2015 (metric tonnes)	82,000	

Notes:

(1) The reserve data as of 1 July 2015 is extracted from the independent technical report dated 18 December 2015 contained in the Prospectus prepared by SRK Consulting (Hong Kong) Limited under the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia, December 2012.

(2) The reserve data as of 31 December 2015 has been substantiated by the Group's internal expert by adjusting those reserves extracted by the Group's mining activities from July 2015 to December 2015 from the proved reserve as of 1 July 2015. All assumptions and technical parameters set out in the independent technical report contained in the Prospectus have not been materially changed and continued to apply to the reserve data as of 31 December 2015.

(3) There is no exploration activity carried out by the Group during 2015.

Compliance

As of 31 December 2015, as stated in "Business – Legal proceedings and regulatory compliance – Regulatory non-compliance" of the Prospectus, in relation to the incidents of non-compliance with the applicable laws and regulations including those relating to environmental protection, land rehabilitation, safety, etc., the Group had already taken remedial actions and implemented relevant internal control measures. All these aspects have been in compliance with applicable laws and regulations as of the date of this report. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations, in particular, those which have significant impact on the Group. The compliance committee of the Company (the "Compliance Committee") is satisfied that no other non-compliance incidents have occurred.

Risk Management

The Board believes that all the major risk factors relevant to the Group have already been listed in "Risk factors" of the Prospectus. As of 31 December 2015 and the date of this report, the business environment and regulatory environment in which the Group operates have not witnessed any material change, and internal operations and management and financial operations have been running smoothly, and thereby no other major risk factors need to be disclosed separately.

Customer and Supplier Relationship

As stated in "Risk factors" of the Prospectus, the Group relies on a limited number of customers for a substantial portion of its revenue. In 2014 and 2015, sales of the bentonite products to the top customer amounted to approximately CNY9.0 million and CNY8.3 million respectively, representing approximately 29.7% and 29.0% of the Group's total revenue respectively. In 2014 and 2015, sales of the bentonite products to the top five customers amounted to approximately CNY24.8 million and CNY25.6 million respectively, representing approximately 81.6% and 88.9% of the Group's total revenue respectively. As of 31 December 2015 and the date of this report, the Group has continued to maintain sound business relationships with such customers, and no incidents that will adversely affect the demand for the Group's products have occurred.

As stated in "Risk factors" of the Prospectus, the Group engaged third party contractors for the provision of various services, including air-drying, extraction, transportation and processing, and the Group will continue to engage contractors for the provision of air-drying, transportation and processing services. As of 31 December 2015 and the date of this report, the Group has continued to maintain sound business relationships with such contractors, and no incidents that will adversely affect the Group's product supply, quality, cost, safety, and environmental protection have occurred.

The principal materials and supplies required for production of principal products include coal, sodium carbonate and packaging bags. In 2014 and 2015, the top supplier amounted to approximately CNY2.4 million and CNY2.6 million respectively, representing approximately 23.1% and 23.1% of the Group's total purchase respectively. In 2014 and 2015, the top five suppliers amounted to approximately CNY6.7 million and CNY6.8 million respectively, representing approximately 62.9% and 61.4% of the Group's total purchase respectively. At the same time, the Board is satisfied that as of 31 December 2015 and the date of this report, the Group has continued to maintain sound business relationships with the major suppliers, and no incidents that will adversely affect the Group's product supply, quality, cost, safety, and environmental protection have occurred.

None of the Directors, their respective close associates or any of the Shareholders who, to the knowledge of the Directors, owned more than 5% of the issued share capital of the Company had any interest in any of the top five suppliers and customers.

Employees and Remuneration Policy

On 31 December 2015, the Group had a total of 86 full-time employees (2014: 114) for its main business. For the year ended 31 December 2015, the Group incurred staff costs, including Directors' remuneration, of approximately CNY3.3 million (2014: CNY3.4 million).

The Group deeply understands that talented and professional employees are valuable assets to the Group. The Group will continue to determine the employee remuneration policy based on industry practice, the merits of employees, the industry experience and capabilities and will provide them with various employee benefits including medical and retirement benefits. The remuneration and compensation packages of the Directors are determined with reference to the performance of the Group, the performance of individuals, and salaries paid by comparable companies. None of the Directors, their respective associates or any of the Group's executives participated in the determination of their respective remuneration.

The Company has adopted a share option scheme pursuant to which selected participants may be granted options to subscribe for shares as incentives or rewards for their services rendered to the Group and any entity in which any member of the Group holds an equity interest. For details of the share option scheme, please refer to note 30 to the consolidated financial statements under the heading "Equity-settled share option scheme of the Company" of this report.

As of 31 December 2015 and the date of this report, the Group has maintained good working relationships with its employees. The management team and employees have remained stable.

Community Relationship

For the year ended 31 December 2015, the Group did not run into any disputes or conflicts with its surrounding communities.

Environmental Policy and Measure

The Group is well aware of the importance of maintaining a good ecological environment and embraces the idea of environmental protection. The Group incurred CNY621,382 on related environmental compliance and measures in 2015. Apart from ensuring on-going compliance with the relevant environmental protection laws and regulations in the PRC, in order to further reduce the environmental impacts of the operations, the Group has implemented the following measures, including but not limited to:

(i) in 2015, the Group deployed a new off-site air-drying facility in addition to the original three air-drying facilities. Through reducing the proportion of bentonite products dried by rotary drum driers and increasing the proportion of air-drying products, the Group expects to effectively reduce the need for coal energy and electricity, which will contribute to a significant decrease in carbon emissions and harmful gas emissions;

(ii) in order to reduce dust emission at the mining site, the Group uses a water truck for conducting water sprinkling so as to prevent fugitive dust emission at the mining site. Gas emission from the Cowper stove is managed through the use of a dust collector and de-sulfurisation facility before it is being discharged. In addition, the Group upgraded certain facilities to increase the degree of automation, which would contribute to reductions in dust emission at the processing plant;

(iii) water requirements for both the mining and processing operations are relatively insignificant, and processing of the current principal products also does not generate waste water. The Group currently has a simple cut-off drain constructed at the mining site, and the mine water is treated in two settling ponds whereby suspended solids in the water are precipitated, after which it is discharged to a nearby brook. This process has ensured that impacts on the water quality of nearby brooks are substantially reduced; and

(iv) all waste rock generated from the mining operations were either back-filled in mined-out areas or sold to customers who may further process it according to their own needs. Therefore there was no waste rock dump or evidence of leaching or acid rock drainage observed at the mining site.

Management Discussion and Analysis

FINANCIAL REVIEW

Items of the Consolidated Statement of Profit or Loss

Items	For the year ended 31 December 2015 CNY'000	For the year ended 31 December 2014 CNY'000	Change (%)
Revenue	**28,823**	30,447	(5.3%)
Cost of sales	**(15,463)**	(17,686)	(12.6%)
Gross profit	**13,360**	12,761	4.7%
Other income	**1,229**	1,100	11.7%
Selling and distribution expenses	**(1,314)**	(1,057)	24.3%
Administrative and other expenses	**(21,956)**	(2,911)	654.2%
Finance costs	**(358)**	(317)	12.9%
Income tax expense	**(1,835)**	(2,551)	(28.1%)
(Loss) profit and total comprehensive (expense) income attributable for the year to the owners of the Company	**(10,874)**	7,025	(254.8%)

Revenue

Breakdown of the Group's Revenue by Products

	2015		2014	
	CNY'000	**%**	CNY'000	%
Drilling mud	**18,493**	**64.2**	19,123	62.8
Pelletising clay	**9,854**	**34.2**	10,342	34.0
Unprocessed clay	**476**	**1.6**	982	3.2
Total revenue	**28,823**	**100.0**	30,447	100.0

Breakdown of the Group's Sales Volume and Average Selling Price by Products

	2015		2014	
	Sales volume (tonnes)	**Average selling price (CNY/tonne)**	Sales volume (tonnes)	Average selling price (CNY/tonne)
Drilling mud	**41,220**	**448.6**	46,000	415.7
Pelletising clay	**33,087**	**297.8**	35,389	292.2
Unprocessed clay	**8,695**	**54.7**	17,953	54.7

The revenue decreased by approximately 5.3% from approximately CNY30.4 million in 2014 to approximately CNY28.8 million in 2015. Such decrease in revenue was mainly due to the decrease in sales volume of drilling mud, pelletising clay and unprocessed clay, which was partially offset by the increase in average selling price of drilling mud. The drop in sales volume of drilling mud was mainly caused by the general economic downturn in the PRC as well as the adverse weather conditions in east China in 2015, which generally hindered the progress of civil engineering projects and eventually led to the fall in the demand for drilling mud. The increase in average selling price of drilling mud was contributed by an increase in proportion of sales volume of drilling mud with higher technical specifications in 2015. The decrease in sales volume of pelletising clay was mainly due to the slowdown in China's iron and steel industry, leading to a drop in demand for iron ore pellets which is essential for the production of iron, and ultimately a decrease in demand for pelletising clay.

Cost of Sales

Breakdown of the Group's Cost of Sales

Cost Items	**2015**		2014	
	CNY'000	**%**	CNY'000	%
Extraction costs	**528**	**3.4**	872	4.9
Processing costs				
– Air-drying costs	**1,313**	**8.5**	1,529	8.6
– Consumables, materials and supplies	**3,088**	**20.0**	4,100	23.2
– Depreciation and amortisation	**1,184**	**7.7**	1,495	8.5
– Staff costs	**2,715**	**17.5**	3,295	18.6
– Transportation costs	**1,812**	**11.7**	1,799	10.2
– Utility costs	**2,970**	**19.2**	2,724	15.4
– Others	**604**	**3.9**	386	2.2
Sales tax and surcharges	**1,249**	**8.1**	1,486	8.4
Total cost	**15,463**	**100.0**	17,686	100.0

Breakdown of the Group's Cost of Sales by Products

	2015 Average cost of sales CNY/tonne	2015 Total cost of sales CNY'000	2015 %	2014 Average cost of sales CNY/tonne	2014 Total cost of sales CNY'000	2014 %
Drilling mud	**219.1**	**9,032**	**58.4**	231.5	10,647	60.2
Pelletising clay	**189.0**	**6,252**	**40.4**	188.6	6,676	37.7
Unprocessed clay	**20.6**	**179**	**1.2**	20.2	363	2.1
		15,463	**100.0**		17,686	100.0

The total cost of sales decreased by approximately 12.6% from approximately CNY17.7 million in 2014 to approximately CNY15.5 million in 2015. The decrease in total cost of sales was mainly due to (i) a decrease in the unit extraction costs and unit processing costs; and (ii) a decrease in the overall processing costs primarily because of a reduction of the aggregate sales volume of drilling mud and pelletising clay by approximately 8.7% from approximately 81,389 tonnes in 2014 to approximately 74,307 tonnes in 2015.

Cost of sales for drilling mud decreased by approximately 15.2% from approximately CNY10.6 million in 2014 to approximately CNY9.0 million in 2015. The decrease in cost of sales for drilling mud was mainly due to a decrease in the sales volume of drilling mud by approximately 10.4%. Cost of sales for pelletising clay decreased by approximately 6.3% from approximately CNY6.7 million in 2014 to approximately CNY6.3 million in 2015. The decrease in cost of sales for pelletising clay was mainly due to a decrease in the sales volume of pelletising clay by approximately 6.5%.

The drop in the unit extraction costs and unit processing costs was mainly contributed by: (i) a decrease in stripping costs by terminating the engagement of the third party contractor to provide extraction services and instead the leasing of extraction equipment from such contractor to carry out the extraction works by the Group itself since October 2014, which reduced the unit cost; (ii) a decrease in the depreciation and amortisation primarily as a result that certain machinery and equipment in use were already fully depreciated in 2014, which reduced the unit cost; and (iii) a decrease in unit costs of consumables, materials and supplies mainly due to a reduction of the purchase price of coal and sodium carbonate, notwithstanding a rise in utility cost due to more frequent use of rotary drum-drying.

Gross Profit and Gross Margin

Breakdown of the Group's Gross Profit and Gross Profit Margin by Products

	2015 Gross profit CNY'000	2015 Gross profit margin %	2014 Gross profit CNY'000	2014 Gross profit margin %
Drilling mud	**9,461**	**51.2**	8,476	44.3
Pelletising clay	**3,602**	**36.6**	3,666	35.4
Unprocessed clay	**297**	**62.4**	619	63.0
	13,360	**46.4**	12,761	41.9

The overall gross profit slightly increased by approximately 4.7% from approximately CNY12.8 million in 2014 to approximately CNY13.4 million in 2015, while the overall gross profit margin increased from approximately 41.9% in 2014 to approximately 46.4% in 2015. The increase in the overall gross profit was mainly contributed by the rise in average selling price of drilling mud, partly offset by the decrease in the sales volume of drilling mud, pelletising clay and unprocessed clay. The increase in overall gross profit margin was mainly driven by (i) an increase in the proportion of sales amount of drilling mud, which accounted for approximately 62.8% of total revenue in 2014 and increased to approximately 64.2% of total revenue in 2015 as the gross profit margin of drilling mud was higher than that of pelletising clay; and (ii) an increase in gross profit margin for the sale of drilling mud, which is discussed further below.

Gross profit for the sale of drilling mud increased by approximately 11.6% from approximately CNY8.5 million in 2014 to approximately CNY9.5 million in 2015. Gross profit margin for the sale of drilling mud also increased from approximately 44.3% in 2014 to approximately 51.2% in 2015. The increases in gross profit and gross profit margin for the sale of drilling mud were mainly attributable to (i) an increase in the average selling price of drilling mud by approximately 7.9% primarily because of an increase in sales amount of drilling mud with higher technical specifications; and (ii) a decrease in the unit cost of drilling mud by approximately 5.4% from approximately CNY231.5 per tonne in 2014 to approximately CNY219.1 per tonne in 2015 primarily because of a decrease in stripping costs and the leasing of extraction equipment since October 2014, which reduced unit cost. The effects mentioned above were partially offset by a decrease in the sales volume of drilling mud by approximately 10.4%.

Gross profit for the sale of pelletising clay slightly dropped by approximately 1.7% from approximately CNY3.7 million in 2014 to approximately CNY3.6 million in 2015. However, the gross profit margin for the sale of pelletising clay increased from approximately 35.4% in 2014 to approximately 36.6% in 2015. The decrease in gross profit for the sale of pelletising clay was caused by a decrease in the sales volume of pelletising clay by approximately 6.5%. The increase in gross profit margin for the sale of pelletising clay was contributed by an increase in the sales of pelletising clay to a customer to whom the Group included the transportation costs relating to product delivery in the selling price.

