



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)

**THIRD QUARTERLY REPORT
FOR THE NINE MONTHS ENDED
30 SEPTEMBER 2016**

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the “Directors”) of Feishang Non-metal Materials Technology Limited (the “Company”, together with its subsidiaries, the “Group”) 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.

CONSOLIDATED THIRD QUARTERLY RESULTS FOR 2016 (UNAUDITED)

The board of Directors (the "Board") of the Company is pleased to announce the unaudited condensed consolidated results of the Group for the three months and nine months ended 30 September 2016, together with the comparative unaudited figures for the corresponding periods in 2015 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2016