Selling and Distribution Expenses

The 24.3% rise in selling and distribution expenses increased from CNY1.1 million in 2014 to CNY1.3 million in 2015 was primarily due to the increase in transportation fee arising from the increase in pelletising clay sales, which the Group was responsible for the delivery.

Administrative and Other Expenses

The administrative and other expenses increased by 654.2% from CNY2.9 million in 2014 to CNY22.0 million in 2015. The increase was mainly due to (i) the one-off listing expenses amounting to CNY15.4 million recognised; (ii) the CNY1.0 million increase in research and development expense; (iii) the rise of staff cost amounting to CNY0.6 million because of an increase in the headcount of administrative and management staff; (iv) the CNY0.7 million increase in legal and professional fee; and (v) the exchange loss amounting to CNY0.7 million arising from the depreciation of CNY on the Hong Kong dollar denominated bank loan.

Finance Costs

The finance costs increased by 12.9% from CNY0.3 million in 2014 to CNY0.4 million in 2015, primarily due to the increase in accrual of bank loan interest expense drawn down in December 2015.

Income Tax Expense

The Group had an income tax expense of CNY1.8 million in 2015 as compared to CNY2.6 million in 2014. The decrease was contributed by a reduction of enterprise income tax rate of Wuhu Feishang Non-metallic Material Co., Ltd., ("Feishang Material") the indirect wholly owned subsidiary of the Company, from 25% to 15% from 1 January 2015 as it was recognised as a High Technology Enterprise.

Although the Group incurred a loss for the financial year ended 31 December 2015, Feishang Material was subject to enterprise income tax because it is profit-making and the one-off listing expense recognised in 2015 was not tax deductible.

(Loss) Profit and Total Comprehensive (Expense) Income for the Year

The loss and total comprehensive expense attributable to the owners of the Company for the year was CNY10.9 million in 2015, a decrease in CNY17.9 million from the profit of CNY7.0 million in 2014. This was mainly caused by (i) the CNY15.4 million one-off listing expenses; (ii) the increase in research and development expense amounting to CNY1.0 million; (iii) the CNY0.7 million increase in legal and professional fee; and (iv) the exchange loss amounting to CNY0.7 million. If the listing expense was excluded, the Group would be able to generate profit of CNY4.5 million for the year ended 31 December 2015.

FINANCIAL RESOURCES REVIEW

Liquidity, Financial Resources and Capital Structure

As of 31 December 2014 and 31 December 2015, the Group had net current assets of CNY30.6 million and CNY43.6 million, respectively.

The Group intends to fund the cash requirements from operating cash inflow and listing proceeds.

As at 31 December 2015, the Group had cash and cash equivalents of approximately CNY32.1 million.

In December 2015, the Company received and fully drew down a HK$17.1 million short-term bank loan from Bank of China (Luxemburg) S.A. Brussels Branch to be repaid by four equal quarterly instalments, with the last instalment ending in December 2016. The purpose of the loan is to repay the amount due to the Company's controlling shareholder prior to the Listing. The loan bears a floating annual interest rate equal to 150 basis point above 3-month HIBOR and is pledged by a bank deposit of CNY15 million with Bank of China Limited (Wuhu Branch).

Pledge of Assets and Bank Loan

The Group obtained a short-term bank loan of approximately HK$17.1 million from Bank of China (Luxembourg) S.A. Brussels Branch for settlement of the outstanding amount due to its controlling shareholder prior to the Listing. In arranging for such banking facility, the Group has pledged its bank deposits of CNY15.0 million with Bank of China Limited (Wuhu Branch) in December 2015.

Capital Commitments and Financing Needs

As of 31 December 2015, apart from the implementation plans, capital needs and financing plans as stated in the section headed "Future Plans and Use of Proceeds" (as adjusted by the Shortfall) and "Financial Information" of the Prospectus, the Group had no other new implementation plans or financing plans.

Gearing Ratio

As of 31 December 2014 and 31 December 2015, the gearing ratio (which is calculated by dividing total interest-bearing debt by total capital at the end of the year and multiplying by 100%) was 0% and 23.9% respectively. The gearing ratio increased in 2015 as the Group drewdown an interest-bearing borrowing to repay the amount due to its controlling shareholder incurred during the year ended 31 December 2015.

Significant Investments/Material Acquisitions and Disposals

Save for the group reorganisation as set out in the section headed "History, Reorganisation and Group Structure" of the Prospectus, the Group did not make any significant investment or have any material acquisition and disposal during the year ended 31 December 2015.

Contingent Liabilities

As of 31 December 2015, except for bank borrowings disclosed above, the Group did not have any loan capital or debt securities issued or agreed to be issued, outstanding bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits, finance leases or hire purchase commitments or guarantees or material contingent liabilities.

Currency Exposure and Management

Since the majority of the Group's business activities are mainly transacted in CNY, the Directors consider that the Group's risk in foreign exchange is insignificant.

Subsequent Event

There is no material event undertaken by the Company or the Group subsequent to 31 December 2015 and up to the date of this report.

EXECUTIVE DIRECTORS

Mr. XU Chengyin（徐承銀）, aged 53, has been the chairman, executive Director and chief executive officer of the Company since July 2015. He is also a member of the remuneration committee of the Company (the "Remuneration Committee"). Mr. Xu is primarily responsible for formulating corporate strategies and supervising the business and marketing operations of the Group. He joined the Group in November 2011 and has been the chairman, director, legal representative and general manager of Feishang Material, an indirectly wholly owned subsidiary of the Company, since then, responsible for overseeing the overall operation of Feishang Material with a focus on managing its sales and marketing operations. Mr. Xu has over 34 years of experience in the non-ferrous metal industry including various senior positions in copper processing and refining private companies, production and marketing of copper-based alloy materials listed company in China, and iron and zinc listed mining company in New York state. He obtained graduate certificates in heavy metal smelting from 長沙冶金工業學校 (Changsha Metallurgical Industry School*) in July 1981, industrial enterprise management from 經濟管理刊授聯合大學蕪湖市分校 (Wuhu Branch of the Economic Management Correspondence United Institute*) in December 1988 and economic management from 中共中央黨校函授學院 (Correspondence Institute of the Party School of the Central Committee of the Communist Party of China*) in December 1999. Mr. Xu was awarded the qualifications of smelting engineer by 蕪湖市職稱改革領導小組 (Wuhu City Title Reform Leading Committee*) in September 1993, senior economist by 蕪湖市人事局 (Wuhu City Personnel Bureau*) in January 2009 and senior professional manager by Research Center for Professional Managers（職業經理研究中心）in March 2010. He did not hold any directorship in other listed public companies in the past three years.

Mr. ZHANG Pingwu（張平武）, aged 41, is an executive Director and chief technology officer of the Company. He is primarily responsible for overseeing production and technology related matters of the Group. Mr. Zhang is also the deputy general manager (production and technology) of Feishang Material, responsible for production, quality control, new product development and the overall management of the production department, quality control centre and research and development laboratory. He joined the Group in June 2002 after the Company acquired certain assets of 繁昌縣鋅鐵礦 (Fanchang County Iron-zinc Ore Mine*) and was the deputy production plant manager of the processing plant of Feishang Material from June 2002 to March 2009, responsible for production management and quality control work. Mr. Zhang became the plant manager in March 2009 and was responsible for overseeing the overall operation of the Company's processing plant. Between August 2011 and December 2014, he was the assistant to general manager of Feishang Material and assisted the general manager in new product development and production safety management of the Company's bentonite processing plant. He was promoted to deputy general manager (production and technology) of Feishang Material in December 2014. Mr. Zhang has over 13 years of mining experience. He obtained a bachelor's degree in engineering in chemical engineering and crafts from 淮南工業學院 (Huainan Industrial Institute*) (later became Anhui University of Science and Technology（安徽理工大學）) in July 2000 and the engineer qualification in chemical engineering and crafts from 蕪湖市人事局 (Wuhu City Personnel Bureau*) in December 2006. Prior to joining the Group, Mr. Zhang was deputy production plant manager from October 2001 to June 2002 at the activated bentonite processing plant of 繁昌縣鋅鐵礦 (Fanchang County Iron-zinc Ore Mine*), an entity engaged in the mining of non-ferrous metal, where he was mainly responsible for production management of activated bentonite products. He did not hold any directorship in other listed public companies in the past three years.

Mr. CHEN Gongbao（陳功保）, aged 38, is an executive Director, financial controller and compliance officer of the Company. He is also a member of the nomination committee of the Company (the "Nomination Committee"). Mr. Chen is primarily responsible for overseeing the financial management of the Group. He joined the Group in July 2015. Mr. Chen has over 15 years of experience in accounting and financial management from two listed companies in China and a business, finance and tax consulting firm, and over seven years of experience in the mining industry from listed companies in Hong Kong and New York State. He graduated from 安徽商業高等專科學校 (Anhui Business College*) (now known as Anhui University of Technology（安徽工業大學）) with a certificate in accounting in July 1998 and from the Dalian University of Technology（大連理工大學）with a master's degree in business administration in December 2012. Mr. Chen obtained the qualification of Chinese Certified Public Accountant（中國註冊會計師）in December 2002. He did not hold any directorship in other listed public companies in the past three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHAN Chiu Hung Alex（陳釗洪）, aged 49, is an independent non-executive Director. He is also the chairman of the audit committee of the Company (the "Audit Committee") and a member of the Nomination Committee and Remuneration Committee. Mr. Chan graduated from the Hong Kong Baptist University with a bachelor of business administration (honours) degree in finance in November 1990. He completed an advanced diploma in specialist taxation with the Hong Kong Institute of Certified Public Accountants in December 2012 and was admitted as an associate with the Institute of Chartered Accountants in England and Wales. Mr. Chan is currently a fellow of the Institute of Chartered Secretaries and Administrators, a fellow of the Hong Kong Institute of Chartered Secretaries, a fellow of the Association of Chartered Certified Accountants and an associate of the Hong Kong Institute of Certified Public Accountants. Mr. Chan has over 17 years of experience in accounting, financial management and regulatory compliance of various industries listed in Hong Kong and Singapore. He was an independent non-executive director of Co-Prosperity Holdings Limited (Stock code: 707), a company listed in Hong Kong, for the period from March 2015 to October 2015. Mr. Chan is also an independent non-executive director of e-Kong Group Limited (Stock code: 524) and Kate China Holdings Limited (Stock code: 8125), both of which are companies listed in Hong Kong. Save as disclosed above, he has not held any directorship in other listed public companies in the past three years.

Mr. ZHENG Shuilin（鄭水林）, aged 59, is an independent non-executive Director. He is also the chairman of the Nomination Committee and a member of the Audit Committee and Remuneration Committee. Mr. Zheng has over 14 years of experience in the field of material engineering. He graduated from 武漢建築材料工業學院 (Wuhan Institute of Building Materials*) (now part of Wuhan University of Technology（武漢理工大學）("Wuhan UT")) with a bachelor's degree in non-metal mining (mineral processing engineering) in June 1982 and was awarded with a master's degree in engineering from 武漢工業大學 (Wuhan Industrial College*) (now part of Wuhan UT) in November 1985 and a doctoral degree in mineral processing engineering from the University of Science and Technology Beijing（北京科技大學）in July 1999. He has published a number of books relating to science and technology and has written over 300 research papers and has obtained over 30 invention patents. In addition, Mr. Zheng was appointed as the vice-chairman of the Fifth Council of the China Non-metallic Minerals Industry Association（中國非金屬礦工業協會）in December 2008, a committee member of the Academic Committee of the Key Laboratory of the Ministry of land and Resources of Clay Minerals（國土資源部粘土礦物重點實驗室學術委員會委員）in March 2013 and the vice-chairman of the Sixth Council of Chinese Society of Particuology（中國顆粒學會）in May 2014. He did not hold any directorship in other listed public companies in the past three years.

Profiles of Directors and Senior Management

Mr. DUAN Xuechen (段學臣), aged 66, is an independent non-executive Director. Mr. Duan is also the chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee. He graduated from the course of metallurgy analysis chemistry of 中南礦冶學院 (Central South School of Mining & Metallurgy*) (now part of Central South University (中南大學)) in November 1975 and obtained a master's degree in chemical engineering in March 1982 from the same school. Mr. Duan further obtained a doctoral degree in engineering in non-ferrous metallurgy from 中南工業大學 (Central South Industrial University*) (now part of Central South University) in December 1990. He has published a number of research papers and is the inventor of a number of invention patents. Mr. Duan was a visiting scholar and research fellow at the KTH Royal Institute of Technology in Stockholm, Sweden, from January to July 2004 where he was engaged in the research of nano structures. He became a member of The Chinese Society For Metals (中國金屬學會) in October 1992 and an editorial board member of the journal "中國粉體技術 (China Powder Science and Technology*)". Mr Duan was also involved in the education and research of material chemistry and related fields in various universities in China for 34 years. He did not hold any directorship in other listed public companies in the past three years.

COMPANY SECRETARY

Mr. YUE Ming Wai Bonaventure (余銘維), aged 48, was appointed as the company secretary of the Company in July 2015. He is also an executive director and company secretary of Feishang Anthracite Resources Limited (Stock code: 1738), a company listed in Hong Kong, and the chief financial officer and corporate secretary of China Natural Resources, Inc. (Stock symbol: CHNR), a company listed in New York State. Mr. Yue has over 24 years of experience in accounting, finance and compliance for various industries gained in an international certified public accountants firm, an investment advisory firm and listed companies in both Hong Kong and the United States. Mr. Yue graduated from the Hong Kong Baptist University with a bachelor of business administration (Honours) degree in 1990 and was awarded a master of science degree in accounting and finance from the University of Manchester in 1994. He was admitted as a fellow member of the Hong Kong Institute of Chartered Secretaries, the Hong Kong Institute of Certified Public Accountants, and the Institute of Chartered Accountants in England & Wales. Mr. Yue is also a member of Chartered Accountants Australia & New Zealand and a member accredited in business valuation of the American Institute of Certified Public Accountants. Save as disclosed above, Mr. Yue did not hold any directorship in other listed public companies in the past three years.

* For identification purpose only

Report of the Directors

The Directors present the annual report and the audited consolidated financial statements for the year ended 31 December 2015.

CORPORATE REORGANISATION AND LISTING

The Company was incorporated in the Cayman Islands as a company with limited liability on 15 July 2015. Pursuant to the group reorganisation as set out in the Prospectus, the Company became the holding company of the Group.

The Company's shares were listed on the GEM of the Stock Exchange on 29 December 2015 (the "Listing Date").

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in notes 1 and 35 respectively to the consolidated financial statements of this annual report.

BUSINESS REVIEW

A fair review of the business of the Company as well as a discussion and analysis of the Group's performance during the year as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the laws of Hong Kong), including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report. These discussions form part of this Directors' report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2015 are set out in the consolidated statement of profit or loss on page 45 of the annual report.

No interim dividend (2014: Nil) was paid to the Shareholders during the year ended 31 December 2015.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2015 (2014: Nil).

DISTRIBUTABLE RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 48 of this annual report.

The Company's reserves available for distribution to Shareholders at 31 December 2015 amounted to CNY52,838,000 (2014: Nil).

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for each of the last three financial years is set out on page 100 of this annual report.

Report of the Directors

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 17 to the consolidated financial statements of this annual report.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 29 to the consolidated financial statements of this annual report.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors:

LI Feilie	(Appointed on 15 July 2015 and resigned on 18 September 2015)
Sharon PIERSON	(Appointed on 15 July 2015 and resigned on 15 July 2015)
XU Chengyin	(Appointed on 15 July 2015)
ZHANG Pingwu	(Appointed on 15 July 2015)
CHEN Gongbao	(Appointed on 15 July 2015)

Independent Non-executive Directors:

CHAN Chiu Hung Alex	(Appointed on 12 December 2015)
ZHENG Shuilin	(Appointed on 12 December 2015)
DUAN Xuechen	(Appointed on 12 December 2015)

In accordance with Articles 83(3) and 84(1) of the Articles of Association of the Company (the "Articles of Association"), all the Directors shall retire at the forthcoming annual general meeting (the "AGM") and, being eligible, would offer themselves for re-election.

The Company has received annual confirmation from each of the independent non-executive Directors as regards their independence to the Company pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers that each of the independent non-executive Directors is independent to the Company.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2015, so far as was known to the Directors, the following persons/entities (other than the Directors or chief executives of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"), or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of substantial shareholder	Long/short position	Capacity	Number of shares	Note	Percentage of the issued shares (%)
Mr. LI Feilie	Long position	Interest held by his controlled corporation	375,000,000	1	75.00
Laitan Investments Limited	Long position	Interest held by its controlled corporation	375,000,000	1	75.00
Feishang Group Limited	Long position	Beneficial Owner	375,000,000	1	75.00

Note:

1. The 375,000,000 ordinary shares were held by Feishang Group Limited, which is wholly owned by Laitan Investments Limited, which is in turn wholly owned by Mr. LI Feilie. According to the SFO, both Mr. LI Feilie and Laitan Investments Limited are deemed to have interests in the 375,000,000 ordinary shares held by Feishang Group Limited.

Save as disclosed above, as at 31 December 2015, the Directors were not aware of any other persons/entities (other than the Directors and chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2015, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director or chief executive is taken or deemed to have under such provisions of the SFO) or which were required to be entered into the register required to be kept by the Company under section 352 of the SFO or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Rules 5.48 to 5.67 of the GEM Listing Rules (the "Required Standard of Dealings"), were set out below:

(I) The Company

N/A

(II) Associated Corporations (within the meaning of the SFO)

(i) China Natural Resources, Inc.

Name of Director	Long/short position	Capacity	Number of shares	Note	Percentage of the issued shares (%)
Mr. CHEN Gongbao	Long position	Interest of his spouse	14,603	1	0.06

Note:

1. The 14,603 common shares were held by Mrs. QIAN Dongmei, the spouse of Mr. CHEN Gongbao.

(ii) Feishang Anthracite Resources Limited

Name of Director	Long/short position	Capacity	Number of share	Note	Percentage of the issued shares (%)
Mr. CHEN Gongbao	Long position	Interest of his spouse	12,500	1	0.0009

Note:

1. The 12,500 ordinary shares were held by Mrs. QIAN Dongmei, the spouse of Mr. CHEN Gongbao.

Save as disclosed above, as at 31 December 2015, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered into the register required to be kept by the Company under section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Required Standard of Dealings.

DISCLOSURE OF CHANGE OF DIRECTORS' INFORMATION

Pursuant to Rule 17.50A(1) of the GEM Listing Rules, the change and update in Directors' information is as follows:

Mr. XU Chengyin no longer served as the general manager of 蕪湖飛尚礦業發展有限公司 (Wuhu Feishang Mining Development Co., Limited*).

Save as disclosed above, the Directors are not aware of any other change in the Directors' information required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES OF THE COMPANY AND OTHER CORPORATION

Other than the share option as disclosed under the heading of "Share Option Scheme of the Company" below, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

SHARE OPTION SCHEME OF THE COMPANY

A share option scheme was adopted by the then sole shareholder of the Company on 12 December 2015 ("Date of Adoption") (the "Share Option Scheme"), under which the Board may, at its discretion, offer any Eligible Persons (as hereinafter defined) options to subscribe for shares in the Company (the "Shares") subject to the terms and conditions stipulated therein. The Share Option Scheme is valid and for a effective period of 10 years from the Date of Adoption. The Share Option Scheme is an incentive scheme and is established to enable the Group to recognise the contribution that certain individuals have made to the Company, to attract and retain the best available personnel and to promote the success of the Company's business and that of its subsidiaries. The Eligible Persons include (a) any executive, employee, director, consultant, adviser and/or agent of any member of the Group; or (b) any other person who has contributed to the success of the Listing, in each case, as determined by the Board. The eligibility of an Eligible Person will be determined by the Board with reference to his or her past and expected commitment and contribution to the Company and/or the subsidiaries.

The share options are exercisable at any time for a period to be determined by the Directors, which shall not be more than 10 years from the offer date. The minimum period for which a share option must be held before it can be exercised would be determined by the Board.

The total number of Shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the Shares in issue on the Listing Date (the "Scheme Mandate Limit"), unless approved by the Company's shareholders. The Company may seek approval of its shareholders in general meeting to renew the Scheme Mandate Limit provided that the total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 10% of the Shares in issue as at the date of the approval to renew the Scheme Mandate Limit. The number of Shares in respect of which options may be granted to any Eligible Person in any 12-month period is not permitted to exceed 1% of the Shares in issue as at the date of grant of the options, unless approved by the Company's shareholders. In addition, the number of Shares in respect of which options may be granted to any Eligible Person (who is a substantial shareholder or an independent non-executive Director, or any of their respective associates (within the meaning as ascribed under the GEM Listing Rules)) in any 12-month period is not permitted to exceed 0.1% of the total number of Shares in issue and HK$5,000,000 in an aggregate value, based on the closing price of the Shares at the date of each grant, unless approved by the Company's shareholders.

The subscription price for the Shares under the Share Option Scheme shall be a price determined by the Board at its sole discretion and notified to the Eligible Persons (subject to any adjustments made pursuant to the terms and conditions of the Share Option Scheme) and shall be the higher of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the offer date, (ii) the average closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the offer date; and (iii) the nominal value of a Share.

Consideration of HK$1 is payable by each Eligible Person for the grant of option.

As at 31 December 2015, no options were granted since the Date of Adoption. The Company had 50,000,000 Shares available for issue under the Share Option Scheme (representing 10% of the existing issued share capital of the Company as at the date of this report).

Additional information in relation to the Share Option scheme is set out in note 30 to the consolidated financial statements of this annual report.

DIRECTORS' SERVICE CONTRACT

There is no unexpired Directors' service contract which is not terminable by the Company within one year without payment of compensation, other than statutory compensation, of any Director proposed for re-election at the forthcoming AGM.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

There was no transactions, arrangements or contracts of significance to which the Company or any related company (holding companies, subsidiaries, or fellow subsidiaries) was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year, the Group did not enter into any transactions which need to be disclosed as connected transactions/ continuing connected transactions pursuant to Chapter 20 of the GEM Listing Rules.

DEED OF NON-COMPETITION

Feishang Group Limited, Laitan Investments Limited and Mr. LI Feilie (collectively, the "Controlling Shareholders") each as a covenantor, executed a deed of non-competition on 12 December 2015 (the "Deed of Non-Competition") in favour of the Company, pursuant to which each covenantor had given an irrevocable non-competition undertaking in favour of the Company that, among others, at any time during the Relevant Period (as defined below), the covenantor shall:

(a) save for engaging in the Restricted Business (as defined below) through the Group, not, and shall procure that none of its/his close associates (other than the Group and Feishang Anthracite Resources Limited and its subsidiaries from time to time) shall, directly or indirectly, carry on, invest, participate or be engaged in any business which competes or may compete with the Restricted Business; and

(b) promptly provide the Company with any relevant information in respect of any new business opportunity within the PRC which competes or may compete with the Restricted Business or future business of the Group of which it/he or its/his close associates may have knowledge and will give the Company an option exercisable by the Company within 30 days upon receipt of the written notification of relevant information to take up such new business opportunity and it/he and its/his close associates may only take up such new business opportunity after the independent non-executive Directors have separately reviewed and decided that the Group should decline such new business opportunity.

For the purpose of the Deed of Non-Competition, "Restricted Businesses" means the business engaged by the Group in the PRC from time to time; and "Relevant Period" means the period commencing from the Listing Date and expiring on the earlier of the date on which the covenantor cease to be the Controlling Shareholder for the purposed of the GEM Listing Rules; or the date on which the Shares cease to be listed on the Stock Exchange.

The Company has been granted, under the Deed of Non-Competition, the first right of refusal and options to purchase if such new business opportunity which competes or may compete with the Restricted Business arises.

For the year ended 31 December 2015, the covenantors did not engage in any Restricted Business or taken up any new business opportunity as stipulated by the Deed of Non-Competition.

The independent non-executive Directors have reviewed the confirmation and relevant information provided by the Controlling Shareholders and concluded that each of the Controlling Shareholders complied with the relevant terms of the Deed of Non-Competition for the financial year ended 31 December 2015.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors and controlling shareholders of the Company or their respective close associates (as defined in the GEM Listing Rules) has any interest in a business that competes or may compete with the business of the Group since the Listing Date and up to the date of this report (the "Review Period").

PERMITTED INDEMNITY

The Articles of Association provides that the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty; provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the Directors.

A directors' liability insurance is in place to protect the Directors against potential costs and liabilities arising from claims brought against the Directors.

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year.

RELATED PARTY TRANSACTIONS

Details of the related party transactions are set out in note 33 to the consolidated financial statements of this annual report. These related party transactions either did not constitute connected transactions/continuing connected transactions or constituted connected transactions/continuing connected transactions but were exempt from all disclosure and independent Shareholders' approval requirements under the GEM Listing Rules.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued Shares as required under the GEM Listing Rules.

EQUITY-LINKED AGREEMENT

The Company has adopted the Share Option Scheme as an incentive to Directors and eligible employees of the Group, details of the Share Option Scheme are set out in note 30 to the consolidated financial statements and under the section headed "Share Option Scheme of the Company" of the report. No share options were granted during the year ended 31 December 2015.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association although there are no restrictions against such rights under the laws of Cayman Islands.

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

On 29 December 2015, the Company completed the Placing of 125,000,000 new Shares at the placing price of HK$0.32 per Share in connection with the Listing on 29 December 2015.

Save as disclosed above, there was no purchase, sale or redemption of the Company's listed Shares by the Company or any of its subsidiaries during the year ended 31 December 2015.

EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2015, the Group employed approximately 86 full time employees (2014: 114) for its principal activities. Employees' costs (including Directors' emoluments) amounted to CNY3.3 million for the year ended 31 December 2015 (2014: CNY3.4 million). The Group recognises the importance of high calibre and competent staff and continues to provide remuneration packages to employees with reference to prevailing market practices and individual performance. Other various benefits, such as medical and retirement benefits, are also provided. In addition, share options may be granted to eligible employees of the Group in accordance with the terms of the approved Share Option Scheme.

The emolument policy of the employees of the Group is set up on the basis of their merit, qualifications and competence. The emoluments of the Directors are determined having regard to the Company's operating results, individual performance and comparable market statistics. No Director, or any of his associates, and executive is involved in dealing his own remuneration.

The Company has adopted the Share Option Scheme as an incentive to Directors and eligible employees of the Group, details of the Share Option Scheme are set out in note 30 to the consolidated financial statements and under the heading "Share Option Scheme of the Company" of this report.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2015 (2014: Nil).

AUDIT COMMITTEE

The Company has the Audit Committee which was established in accordance with the requirements of the GEM Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three independent non-executive Directors, namely, Mr. CHAN Chiu Hung Alex (chairman), Mr. ZHENG Shuilin and Mr. DUAN Xuechen. The Audit Committee meets regularly with the Company's senior management and the Company's auditors to consider the Company's financial reporting process, the effectiveness of internal controls, the audit process and risk management. The audited consolidated financial statements of the Company for the year ended 31 December 2015 have been reviewed by the Audit Committee.

AUDITORS

SHINEWING (HK) CPA Limited will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming AGM.

On behalf of the Board

Feishang Non-metal Materials Technology Limited
XU Chengyin
Chairman and Chief Executive Officer

Hong Kong, 21 March 2016

Corporate Governance Report

The Board and the management of the Company are committed to the maintenance of good corporate governance practices and procedures. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, sustainable business growth and enhancing shareholders' value.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as contained in Appendix 15 to the GEM Listing Rules as its own code of corporate governance. During the Review Period, the Company has complied with the code provisions as set out in the CG Code, save and except for code provision A.2.1, as set out below.

Chairman and Chief Executive

Mr. XU Chengyin is the chairman and chief executive officer of the Company. He is mainly responsible for formulating corporate strategies and supervising the business and marketing operations of the Group. Code provision A.2.1 of the CG Code stipulates that the roles of the chairman and chief executive should be separate and should not be performed by the same individual. The Company deviates from this code provision of the CG Code with Mr. XU Chengyin being the chairman and chief executive officer of the Company concurrently. The Board considers this arrangement is appropriate as it allows for efficient discharge of the executive functions of the chief executive officer. The Board believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high-calibre individuals including three independent non-executive Directors offering independent advice from different perspectives. In addition, major decisions are made after consultation with the Board and appropriate Board committees, as well as senior management. The Board is therefore of the view that there are adequate balance and safeguards in place.

BOARD OF DIRECTORS

Composition

As at the date of this report, the Board comprises six members, consisting of three executive Directors namely Mr. XU Chengyin (chairman of the Board and chief executive officer), Mr. ZHANG Pingwu, and Mr. CHEN Gongbao, and three independent non-executive Directors namely, Mr. CHAN Chiu Hung Alex, Mr. ZHENG Shuilin and Mr. DUAN Xuechen.

All Directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. The biographical details of each Director are disclosed on pages 19 to 21 of this report.

Independent Non-executive Directors

The Board has not less than one-third of its membership comprising independent non-executive Directors, in compliance with Rule 5.05A of the GEM Listing Rules. One of the three independent non-executive Directors possesses appropriate professional qualification and related financial management expertise.

The Company has received from each of the independent non-executive Director a confirmation of his independence, in accordance with Rule 5.09 of the GEM Listing Rules and the Company also considers that they are independent. There is no relationship (including financial, business, family or other material/relevant relationship) between any members of the Board.

Directors' Re-election

Pursuant to the Articles of Association of the Company, the Directors shall hold office subject to retirement by rotation at the annual general meetings of the Company at least once every three years. In addition, any Director appointed by the Board during a year, to fill a casual vacancy, shall hold office only until the first general meeting of the Company after his appointment and shall be subject to re-election in that meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. The term of office of each independent non-executive Directors is for a period of three years from 29 December 2015 to 28 December 2018 subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles of Association.

Responsibilities of the Board and Management

The Board, headed by the chairman, is responsible for providing high-level guidance and effective oversight of the management of the Company, formulation and approval of the Group's development, business strategies, policies, annual budgets and business plans, recommendation of any dividend and supervision of management in accordance with the regulations governing the meetings of the Board, and the Articles of Association of the Company.

The chief executive officer and the other executive Directors are responsible for day-to-day management of the Company's operations. The executive Directors conduct regular meetings with the management of the Group, at which operational issues and financial performance are evaluated.

The Company considers that internal control system and risk management function are essential and that the Board plays an important role in implementing and monitoring internal financial control and risk management.

Matters specifically decided by the Board and those reserved for the management, such as daily management, administration and operation of the Company, etc., are reviewed by the Board on a periodic basis. The management shall report back to the Board.

The procedures to enable Directors to seek independent professional advice in appropriate circumstances at the Company's expenses were established.

The Articles of Association state the responsibilities and operational procedures of the Board. The Board will meet at least four times a year at regular intervals to consider operational reports and financial results of the Company and policies. Significant operational policies have to be discussed and passed by the Board.

During the Review Period, one Board meeting was held and the attendance record of each Director is set out below:

	Attendance/No. of Board meeting(s)
Executive Directors	
XU Chengyin *(Chairman and Chief Executive Officer)*	1/1
ZHANG Pingwu	1/1
CHEN Gongbao	1/1
Independent Non-executive Directors	
CHAN Chiu Hung Alex	1/1
ZHENG Shuilin	1/1
DUAN Xuechen	1/1

No general meeting of the Company was held during the Review Period.

Directors' Induction and Continuous Professional Development

Prior to the Listing, the Company organised one training session, conducted by both Hong Kong and mainland China lawyers, for all Directors. Topics of the training included the following:

- Training on the Hong Kong GEM Listing Rules
- Training on the compliance issue of companies listed in Hong Kong
- Training on the continuing obligations and statutory obligations for directors of listed companies
- Other statutory and regulatory updates
- PRC laws and regulations relating to the operation in mainland China

The Company understands that the Directors should participate in appropriate continuous professional development programs to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for the Directors will be arranged in the forthcoming financial year and reading material on relevant topics will be issued to the Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

Responsibilities of Directors

In the course of discharging their duties, the Directors act in good faith, with due diligence and care, and in the best interests of the Company and its Shareholders. Their responsibilities include the following:

– attending regular Board meetings and focusing on business strategy, operational issues and financial performance;

– active participation in the respective board of directors of the subsidiaries of the Company;

– approval of annual budgets covering strategy, financial and business performance, key risks and opportunities;

– monitoring the quality, timeliness, relevance and reliability of internal and external reporting;

– monitoring and managing potential conflicts of interest of senior management, the Board and Shareholders of the Company;

– consideration of misuse of corporate assets and abuse of related party transactions; and

– ensuring processes are in place to maintain the overall integrity of the Company, including financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all laws and ethics.

To enable the Directors to fulfill their obligations, an appropriate organizational structure is in place with clearly defined responsibilities and limits of authority.

Corporate Governance functions

The Board is responsible for performing the following corporate governance duties as required under the CG Code:

– to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

– to review and monitor the training and continuous professional development of Directors and senior management;

– to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

– to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors; and

– to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

During the Review Period, the Board had performed the following corporate governance duties:

- adoption of the corporate governance practices under the CG Code;
- establishment of the Audit Committee, Nomination Committee and Remuneration Committee;
- approval of SHINEWING (HK) CPA Limited as the auditors of the Group and the corresponding audit plan through the Audit Committee;
- review the compliance with the CG Code; and
- review of the effectiveness of the internal controls and risk management systems of the Company through the Audit Committee.

Board Committees

A number of committees of the Board, including the Audit Committee, Nomination Committee, and Remuneration Committee, were established by the Company on 12 December 2015, with specific terms of reference relating to authority and duties, to strengthen the Board's functions and enhance its expertise.

Audit Committee

As at the date of this report, the Audit Committee comprises three independent non-executive Directors, namely Mr. CHAN Chiu Hung Alex, Mr. ZHENG Shuilin and Mr. DUAN Xuechen and is chaired by Mr. CHAN Chiu Hung Alex.

The Audit Committee reports directly to the Board and reviews financial statements and internal controls in order to protect the interests of the Company's Shareholders.

The Audit Committee will meet regularly with the Company's independent auditors, at least twice a year, to discuss accounting issues, and reviews effectiveness of internal controls and risk evaluation. Written terms of reference, which describe the authority and duties of the Audit Committee are regularly reviewed and updated by the Board. The terms of reference of the Audit Committee have complied with the CG Code and are posted on the designated website of the GEM at www.hkgem.com and the website of the Company at www.fsnmmaterials.com.

During the Review Period, the Audit Committee held two meetings, in January 2016 and March 2016, respectively, at which it:

- approved SHINEWING (HK) CPA Limited as the auditors of the Group and the corresponding audit plan;
- reviewed the financial statements for the year ended 31 December 2015;
- reviewed the effectiveness of the internal control system and risk management;
- reviewed the external auditors' findings; and
- reviewed and approved remuneration of auditors for the financial year of 2015 and recommended the re-appointment of external auditors.

The attendance record of the meetings is set out below:

Members of Audit Committee	Attendance/No. of meeting(s)
CHAN Chiu Hung Alex *(Chairman of the Audit Committee)*	2/2
ZHENG Shuilin	2/2
DUAN Xuechen	1/2

Nomination Committee

As at the date of this report, the Nomination Committee comprises one executive Director, namely Mr. CHEN Gongbao and three independent non-executive Directors, namely Mr. ZHENG Shuilin, Mr. CHAN Chiu Hung Alex and Mr. DUAN Xuechen and is chaired by Mr. ZHENG Shuilin.

The terms of reference of the Nomination Committee has complied with the CG Code which is posted on the designated website of the GEM at www.hkgem.com and the website of the Company at www.fsnmmaterials.com.

The Nomination Committee's responsibilities include reviewing and recommending the structure, size, composition and diversity of the Board and recommending any change thereon; assessing the independence of independent non-executive Directors and recommending the re-election of Directors, etc.

During the Review Period, the Nomination Committee held one meeting, at which it:

– reviewed the structure, size, composition and diversity (including the skills, knowledge and experience) of the Board;

– assessed the independence of the independent non-executive Directors; and

– reviewed and made recommendations to the Board on re-election of retiring Directors at the AGM.

The attendance record of the meetings is set out below:

Members of Nomination Committee	Attendance/No. of meeting(s)
ZHENG Shuilin *(Chairman of the Nomination Committee)*	1/1
CHAN Chiu Hung Alex	1/1
DUAN Xuechen	1/1
CHEN Gongbao	1/1

The Board adopted the board diversity policy ("Board Diversity Policy") in accordance with the requirement set out in the CG Code. Such policy aims to set out the approach towards achieving diversity on the Board.

In assessing the Board composition, the Nomination Committee would consider a number of perspectives as set out in the Board Diversity Policy, including but not limited to professional qualifications, regional and industry experience, educational and cultural background, skills, industry knowledge and reputation, gender, ethnicity, language skills and length of service, when making recommendations to the Board on the appointment and re-appointment of Directors and Directors' succession planning.

The Company considers that the current composition of the Board is well balanced and of a diverse mix appropriate for the business of the Company.

Remuneration Committee

As at the date of this report, the Remuneration Committee comprises one executive Director, namely Mr. XU Chengyin and three independent non-executive Directors, namely Mr. DUAN Xuechen, Mr. CHAN Chiu Hung Alex and Mr. ZHENG Shuilin and is chaired by Mr. DUAN Xuechen.

The Remuneration Committee's responsibilities include reviewing, considering and making recommendation to the Board on (i) the Company's remuneration policy for Directors and senior management, (ii) remuneration packages for individual executive Directors and senior management including benefits in kind, pension rights and compensation payments, and (iii) remuneration of independent non-executive Directors, etc.

The terms of reference of the Remuneration Committee have complied with the CG Code and are posted on the designated website of the GEM at www.hkgem.com and the website of the Company at www.fsnmmaterials.com.

During the Review Period, the Remuneration Committee held one meeting, at which it made recommendation to the Board on the forthcoming remuneration policy and the remuneration of the executive Directors and the independent non-executive Directors.

The attendance record of the meetings is set out below:

Members of Remuneration Committee	**Attendance/No. of meeting(s)**
DUAN Xuechen *(Chairman of the Remuneration Committee)*	1/1
XU Chengyin	1/1
CHAN Chiu Hung Alex	1/1
ZHENG Shuilin	1/1

The Group recognises the importance of high caliber and competent staff and continues to provide remuneration packages to employees with reference to prevailing market practices and individual performance. Other benefits, such as medical and retirement benefits, are also provided. In addition, share options may be granted to eligible employees of the Group (including Directors) in accordance with the terms of the Share Option Scheme.

Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of the senior management by band for the year ended 31 December 2015 is set out below:

Remuneration bands (CNY)	**Number of person(s)**
0 to 1,000,000	3

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Chapter 18 to the GEM Listing Rules are set out in notes 13 and14 to the audited financial statements of this annual report.

COMPLIANCE COMMITTEE

As at the date of this report, the Compliance Committee comprises two executive Directors, being Mr. XU Chengyin and Mr. CHEN Gongbao, and two independent non-executive Directors, being Mr. CHAN Chiu Hung Alex and Mr. DUAN Xuechen and the company secretary, Mr. YUE Ming Wai Bonaventure, and is chaired by Mr. CHEN Gongbao.

The primary purpose of Compliance Committee is to monitor and oversee the compliance-related issues of the Group. The committee meets quarterly to discuss, among others, existing and potential compliance issues, formulate solutions to such compliance issues, and report to the Board if necessary.

INTEREST OF COMPLIANCE ADVISER

The Company has received confirmation from its compliance adviser, Celestial Capital Limited (the "Compliance Adviser"), that as at 31 December 2015, except for the compliance adviser's agreement entered into between the Company and the Compliance Adviser dated 19 September 2015 in connection with the Listing, neither the Compliance Adviser nor its directors, employees or close associates had any interests in relation to the Company or any member of the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

REQUIRED STANDARD OF DEALINGS FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Required Standard of Dealings as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Required Standard of Dealings throughout the Review Period.

The Company also has written guidelines regarding securities transactions on terms no less exacting than the required standard set out in the Required Standard of Dealings for senior management and any individuals who may have access to inside information in relation to the securities of the Company.

AUDITORS' REMUNERATION

The services provided by SHINEWING (HK) CPA Limited and the associated fees thereof for the year ended 31 December 2015 were as follows:

Description of services performed	Fee (HK$)
Audit services	680,000
Non-audit services (being Report Accountant in relation to the Listing)	1,950,000

INTERNAL CONTROL

The Company places great importance on internal control and risk management. Although the Group does not maintain an internal audit function, the Board has overall responsibility for the system of internal control and for reviewing its effectiveness. SHINEWING Risk Services Limited has been appointed to carry out a review of the implemented system and procedures, including areas covering financial, operational and legal compliance controls and risk management functions in 2015. The internal control system is implemented to minimize the risk to which the Group is exposed and is used as a management tool for the day-to-day operation of business. The system can only provide reasonable but not absolute assurance against misstatement or losses.

The Board conducts at least annually a review of the effectiveness of the Group's internal control systems. For the year ended 31 December 2015, the Board considered that the Group's internal control system is adequate and effective and the Company has complied with the code provisions on internal control of the CG Code.

The Company has put in place an arrangement for employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters.

COMPANY SECRETARY

The company secretary of the Company has duly complied with the relevant training requirement under Rule 5.15 of the GEM Listing Rules.

CONSTITUTIONAL DOCUMENTS

The memorandum ("Memorandum") and Articles of Association of the Company were amended in 2015 to comply with the listing requirements of Hong Kong.

A copy of the Memorandum and Articles of Association of the Company is posted on the designated website of the GEM at www.hkgem.com and the website of the Company at www.fsnmmaterials.com.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

(a) Procedures for convening an extraordinary general meeting and putting forward proposals at shareholders' meetings

Shareholders may put forward proposals at general meetings by requisitioning an extraordinary general meeting. Pursuant to Article 58 of the Articles of Association, extraordinary general meetings may be convened by the Board on the written requisition of any one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. The requisition shall be deposited at the principal office of the Company in Hong Kong (Room 2204, Shun Tak Centre, 200 Connaught Road Central, Sheung Wan, Hong Kong) or, in the event the Company ceases to have such a principal office, the registered office (Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands) specifying the business to be transacted at the meeting and signed by the requisitionist(s). If the Board does not within 21 days from the date of deposit of the requisition proceed to convene the meeting to be held, the requisitionist(s) himself (themselves) may convene the general meeting in the same manner provided that any meeting so convened shall be held within two months after the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

(b) Communication with Shareholders and investors

Shareholders are provided with detailed information about the Company set out in the quarterly/interim/annual report and/or the circular so that they can exercise their rights in an informed manner.

The Company uses a range of communication tools, such as the annual general meeting, the annual report, interim report, quarterly report, various notices, announcements and circulars, to ensure its Shareholders are kept well informed of key business imperatives.

General meetings of the Company provide a direct forum of communication between its Shareholders and the Board. Shareholders are welcome to put forward enquiries to the Board or the management thereat and the chairman of the Board, or in his absence, an executive Director, as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee, or in their absence, other members of the respective committees, and where applicable, the independent board committee, will be commonly be present and available to answer questions and Shareholders may also contact the company secretary of the Company to direct their written enquires.

The Company is committed to enhance communications and relationships with its investors. Designated management maintains an open dialogue with institutional investors and analysts to keep them abreast of the Company's developments.

The Company also maintains a website at www.fsnmmaterials.com, where updates on the Company's business developments and operations, financial information and news can be found.

Shareholders may at any time send their enquiries and concerns to the Board in writing through the company secretary of the Company whose contact details are as follows: –

Room 2204, Shun Tak Centre, 200 Connaught Road Central, Sheung Wan, Hong Kong
Fax: (852) 2810 6963
Email: bonyue@fsnmmaterials.com

In addition, procedure for Shareholders to propose a person for election as a Director is available on the Company's website at www.fsnmmaterials.com.

The above procedures are subject to the Articles of Association and applicable laws and regulations.

DIRECTORS' RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibility to prepare the financial statements which give a true and fair view of the state of affairs of the Group and of the loss and cash flows position of the Group for the year and which are in compliance with International Financial Reporting Standards, statutory requirements and other regulatory requirements. As at 31 December 2015, the Board was not aware of any material misstatement or uncertainties that might put doubt on the Group's financial position or ability to continue as a going concern. The Board endeavours to ensure a balanced, clear and understandable assessment of the Group's performance, position and prospects in financial reporting. The statement of the Auditors regarding their reporting responsibility for the financial statements is set out in the Independent Auditor's Report on pages 43 to 44 of this annual report. There are no material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

Independent Auditor's Report

信永中和 ShineWing

SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE MEMBERS OF FEISHANG NON-METAL MATERIALS TECHNOLOGY LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Feishang Non-Metal Materials Technology Limited (the "Company") and its subsidiaries set out on pages 45 to 99, which comprise the consolidated statement of financial position as at 31 December 2015, 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 for the year ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Tang Kwan Lai
Practising Certificate Number: P05299

Hong Kong
21 March 2016

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

	Notes	2015 CNY'000	2014 CNY'000
Revenue	7	**28,823**	30,447
Cost of sales		**(15,463)**	(17,686)
Gross profit		**13,360**	12,761
Other income	9	**1,229**	1,100
Selling and distribution expenses		**(1,314)**	(1,057)
Administrative and other expenses		**(21,956)**	(2,911)
Finance costs	10	**(358)**	(317)
(Loss) profit before tax		**(9,039)**	9,576
Income tax expense	11	**(1,835)**	(2,551)
(Loss) profit and total comprehensive (expense) income for the year attributable to the owners of the Company	12	**(10,874)**	7,025
(Loss) earnings per share (CNY):			
Basic and diluted	16	**(2.89) cents**	1.87 cents

Consolidated Statement of Financial Position

For the year ended 31 December 2015

	Notes	2015 CNY'000	2014 CNY'000
Non-current assets			
Property, plant and equipment	17	**13,910**	12,282
Prepaid lease payments	18	**2,740**	–
Intangible asset	19	**3,850**	3,181
Restricted bank balances	24	**2,203**	2,136
Deferred tax assets	20	**722**	1,296
		23,425	18,895
Current assets			
Inventories	21	**2,253**	2,026
Trade, bills and other receivables	22	**16,361**	8,457
Amount due from a related company	23	**–**	1,020
Amount due from a controlling shareholder	23	**–**	25
Prepaid lease payments	18	**77**	–
Pledged bank deposit	24	**15,000**	–
Bank balances and cash	24	**32,097**	23,631
		65,788	35,159
Current liabilities			
Trade and other payables	25	**7,543**	3,317
Income tax payables		**333**	1,247
Secured bank borrowing	26	**14,323**	–
		22,199	4,564
Net current assets		**43,589**	30,595
		67,014	49,490

Consolidated Statement of Financial Position

For the year ended 31 December 2015

	Notes	**2015** **CNY'000**	2014 CNY'000
Capital and reserves			
Share capital	29	**4,188**	–
Reserves		**55,748**	43,809
		59,936	43,809
Non-current liabilities			
Asset retirement obligations	27	**6,598**	5,121
Deferred income	28	**480**	560
		7,078	5,681
		67,014	49,490

The consolidated financial statements on page 45 to 99 were approved and authorised for issue by the board of directors on 21 March 2016 and are signed on its behalf by:

Xu Chengyin
Director

Chen Gongbao
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Share Capital CNY'000	Share premium CNY'000	Other reserve CNY'000 (Note i)	Statutory reserve CNY'000 (Note ii)	Safety fund and production maintenance fund CNY'000 (Note iii)	Retained earnings CNY'000	Total CNY'000
At 1 January 2014	–	–	26,492	1,456	320	8,516	36,784
Profit and total comprehensive income for the year	–	–	–	–	–	7,025	7,025
Appropriation to statutory reserve	–	–	–	692	–	(692)	–
Appropriation and utilisation of safety fund and production maintenance fund, net	–	–	–	–	170	(170)	–
At 31 December 2014	–	–	26,492	2,148	490	14,679	43,809
Loss and total comprehensive expense for the year	–	–	–	–	–	(10,874)	(10,874)
Appropriation to statutory reserve	–	–	–	682	–	(682)	–
Appropriation and utilisation of safety fund and production maintenance fund, net	–	–	–	–	162	(162)	–
Arising from reorganisation (Note 29(c))	3,141	–	(3,141)	–	–	–	–
Issue of ordinary shares in connection with the listing of shares of the Company (Note 29(d))	1,047	32,457	–	–	–	–	33,504
Share issue expenses	–	(6,503)	–	–	–	–	(6,503)
At 31 December 2015	4,188	25,954	23,351	2,830	652	2,961	59,936

Notes:

(i) Other reserve

It represents (i) the capital contribution from the controlling shareholder of Feishang International Holdings Limited ("Feishang International") during the fiscal year of 2002 to 2003; and (ii) the difference between the nominal value of the issued share capital of the Company and share capital of the then holding company, Feishang International, upon the group reorganisation.

(ii) Statutory reserve

As required by applicable law and regulations, entities established and operated in The People's Republic of China (the "PRC") shall set aside/appropriate a portion of its after tax profits of each year to fund statutory reserve. The statutory reserve is not distributable as cash dividends and must be made before distribution of dividend to equity owners.

(iii) Safety fund and production maintenance fund

As stipulated by the State Administration of Work Safety of the PRC, Wuhu Feishang Non-metallic Material Company Limited* 蕪湖飛尚非金屬材料有限公司 ("Feishang Material") is required to accrue the safety production fund and the production maintenance funds which is based on the production volume annually for the utilisation of future safety production expense.

* The English name is for identification purpose only.

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	2015 CNY'000	2014 CNY'000
OPERATING ACTIVITIES		
(Loss) profit before tax	**(9,039)**	9,576
Adjustments for:		
Depreciation of property, plant and equipment	**1,330**	1,442
Amortisation of intangible asset	**44**	43
Amortisation of prepaid lease payments	**46**	–
Government grants	**(433)**	(110)
Loss on disposal/written off of property, plant and equipment	**25**	125
Finance costs	**358**	317
Release of government grant for property, plant and equipment	**(80)**	(80)
Impairment loss on trade receivables	**50**	–
Net gain on financial assets at fair value through profit or loss	**(414)**	(761)
Bank interest income	**(205)**	(149)
Operating cash flows before movements in working capital	**(8,318)**	10,403
(Increase) decrease in inventories	**(227)**	1,843
Increase in trade, bills and other receivables	**(7,954)**	(2,541)
Increase (decrease) in trade and other payables	**4,211**	(3,210)
Decrease in financial assets at fair value through profit or loss	**414**	10,761
Cash (used in) generated from operations	**(11,874)**	17,256
Income tax paid	**(2,175)**	(2,255)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(14,049)**	15,001
INVESTING ACTIVITIES		
Placement of pledged bank deposit	**(15,000)**	–
Payment to acquire land use right	**(2,863)**	–
Purchases of property, plant and equipment	**(1,859)**	(698)
Payment to acquire mining right	**(713)**	–
Placement of restricted bank balances	**(67)**	(785)
Proceeds from disposal of property, plant and equipment	**10**	179
Repayment from a controlling shareholder	**25**	6
Bank interest income received	**205**	149
Repayment from (advance to) a related company	**1,020**	(1,020)
NET CASH USED IN INVESTING ACTIVITIES	**(19,242)**	(2,169)

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Note	2015 CNY'000	2014 CNY'000
FINANCING ACTIVITIES			
Proceeds from placing of shares		**33,504**	–
New bank loan raised		**14,323**	–
Advance from a controlling shareholder		**11,702**	–
Government grant received		**433**	110
Repayment to a controlling shareholder		**(11,702)**	–
Share issue expenses		**(6,503)**	–
Repayment to a related company		**–**	(1,945)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**41,757**	(1,835)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**8,466**	10,997
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**23,631**	12,634
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	24	**32,097**	23,631

1. CORPORATE INFORMATION AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

Feishang Non-metal Materials Technology Limited (the "Company") was incorporated in the Cayman Islands under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 15 July 2015 and its shares were listed on the Growth Enterprises Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 29 December 2015. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the address of the principal place of business of the Company is Xiao Keshan, Xingang Town, Fanchang County, Wuhu, Anhui Province, PRC.

The immediate holding company and ultimate holding company of the Company are Feishang Group Limited and Laitan Investments Limited respectively, both of which were incorporated in the British Virgin Islands (the "BVI").

The Company is an investment holding company while the principal subsidiary is mainly engaged in bentonite mining, production and sales of drilling mud and pelletising clay. Details of the subsidiaries are set out in note 35.

The consolidated financial statements are presented in Chinese Yuan ("CNY"), which is also the functional currency of the Company. CNY is the currency of the primary economic environment in which the principal subsidiary of the Company operate (the functional currency of the principal subsidiary).

Feishang International, which is a holding company of Feishang Material and Shenzhen Zhuorui Business Management Consultant Company Limited* 深圳市卓瑞企業管理咨詢有限公司 ("Zhuorui"), is ultimately owned by Mr. Li Feilie, Laitan Investments Limited and Feishang Group Limited (the "Controlling Shareholders") since August 2002.

Pursuant to the reorganisation as set out in the section headed "History, Reorganisation and Group Structure" in the prospectus of the Company dated 18 December 2015 (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group on 17 September 2015.

The Reorganisation above involves interspersing a shell company, the Company, between Feishang International and the Controlling Shareholders, which does not represent combination of businesses. Therefore, the Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity, accordingly, the consolidated financial statements of the Group has been prepared and presented on the basis as if the Company had always been the holding company of the companies now comprising the Group throughout the two years ended 31 December 2015.

Accordingly, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows including the results and cash flows of the companies comprising the Group have been prepared as if the current group structure had been in existence throughout the two years ended 31 December 2015. The consolidated statement of financial position of the Group as at 31 December 2014 have been prepared to present the assets and liabilities of the companies comprising the Group as if the current group structure had been in existence as at those dates.

* The English name is for identification purpose only.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") AND NEW HONG KONG COMPANIES ORDINANCE

For the purpose of preparing and presenting the consolidated financial statements for the two years ended 31 December 2015, the Group has consistently applied all the new and revised International Accounting Standards ("IASs"), IFRSs, amendments and interpretations (hereinafter collectively referred to as "new and revised IFRSs") issued by the International Accounting Standards Board ("IASB") which are effective for the Group's financial year beginning on 1 January 2015.

Part 9 of Hong Kong Companies Ordinance (Cap. 622)

In addition, the annual report requirements of Part 9 "Accounts and Audit" of the Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year. As a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and revised IFRSs have been issued but are not yet effective.

IFRS 9	Financial Instruments[3]
IFRS 15	Revenue from Contracts with Customers[3]
IFRS 16	Leases[4]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[1]
Amendment to IAS 1	Disclosure Initiative[1]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[1]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[1]
Amendments to IAS 27	Equity Method in Separate Financial Statements[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception[1]
Amendment to IAS 7	Statement of Cash Flows[2]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[2]
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
3 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
4 Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
5 Effective date not yet been determined.

The directors of the Company anticipate that, except as described below, the application of other new and revised IFRSs will have no material impact on the results and the financial position of the Group.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") AND NEW HONG KONG COMPANIES ORDINANCE *(Continued)*

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain simple debt instruments.

Key requirements of IFRS 9 are described below:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") AND NEW HONG KONG COMPANIES ORDINANCE *(Continued)*

IFRS 9 Financial Instruments *(Continued)*

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company anticipate that the application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts, and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") AND NEW HONG KONG COMPANIES ORDINANCE *(Continued)*

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases with an effective date of annual periods beginning on or after 1 January 2019. IFRS 16 provides the new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognise certain lease outside of the statement of financial position. Instead, all non-current leases must be recognised in the form of an asset "right of use" and a financial liability "payment obligation". Thus each lease will be mapped in the consolidated statement of financial position. Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation.

The new standard will therefore result in an increase in property, plant and equipment and an increase in financial liabilities in the consolidated statement of financial position. In the income statement, leases will be recognised in the future as capital expenditure on the purchasing side and will no longer be recorded as operating expenses.

The directors of the Company anticipate that the application of IFRS 16 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until the Group performs a detailed review.

Amendments to IAS 1 Disclosure Initiative

The amendments clarify that companies should use professional judgement in determining what information as well as where and in what order information is presented in the financial statements. Specifically, an entity should decide, taking into consideration all relevant facts and circumstances, how it aggregates information in the financial statements, which include the notes. An entity does not require to provide a specific disclosure required by a IFRS if the information resulting from that disclosure is not material. This is the case even if the IFRS contain a list of specific requirements or describe them as minimum requirements.

Besides, the amendments provide some additional requirements for presenting additional line items, headings and subtotals when their presentation is relevant to an understanding of the entity's financial position and financial performance respectively. Entities, in which they have investments in associates or joint ventures, are required to present the share of other comprehensive income of associates and joint ventures accounted for using the equity method, separated into the share of items that (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

Furthermore, the amendments clarify that:

(i) an entity should consider the effect on the understandability and comparability of its financial statements when determining the order of the notes; and

(ii) significant accounting policies are not required to be disclosed in one note, but instead can be included with related information in other notes.

The directors of the Company anticipate that the application of amendments to IAS 1 in the future may have a material impact on the disclosures made in the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") AND NEW HONG KONG COMPANIES ORDINANCE *(Continued)*

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or

b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method and units-of-production for depreciation for its property, plant and equipment, and units-of-production for its intangible asset respectively. The directors of the Company believe that both methods are the most appropriate methods to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors of the Company do not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on the Group's consolidated financial statements.

Amendments to IAS 7 Statement of Cash Flows

The amendments to IAS 7 come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendments require the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

Besides, the amendments define liabilities arising from financing activities as liabilities "for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities". Such new disclosure requirements also relate to changes in financial assets if they meet the same definition. As a result, changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

The directors of the Company anticipate that the application of amendments to IAS 7 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") AND NEW HONG KONG COMPANIES ORDINANCE *(Continued)*

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments to IAS 12 clarify that the accounting treatment in relation to a deferred tax asset that is related to a debt instrument measured at fair value.

It clarifies the following aspects:

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use;
- The carrying amount of an asset does not limit the estimation of probable future taxable profits;
- Estimation for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences; and
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The directors of the Company anticipate that the application of amendments to IAS 12 in the future may have a material impact on the amount reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Annual Improvements to IFRSs 2012-2014 Cycle

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 5 clarify that changing from one of the disposal methods (i.e. disposal through sale or disposal through distribution to owners) to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. Besides, the amendments also clarify that changing the disposal method does not change the date of classification.

The amendments to IFRS 7 clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the additional disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety are required. Besides, the amendments to IFRS 7 also clarify that disclosures in relation to offsetting financial assets and financial liabilities are not required in the condensed interim financial report, unless the disclosures provide a significant update to the information reported in the most recent annual report.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") AND NEW HONG KONG COMPANIES ORDINANCE *(Continued)*

Annual Improvements to IFRSs 2012-2014 Cycle *(Continued)*

The amendments to IAS 19 clarify that the market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

IAS 34 requires entities to disclose information in the notes to the interim financial statements 'if not disclosed elsewhere in the interim financial report'. The amendments to IAS 34 clarify that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report. The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instrument that is measured at fair value as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on combination.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production of goods or for administration purpose other than construction in progress as described below, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Stripping costs incurred during the production phase of a surface mine are allocated between the inventory produced and the stripping activity asset is depreciated on a systematic basis, over the expected useful life of the identified component of the mineralised body that becomes more accessible as a result of the stripping activity, on an units-of-production basis over the estimated recoverable mineral reserves that directly benefit from the stripping activity.

The dismantlement asset and the capitalised stripping costs are depreciated on the units-of-production method utilising the total proven and probable reserves.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Dismantlement asset and capitalised stripping costs are depreciated on an units-of-production basis over the total proved and probable reserves while all other assets, other than construction in progress, are depreciated using the straight line method so as to write down the cost less any estimated residual value of these assets over their expected useful lives. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production of goods or for administration purposes are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Deprecation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below). Amortisation for intangible assets with finite useful lives is recognised on an units-of-production basis over the total proved and probable reserves. The estimated reserves and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Impairment losses on tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses on tangible and intangible assets *(Continued)*

Recoverable amount is the higher of fair value less costs of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or the CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the CGU) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term bank deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash at bank and on hand, and short-term bank deposits as defined above.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Work in progress

Production costs are capitalised and included in work in progress of the inventory based on the current mining and processing cost incurred including the cost of materials and supplies; direct labour; mine-site overhead expenses; stripping costs; and allocated indirect costs, including depreciation and amortisation of mining right.

Prepaid lease payments

Payment for obtaining land use rights is considered as operating lease payment. Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is charged to the consolidated statement of profit or loss and other comprehensive income over the period of the rights using the straight-line method.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into financial assets at FVTPL and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments, other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss is included in the 'other income' line item.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments*(Continued)*

Financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade, bills and other receivables, amounts due from a related company and a controlling shareholder, restricted bank balances, pledged bank deposit, and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the respective credit periods granted to individual customers, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments*(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, amount due from a related company and amount due from a controlling shareholder where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivables, amount due from a related company and amount due from a controlling shareholder is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

The Group's financial liabilities are classified into other financial liabilities.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities including trade and other payables and secured bank borrowing are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

A financial asset is derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

A financial liability is derecognised when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of business, net of sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as prepaid lease payments in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

Payments to the state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Provisions

a) General

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. When the effect of discounting is material, the amount recognised for a provision is the present value at the reporting date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in profit or loss.

b) Assets retirement obligations

Dismantlement liability is recognised when the Group has a present legal or constructive obligation as a result of the past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related property, plant and equipment. The amount recognised is the estimated cost of dismantlement, discounted to its present value using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Changes in the estimated timing of dismantlement or dismantlement cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the dismantlement provision is included as a finance cost.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "(loss) profit before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Share-based payment transaction

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the date of grant is expensed on a straight-line basis over the vesting period or recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to retained earnings. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

Share options granted to suppliers/consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgement in applying accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that has the most significant effect on the amounts recognised and disclosures made in the consolidated financial statements.

Ownership of the buildings

Despite the Group has paid the full purchase consideration as detailed in note 17, formal titles of certain of the Group's rights to the use of the buildings were not granted from the relevant government authorities. The Group has obtained written confirmation from Fanchang County Urban-Rural Planning and Construction Committee ("Fanchang Construction Committee") on 19 August 2015 confirming that the buildings do not violate the relevant construction planning requirement and the Group may continue to use the buildings. In the opinion of the directors of the Company, the absence of formal title to these buildings does not impair the value of the relevant assets to the Group.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment is less than the original estimated useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining period. As at 31 December 2015, the carrying amounts of property, plant and equipment were approximately CNY13,910,000 (2014: CNY12,282,000).

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Units-of-production depreciation for dismantlement asset and amortisation for intangible asset

The Group determines the depreciation of dismantlement asset and amortisation of intangible asset by the actual units of production over the estimated reserves of the mines. Further details about the reserve estimates are included below.

Reserve estimates

Proved and probable bentonite reserve estimates are estimates of the amount of bentonite that can be economically and legally extracted from the Group's mining properties. In determining the estimates, recent production and technical information of each mine will be considered.

Fluctuations in factors including the price of bentonite, production costs and transportation costs of bentonite, a variation on recovery rates or unforeseen geological or geotechnical perils may render it necessary to revise the estimates of bentonite reserves.

Because the economic assumptions used to estimate reserves changes from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- Asset carrying values may be affected due to change in estimated future cash flows.

- Depreciation, depletion and amortisation charged to the consolidated statement of profit or loss and other comprehensive income may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change.

- Asset retirement obligations may change where changes in estimated reserves affect expectations about the timing or cost of these activities.

- The carrying value of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

As at 31 December 2015, the carrying amounts of dismantlement asset were approximately CNY3,445,000 (2014: CNY2,340,000) while the carrying amounts of intangible asset were approximately CNY3,850,000 (2014: CNY3,181,000).

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Impairment of property, plant and equipment

As at 31 December 2015, the director of the Company reviewed the carrying amounts of property, plant and equipment of approximately CNY13,910,000 (2014: CNY12,282,000) and identified if there was indication that those assets may suffer an impairment loss. Accordingly, the recoverable amount of the property, plant and equipment is estimated in order to determine the extent of the impairment loss. The estimates of the recoverable amounts of the property, plant and equipment require the use of assumptions such as cash flow projections and discount rates.

Based on the estimated recoverable amount, no impairment loss was recognised for the years ended 31 December 2015 and 2014.

Impairment of trade and other receivables

The policy for making impairment loss on trade and other receivables of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss may be required. As at 31 December 2015, the carrying amounts of trade receivables were approximately CNY4,710,000 (2014: CNY3,325,000) (net of allowance for doubtful debts of approximately CNY50,000 (2014: nil)). The carrying amounts of other receivables were approximately CNY7,583,000 (2014: CNY250,000), no impairment loss on other receivables was recognised for the years ended 31 December 2015 and 2014.

Allowance for inventories

The management of the Group reviews the ageing of the inventories at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer saleable in the market. The identification of obsolete inventories requires the use of estimation of the net realisable value of items of inventory and judgements on the conditions and usefulness of items of inventories. Where the expected net realisable value is lower than the cost of certain items, a write-down of inventories may arise. As at 31 December 2015, the carrying amounts of inventories were approximately CNY2,253,000 (2014: CNY2,026,000), no allowance on inventories was recognised for the years ended 31 December 2015 and 2014.

Asset retirement obligations

The ultimate asset retirement obligations are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect the future financial results. As at 31 December 2015, the carrying amounts of asset retirement obligations were approximately CNY6,598,000 (2014: CNY5,121,000).

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Income taxes

As at 31 December 2015, the Group has recognised deferred tax assets of approximately CNY722,000 (2014: CNY1,296,000). The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes secured bank borrowing disclosed in note 26, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company regularly review and manage the Group's capital structure. As part of this review, the directors of the Company consider the cost of capital and risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues or issue of new borrowings or the repayment of existing debts.

6. FINANCIAL INSTRUMENTS

a) Categories of financial instruments

	2015 CNY'000	2014 CNY'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**65,486**	35,177
Financial liabilities		
Financial liabilities at amortised cost	**21,706**	3,121

6. FINANCIAL INSTRUMENTS *(Continued)*

b) Financial risk management objectives and policies

Market risk

The Group's major financial instruments include trade, bills and other receivables, amount due from a related company and a controlling shareholder, restricted bank balances, pledged bank deposit, bank balances and cash, trade and other payables, and secured bank borrowing.

Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Currency risk

The Group operates in the PRC with transactions denominated in CNY. Other than certain other receivables, bank balances, other payables and secured bank borrowing which are denominated in Hong Kong dollars ("HK$"), currency other than the functional currency of the relevant group entities, most of the Group's financial instruments are denominated in CNY.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's monetary assets and liabilities denominated in HK$ at the end of the reporting period are as follows:

	2015	2014
	CNY'000	CNY'000
Assets	**28,132**	–
Liabilities	**(18,332)**	–
	9,800	–

6. FINANCIAL INSTRUMENTS *(Continued)*

b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis

The Group's currency risk is mainly exposed to HK$.

The following table details the Group' sensitivity to a 5% (2014: 5%) increase and decrease in CNY against HK$ for the year ended 31 December 2015. 5% (2014: 5%) is the sensitivity rates used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2014: 5%) change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than CNY.

A positive number below indicates an increase in loss after tax for the year where CNY strengthen 5% (2014: 5%) against HK$. For a 5% (2014: 5%) weakening of CNY against HK$, there would be an equal and opposite impact on the loss after tax for the year.

	2015 **CNY'000**	2014 CNY'000
Post-tax loss	**490**	–

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposit. The Group is also exposed to cash flow interest rate risk in relation to the fluctuation of the prevailing market interest rate on restricted bank balances and bank balances. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated. Due to their short-team maturities, the exposure of the interest rate risk is minimal and no sensitivity to interest rate risk is presented.

The Group's cash flow interest rate risk relates primarily to variable-rate secured bank borrowing (see note 26). It is the Group's policy to keep its borrowing at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the Hong Kong Interbank Offered Rate ("HIBOR") arising from the Group's HK$ denominated secured bank borrowing.

6. FINANCIAL INSTRUMENTS *(Continued)*

b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(ii) Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point (2014: nil) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If the interest rates had been 100 basis points (2014: nil) higher/lower and all other variables were held constant, the Group's loss after tax and retained profits for the year ended 31 December 2015 would decrease/increase by approximately CNY143,000 (2014: nil).

Credit risk

As at 31 December 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group offers revolving credit to two customers. This revolving credit provides for a predetermined credit limit that may be outstanding at any one time based on, among others, their background, credit history, length of business relationship and historical transaction amounts. The Group generally evaluates the credit limits granted to the customers annually upon renewal of the relevant sales agreements and upon special request from the customers.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit quality of counterparty in respect of amounts due from a related company and a controlling shareholder is assessed by taking into account its financial position and other factors. The directors of the Company are of the opinion that the risk of default by the counterparty is low as the amount has been fully repaid.

6. FINANCIAL INSTRUMENTS *(Continued)*

b) Financial risk management objectives and policies *(Continued)*

Credit risk *(Continued)*

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by authorised credit-rating agencies.

The Group's concentration of credit risk by geographical location is in the PRC, which accounted for all of the trade receivables as at 31 December 2015 and 2014.

The Group has concentration of credit risk as 6% (2014: 26%) and 88% (2014: 36%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively as at 31 December 2015.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowings and ensures compliance with terms of loan.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	At 31 December 2015		
	Within one year or on demand CNY'000	Total contractual undiscounted cash flows CNY'000	Carrying amount CNY'000
Non-derivative financial liabilities			
Trade and other payables	7,383	7,383	7,383
Secured bank borrowing	14,593	14,593	14,323
	21,976	21,976	21,706

6. FINANCIAL INSTRUMENTS *(Continued)*

b) Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	At 31 December 2014		
	Within one year or on demand CNY'000	Total contractual undiscounted cash flows CNY'000	Carrying amount CNY'000
Non-derivative financial liabilities			
Trade and other payables	3,121	3,121	3,121

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

c) Fair value measurements recognised in the consolidated statement of financial position

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their immediate or short-term maturities.

7. REVENUE

Revenue represents the amounts received and receivable from sales of goods in the normal course of business, net of sales related tax.

8. SEGMENT INFORMATION

Information reported to the chief operating decision maker (being the directors of the Company), for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

For management purpose, the Group operates in one business unit based on its products, and has one reportable and operating segment: bentonite mining, production and sales of drilling mud and pelletising clay. The directors of the Company monitor the revenue of its business unit as a whole based on the monthly sales and delivery reports for the purpose of making decisions about resource allocation and performance assessment.

8. SEGMENT INFORMATION *(Continued)*

Information about geographical areas

As all of the Group's revenue is derived from the customers based in the PRC (country of domicile) and all of the Group's non-current assets are located in the PRC, no geographical information is presented.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group is as follows:

	2015 CNY'000	2014 CNY'000
Customer A	**8,349**	6,944
Customer B	**8,199**	9,040
Customer C	**5,295**	3,555
Customer D	**N/A**[1]	3,304

[1] The corresponding revenue did not contribute over 10% of the total revenue of the Group.

Information from major products

The following is an analysis of the Group's revenue from sales of its major products to external customers:

	2015 CNY'000	2014 CNY'000
Drilling mud	**18,493**	19,123
Pelletising clay	**9,854**	10,342
Unprocessed clay	**476**	982
	28,823	30,447

9. OTHER INCOME

	2015 CNY'000	2014 CNY'000
Bank interest income	**205**	149
Government grants (Note)	**433**	110
Release of government grant for property, plant and equipment (Note 28)	**80**	80
Recovery of bad debts	**89**	–
Net gain on financial assets at FVTPL	**414**	761
Others	**8**	–
	1,229	1,100

Note:

Government grants were received from local government authority of which the Group fulfilled all conditions or contingencies relating to those subsidies.

10. FINANCE COSTS

	2015 CNY'000	2014 CNY'000
Interest expenses on secured bank borrowing	**15**	–
Unwinding of discount on provision for dismantlement (Note 27)	**343**	317
	358	317

11. INCOME TAX EXPENSE

	2015 CNY'000	2014 CNY'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	**1,261**	2,415
Deferred taxation (note 20):		
Current year	**57**	136
Attributable to change in tax rate (Note d)	**517**	–
	1,835	2,551

11. INCOME TAX EXPENSE *(Continued)*

Notes:

(a) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

(b) No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax for both years.

(c) Under the Law of the PRC on EIT and implementation regulation of the EIT Law, the tax rate of the subsidiaries established in the PRC is 25% for both years.

(d) On 2 July 2014, Feishang Material was recognised as a High Technology Enterprise and subject to PRC income tax at 15% in accordance with the EIT Law effective from 1 January 2015.

(e) As at 31 December 2015, the aggregate amount of temporary differences associated with the PRC subsidiary's undistributed retained earnings for which deferred tax liabilities have not been recognised were approximately CNY2,829,800 (2014: CNY1,761,500). No deferred tax liabilities have been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary difference and it is probable that such differences will not be reversed in the foreseeable future.

The income tax expense for the year can be reconciled to the (loss) profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2015 CNY'000	2014 CNY'000
(Loss) profit before tax	**(9,039)**	9,576
Tax at the tax rate of 25%	**(2,260)**	2,394
Preferential income tax rates applicable to a subsidiary	**(840)**	–
Tax effect of expenses not deductible for tax purpose	**4,418**	157
Decrease in opening deferred tax assets resulting from a decrease in applicable tax rate	**517**	–
Income tax expense	**1,835**	2,551

Details of the deferred tax are set out in Note 20.

12. (LOSS) PROFIT FOR THE YEAR

	2015 CNY'000	2014 CNY'000
(Loss) profit for the year has been arrived at after charging:		
Directors' emoluments (Note 13)	**297**	60
Salaries, wages and other benefits	**2,832**	2,871
Contribution to defined contribution retirement benefits scheme (excluding directors' emoluments) (Note a)	**188**	450
	3,317	3,381
Amount included in inventories	**412**	420
Total staff costs	**3,729**	3,801
Auditor's remuneration	**554**	9
Amortisation of intangible asset	**44**	43
Amortisation of prepaid lease payments	**46**	–
Professional expenses incurred in connection with the Company's listing	**15,352**	–
Amount of inventories recognised as an expenses	**15,149**	17,308
Exchange loss, net	**700**	–
Depreciation of property, plant and equipment	**1,330**	1,442
Loss on disposal/written off of property, plant and equipment (included in administrative and other expenses)	**25**	125
Impairment loss on trade receivables (included in administrative and other expenses)	**50**	–
Research and development cost (Note b)	**1,882**	899
Lease payments paid under operating lease in respect of plant and equipment	**2,376**	462

Notes:

a) Retirement benefits contribution to defined contribution of Feishang Material mainly comprised cost of CNY952,000 (2014: CNY910,000) offset by the reversal of provision for prior years of CNY726,000 (2014: CNY448,000). The Group reversed the provision for retirement benefits costs after (i) considering the relevant local rules and regulations; (ii) a written confirmation received by the Group from the Fanchang County Human Resources and Social Security Bureau on 30 July 2015 confirming that it has not issued and will not issue an order requiring Feishang Material to repay additional social insurance or impose administrative penalty on Feishang Material.

b) Staff cost of approximately CNY344,000 (2014: CNY388,000) are included in the research and development cost for the year ended 31 December 2015.

13. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each director and the chief executive were as follows:

Emoluments paid or receivable in respect of a persons' services as a director, whether of the Company or its subsidiary undertaking:	Fees	Salaries, allowances and other benefits	Employer's contributions to retirement benefits scheme	Total
	CNY'000	CNY'000	CNY'000	CNY'000
Year ended 31 December 2015				
Executive directors				
Mr. Xu Chengyin (Notes i, ii)	–	60	19	79
Mr. Zhang Pingwu (Note i)	–	60	19	79
Mr. Chen Gongbao (Notes i, iii)	–	109	27	136
Non-executive director				
Mr. Li Feilie (Note v)	–	–	–	–
Independent non-executive directors				
Mr. Chan Chiu Hung, Alex (Note iv)	1	–	–	1
Mr. Zheng Shuilin (Note iv)	1	–	–	1
Mr. Duan Xuechen (Note iv)	1	–	–	1
Total	3	229	65	297
Year ended 31 December 2014				
Executive directors				
Mr. Xu Chengyin (Note i)	–	–	–	–
Mr. Zhang Pingwu (Note i)	–	48	12	60
Non-executive director				
Mr. Li Feilie (Note v)	–	–	–	–
Total	–	48	12	60

13. DIRECTORS' EMOLUMENTS *(Continued)*

Notes:

(i) The remuneration represents remuneration received from the Group by the respective directors in their capacity as an employee of the subsidiaries

(ii) Mr. Xu Chengyin was a director of the Company's subsidiary, Feishang Material. On 15 July 2015, he was re-designated as Chairman and Executive Director of the Company

(iii) Appointed on 15 July 2015

(iv) Appointed on 12 December 2015

(v) Resigned on 18 September 2015

Mr. Xu Chengyin was appointed as the chief executive of the Company on 15 July 2015 and his emoluments disclosed above include those for services rendered by him as the chief executive.

Neither the chief executive nor any of the directors of the Company waived or agreed to waive any emolument paid by the Group during the years ended 31 December 2015 and 2014. No emoluments were paid by the Group to any of the directors or chief executive as an incentive payment for joining the Group or as compensation for loss of office during the years ended 31 December 2015 and 2014.

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2014: one) were the directors and the chief executive of the Company whose emoluments are set out in Note 13 above. The emoluments of the remaining two (2014: four) highest paid individuals were as follows:

	2015 **CNY'000**	2014 CNY'000
Salaries, allowances, and other benefits	**110**	136
Contribution to defined contribution retirement benefits scheme	**22**	46
	132	182

Their emoluments were within the following bands:

	2015 **Number of** **individuals**	2014 Number of individuals
Nil to HK$1,000,000 (equivalent to approximately CNY838,000) (2014: CNY800,000)	**2**	4

No emoluments were paid by the Group to the five highest paid individuals as an incentive payment for joining the Group or as compensation for loss of office for the years ended 31 December 2015 and 2014.

15. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2015, nor has any dividend been proposed since the end of the reporting period (2014: nil).

16. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the owners of the Company is based on the following:

	2015 CNY'000	2014 CNY'000
(Loss) earnings		
(Loss) earnings for the purpose of basic and diluted earnings per share	**(10,874)**	7,025

	2015	2014
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share ('000 shares)	**376,370**	375,000

The weighted average number of ordinary shares in issue during the years ended 31 December 2014 and 2015 assuming 375,000,000 and 376,370,000 ordinary shares were in issue during the two years ended 31 December 2015 respectively after taking into account the ordinary shares issue pursuant to the Reorganisation as stated in note 1 and the share subscription as stated in Note 29(d).

The dilutive (loss) earnings per share is equal to the basic (loss) earnings per share as there were no dilutive potential ordinary shares outstanding during the years ended 31 December 2015 and 2014.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings CNY'000	Machinery and equipment CNY'000	Dismantlement asset CNY'000	Motor vehicles CNY'000	Construction in progress CNY'000	Total CNY'000
COST						
At 1 January 2014	9,870	15,487	2,257	401	–	28,015
Asset retirement obligations adjustment (note 27)	–	–	315	–	–	315
Additions	–	698	–	–	–	698
Disposal/written off	(13)	(2,274)	–	–	–	(2,287)
At 31 December 2014	9,857	13,911	2,572	401	–	26,741
Asset retirement obligations adjustment (note 27)	–	–	1,134	–	–	1,134
Additions	22	334	–	261	1,242	1,859
Transfer	559	683	–	–	(1,242)	–
Disposal/written off	(21)	(311)	–	–	–	(332)
At 31 December 2015	10,417	14,617	3,706	662	–	29,402
ACCUMULATED DEPRECIATION						
At 1 January 2014	2,939	11,567	205	289	–	15,000
Charge for the year	450	936	27	29	–	1,442
Eliminated on disposal/written off	(6)	(1,977)	–	–	–	(1,983)
At 31 December 2014	3,383	10,526	232	318	–	14,459
Charge for the year	452	807	29	42	–	1,330
Eliminated on disposal/written off	(10)	(287)	–	–	–	(297)
At 31 December 2015	3,825	11,046	261	360	–	15,492
CARRYING VALUES						
At 31 December 2015	6,592	3,571	3,445	302	–	13,910
At 31 December 2014	6,474	3,385	2,340	83	–	12,282

The above items of property, plant and equipment other than the dismantlement asset, are depreciated on a straight-line method over their estimated useful lives as follows:

Buildings	20 years
Machinery and equipment	10 years
Motor vehicles	5 years

The dismantlement asset is depreciated on an units-of-production basis over the total proved and probable reserves in the mine.

18. PREPAID LEASE PAYMENTS

The carrying amount of prepaid lease payments of the Group analysed for reporting purposes as:

	2015 CNY'000	2014 CNY'000
Current assets	**77**	–
Non-current assets	**2,740**	–
	2,817	–

The prepayments for land use right are held under medium-term lease in the PRC and are amortised over the useful lives of 37 years on a straight-line basis.

As at 31 December 2014, the Group was in the process of obtaining the certificates of ownership for its land use right from the relevant PRC government authority. Subsequently, the Group has obtained ownership certificates of these land use right in June 2015.

19. INTANGIBLE ASSET

	Mining right CNY'000
COST	
At 1 January 2014, 31 December 2014	3,537
Additions	713
At 31 December 2015	4,250
AMORTISATION	
At 1 January 2014	313
Charge for the year	43
At 31 December 2014	356
Charge for the year	44
At 31 December 2015	400
CARRYING VALUES	
At 31 December 2015	3,850
At 31 December 2014	3,181

The mining right represents a mining license acquired for exploration and mining of a bentonite mine in the PRC. The mining right is amortised on an units-of-production basis over the total proved and probable reserves in the mine.

20. DEFERRED TAXATION

The following is the analysis of the deferred tax assets, after set off certain deferred tax assets against deferred tax liabilities of the same taxable entity, for financial reporting purposes:

	2015 **CNY'000**	2014 CNY'000
Deferred tax assets	**722**	1,296

The following is the deferred tax assets (liabilities) recognised by the Group and movements thereon during the year:

	Temporary difference on allowance, accrued liabilities and deferred income CNY'000	**Temporary difference on asset retirement obligations** CNY'000	**Accelerated tax depreciation** CNY'000	**Total** CNY'000
At 1 January 2014	1,276	1,123	(967)	1,432
Credit (charge) to profit or loss	(166)	158	(128)	(136)
At 31 December 2014	1,110	1,281	(1,095)	1,296
Effect of change in tax rate	(443)	(512)	438	(517)
Credit (charge) to profit or loss	(78)	221	(200)	(57)
At 31 December 2015	589	990	(857)	722

21. INVENTORIES

	2015 **CNY'000**	2014 CNY'000
Materials and supplies	**1,182**	1,298
Work-in-progress	**684**	587
Finished goods	**387**	141
	2,253	2,026

22. TRADE, BILLS AND OTHER RECEIVABLES

	2015 CNY'000	2014 CNY'000
Trade receivables	4,760	3,325
Less: allowance for impairment of trade receivables	(50)	–
	4,710	3,325
Bills receivables	3,893	4,790
Trade deposits paid	54	35
Prepayments	121	57
Other receivables (Note (i))	7,583	250
	16,361	8,457

Note:

(i) Included in other receivables was an amount of approximately HK$8,667,000 (equivalent to approximately CNY7,259,000) (2014: nil) which represents the net proceeds from issue and placing of shares due from the underwriter in connection with the listing of the Company's shares on GEM. The amount was fully settled subsequently in January 2016.

The Group offers revolving credit to two of its customers amounted CNY914,000 (2014: CNY937,000) as at 31 December 2015. This revolving credit provides for a predetermined credit limit that may be outstanding at any one time based on their background credit history, length of business relationship and historical transaction amounts. The Group generally evaluates the credit limits granted to the customers annually upon renewal of the relevant sales agreements and upon special request from the customers. The Group held charges on such customers' buildings and motor vehicles as collaterals over the balance of approximately CNY914,000 (2014: CNY937,000) as at 31 December 2015. Such collateral is not transferable and rentable and can be realised by the Group at first priority upon the liquidation or deregistration of such customer. For the remaining balances of CNY3,796,000 (2014: CNY2,388,000) as at 31 December 2015, the Group does not hold any collateral over these amounts.

22. TRADE, BILLS AND OTHER RECEIVABLES *(Continued)*

The Group allows credit period ranging from 5 days upon receipt of invoice to three months from the receipt of goods by or invoices to its trade customers. The following is an aged analysis of trade receivables, net of allowance for impairment of trade receivables, presented based on the invoice date, which approximates the respective revenue recognition dates, at the end of the reporting period.

	2015 **CNY'000**	2014 CNY'000
Within 30 days	**1,734**	1,272
31 to 60 days	**935**	757
61 to 90 days	**1,048**	242
91 to 180 days	**563**	684
More than 180 days	**430**	370
Total	**4,710**	3,325

As at 31 December 2015 and 2014, all of the bills receivables were aged within 180 days.

The movement in the allowance for impairment of trade receivables is set out below:

	2015 **CNY'000**	2014 CNY'000
At the beginning of the year	**–**	–
Impairment loss recognised on trade receivables	**50**	–
At the end of the year	**50**	–

Included in the allowance for impairment of trade receivables are individually impaired trade receivables with an aggregate balances of approximately CNY50,000 (2014: nil) as at 31 December 2015, due to long outstanding and unsatisfactory repayment record.

The Group's neither past due nor impaired trade receivables mainly represented sales made to creditworthy customers for whom there was no recent history of default.

22. TRADE, BILLS AND OTHER RECEIVABLES *(Continued)*

The ageing analysis of trade receivables which are past due but not impaired is as follows:

	2015 CNY'000	2014 CNY'000
Past due but not impaired:		
Within 30 days	**1,118**	376
31 to 60 days	**555**	492
61 to 90 days	**397**	57
More than 90 days	**449**	699
Total	**2,519**	1,624

Included in the Group's trade receivable are debtors with aggregate carrying amount of approximately CNY2,519,000 (2014: CNY1,624,000) as at 31 December 2015 which were past due as at the end of the reporting period for which the Group has not provided for impairment loss as these balances were either subsequently settled or there has not been a significant change in credit quality and the amounts are still considered recoverable. The average age of these receivables as at 31 December 2015 was 121 days (2014: 112 days).

23. AMOUNTS DUE FROM A RELATED COMPANY/A CONTROLLING SHAREHOLDER

The amounts due from a related company and a controlling shareholder were unsecured, non-interest bearing and repayable on demand. The amounts were fully settled during the year ended 31 December 2015.

24. RESTRICTED BANK BALANCES, PLEDGED BANK DEPOSIT AND BANK BALANCES AND CASH

Restricted bank balances

Restricted bank balances represent restricted cash set aside by the Group in banks placed for the settlement of asset retirement obligations for future environmental rehabilitation. The restricted bank balances carried at prevailing market rates ranging from 2.17% to 3.25% per annum (2014: 3.30% per annum) during the year ended 31 December 2015.

Pledged bank deposit

Pledged bank deposit represented deposit pledged to a bank to secure banking facilities granted to the Group. As at 31 December 2015, the bank deposit of approximately CNY15,000,000 (2014: nil) has been pledged by Feishang Material to secure short-term bank borrowing (note 26) and is therefore classified as current asset. The pledged bank deposit carried at a fixed interest rate of 1.80% per annum during the year ended 31 December 2015 (2014: nil).

24. RESTRICTED BANK BALANCES, PLEDGED BANK DEPOSIT AND BANK BALANCES AND CASH *(Continued)*

Cash and cash equivalents

Cash and cash equivalents include the following for the purposes of the consolidated statement of cash flows:

	2015 CNY'000	2014 CNY'000
Cash at bank and in hand	**30,794**	22,364
Short-term bank deposit	**1,303**	1,267
Cash and cash equivalents	**32,097**	23,631

Bank balances and short-term bank deposit carried at prevailing market rates ranging from 0.30% to 1.60% per annum during the year ended 31 December 2015 (2014: 0.35% to 3.06% per annum).

25. TRADE AND OTHER PAYABLES

	2015 CNY'000	2014 CNY'000
Trade payables	**952**	670
Other payables and accruals	**6,511**	2,451
Advance from customers	**80**	196
	7,543	3,317

The following is an aged analysis of trade payable presented based on invoice date at the end of the reporting period.

	2015 CNY'000	2014 CNY'000
Within 30 days	**725**	563
31 to 60 days	**76**	5
61 to 90 days	**60**	3
91 to 365 days	**46**	41
Over 1 year	**45**	58
Total	**952**	670

The average credit period granted is 30 days. The Group has financial risk management in place to ensure that all payables are settled within the credit timeframe.

26. SECURED BANK BORROWING

	2015	2014
	CNY'000	CNY'000
Secured bank borrowing and repayable within one year	**14,323**	–

(a) During the year ended 31 December 2015, the Group obtained a new bank borrowing of HK$17,100,000 (equivalent to approximately CNY14,323,000) (2014: nil) to repay the outstanding amount due to a controlling shareholder incurred during the year ended 31 December 2015 before the listing of the Company. The bank borrowing will be repayable in full in December 2016.

(b) The bank borrowing carried floating rate at HIBOR effectively 1.89% per annum during the year ended 31 December 2015 (2014: nil).

(c) At 31 December 2015, the secured bank borrowing was secured by the Group's pledged bank deposit of approximately CNY15,000,000 (2014: nil).

(d) The Group's borrowing that is denominated in currency other than the functional currency of the relevant group entities is set out below:

	2015	2014
	CNY'000	CNY'000
HK$	**14,323**	–

27. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations primarily relate to the restoration costs for the closure of mining site, which included dismantling mining-related structures and the reclamation of land upon exhaustion of bentonite reserves.

The following is the asset retirement obligations recognised by the Group and movement is set out as below:

	2015	2014
	CNY'000	CNY'000
At the beginning of the year	**5,121**	4,489
Adjustment on change in discount rate	**1,134**	315
Unwinding of discount (Note 10)	**343**	317
At the end of the year	**6,598**	5,121

The asset retirement obligation is calculated at the net present value of estimated future net cash flows of the restoration costs, amounting to approximately CNY15,305,000, discounted at 5.40% at 31 December 2015 (2014: 6.65%).

28. DEFERRED INCOME

	2015 CNY'000	2014 CNY'000
Analysed as:		
Current liabilities (included in other payables)	**80**	80
Non-current liabilities	**480**	560
	560	640

Note:

During the year ended 31 December 2013, the Group received government grants of CNY800,000, which were designated for the purchase of plant and machinery. Such government grants are presented as deferred income and are released to income over the useful lives of the related plant and machinery. During the year ended 31 December 2015, government grants released to the consolidated statement of profit or loss and other comprehensive income amounted to approximately CNY80,000 (2014: CNY80,000).

29. SHARE CAPITAL

The share capital of the Group as at 31 December 2014 represented the aggregate of share capital of the companies now comprising the Group. The share capital of the Group as at 31 December 2015 represented the share capital of the Company.

The Company

	Number of shares	Share capital HK$	Share capital Equivalent to CNY'000
Authorised			
Ordinary share of HK$0.01 each at the date of incorporation (Note a)	10,000,000	100,000	
Increase during the year (Note b)	9,990,000,000	99,900,000	
	10,000,000,000	100,000,000	
Issued and fully paid			
Ordinary share of HK$0.01 each at the date of incorporation (Note a)	1	–	–
Issue in consideration for the acquisition of the issued share capital of Feishang International (Note c)	374,999,999	3,750,000	3,141
Issue upon listing of the Company (Note d)	125,000,000	1,250,000	1,047
	500,000,000	5,000,000	4,188

29. SHARE CAPITAL *(Continued)*

Notes:

(a) On 15 July 2015, the Company was incorporated in the Cayman Islands with an authorised share capital of HK$100,000 divided into 10,000,000 ordinary shares of HK$0.01 each. At the date of incorporation, one fully paid share of HK$0.01 was allotted and issued.

(b) Pursuant to the written resolutions of the then shareholder of the Company passed on 17 September 2015, the authorised share capital of the Company was increased from HK$100,000 to HK$100,000,000 by the creation of 9,990,000,000 new shares of HK$0.01 each.

(c) On 17 September 2015, the Company acquired the entire issued share capital of Feishang International by allotting and issuing 374,999,999 shares of HK$0.01 each as consideration to its then shareholder, Feishang Group Limited.

(d) In connection with the Company's placing and listing, on 28 December 2015, the Company issued 125,000,000 ordinary shares HK$0.01 each at a price of HK$0.32 per share. Of the gross proceeds from the placing of HK$40,000,000 (equivalent to approximately CNY33,504,000), HK$1,250,000 (equivalent to approximately CNY1,047,000), representing the par value credit to the Company's share capital, and HK$38,750,000 (equivalent to approximately CNY32,457,000), before the share issue expenses, were credited to the share premium account.

(e) All shares issued during the year ended 31 December 2015 rank pari passu in all respects among themselves and with the then existing shares.

30. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company

The Company's share option scheme (the "Scheme"), was adopted pursuant to written resolution of the Company passed on 12 December 2015 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 28 December 2025. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

Options granted must be taken up on the date of grant, upon payment of HK$1.00. Options may be exercised at any time from the date of grant of the share option to the tenth anniversary of the date of grant. The exercise price is determined by the board of directors of the Company, and will not be less than the highest of (i) the nominal value of the Company's share; (ii) the closing price of the Company's shares on the date of grant; and (iii) the average closing price of the shares for the five business days immediately preceding the date of grant.

No share options have been granted since the adoption of the scheme and during the year ended 31 December 2015.

31. RETIREMENT BENEFITS SCHEME

As stipulated by rules and regulations in the PRC, subsidiaries in the PRC are required to contribute to a state-managed retirement plan for all its employees at a certain percentage of the basic salaries of its employees. The state-managed retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-managed retirement plan, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions.

During the year ended 31 December 2015, the total amount contributed by the Group to this scheme and charged to the consolidated statement of profit or loss and other comprehensive income amounted to approximately CNY253,000 (2014: CNY462,000).

32. MAJOR NON-CASH TRANSACTIONS

Pursuant to Reorganisation, the Company acquired the entire issued share capital of Feishang International by allotting and issuing 374,999,999 shares of HK$0.01 each as consideration to its then shareholder, Feishang Group Limited. The amount of approximately HK$3,750,000 (equivalent to approximately CNY3,141,000), representing the difference between the nominal value of the issued share capital of the Company and share capital of the then holding company, Feishang International, upon the group reorganisation, was debited to other reserve.

33. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group has entered into the following transactions with related parties.

(a) Compensation to key management personnel

The remuneration of directors of the Company and other members of key management during the year was as follow:

	2015 **CNY'000**	2014 CNY'000
Short-term benefits	**380**	48
Post-employment benefits	**93**	12
	473	60

The remuneration of the directors of the Company and key executives is determined with regards to the performance of individuals.

33. RELATED PARTY TRANSACTIONS *(Continued)*

(b) During the year ended 31 December 2015 and 2014, a trademark owned by a related company, which is beneficially owned by the ultimate controlling shareholder, were used by the Group at nil consideration (2014: nil). The Group has ceased to use the trademark since August 2015.

(c) During the years ended 31 December 2015 and 2014, Wuhu Feishang Development Limited* 蕪湖市飛尚實業發展有限公司, in which Mr. Li Feilie, the controlling shareholder of the Company, has direct equity interests, provides part of its property to the Group for administrative purpose at nil consideration.

34. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2015 CNY'000
Non-current asset		
Investment in a subsidiary		47,192
Current assets		
Other receivables		7,380
Amount due from a subsidiary		48
Bank balances		20,738
		28,166
Current liabilities		
Other payables		4,009
Secured bank borrowing		14,323
		18,332
Net current assets		9,834
Total assets less current liabilities		57,026
Capital and reserves		
Share capital		4,188
Reserves	(a)	52,838
		57,026

* The English name is for identification purpose only.

34. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

(a) Movements in reserves

	Share premium	Other reserve	Accumulated losses	Total
	CNY'000	CNY'000 (Note i)	CNY'000	CNY'000
At date of incorporation on 15 July 2015	–	–	–	–
Loss and total comprehensive expense for the year	–	–	(17,167)	(17,167)
Arising from reorganisation	–	44,051	–	44,051
Issue of ordinary shares in connection with the listing of shares of the Company (Note 29(d))	32,457	–	–	32,457
Share issue expenses	(6,503)	–	–	(6,503)
At 31 December 2015	25,954	44,051	(17,167)	52,838

Note i) Other reserve represents the difference between the nominal value of the shares issued and the net asset value of the subsidiaries of the Company upon the Reorganisation on 17 September 2015.

35. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries as at 31 December 2015 and 2014 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment/ operation	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Company				Principal activities
			Direct		Indirect		
			2015	2014	**2015**	2014	
Feishang International	BVI	United States Dollar 1	**100%**	100%	**–**	–	Investment holding
Feishang Material (Note i)	The PRC	HK$25,000,000	**–**	–	**100%**	100%	Bentonite mining, production and sales of drilling mud and pelletising clay
Zhuorui (Note ii)	The PRC	CNY1,000,000	**–**	–	**100%**	–	Provision of business management consultation service for the group companies.

Notes:

(i) The subsidiary is a wholly foreign owned enterprise established in the PRC.

(ii) The subsidiary is a limited company established in the PRC on 19 June 2015.

Financial Summary

	For the year ended 31 December		
	2015	2014	2013
	CNY'000	CNY'000	CNY'000
Revenue and Profit			
Revenue	**28,823**	30,447	29,987
Cost of sales	**(15,463)**	(17,686)	(18,749)
Gross profit	**13,360**	12,761	11,238
Other income	**1,229**	1,100	698
Selling and distribution expenses	**(1,314)**	(1,057)	(1,847)
Administrative and other expenses	**(21,956)**	(2,911)	(2,940)
Finance costs	**(358)**	(317)	(296)
Profit before tax	**(9,039)**	9,576	6,853
Income tax expense	**(1,835)**	(2,551)	(1,792)
(Loss) profit and total comprehensive (expense) income attributable for the year to the owners of the Company	**(10,874)**	7,025	5,061
(Loss) earnings per share (CNY)			
Basic and diluted	**(2.89) cents**	1.87 cents	1.35 cents

	As at 31 December		
	2015	2014	2013
	CNY'000	CNY'000	CNY'000
Assets and Liabilities			
Current assets	**65,788**	35,159	32,450
Non-current assets	**23,425**	18,895	19,022
Current liabilities	**(22,199)**	(4,564)	(9,559)
Non-current liabilities	**(7,078)**	(5,681)	(5,129)
Total equity	**59,936**	43,809	36,784

Note: No financial statements of the Group for the years ended 31 December 2011 and 2012 have been published. The summary above does not form part of the audited financial statements.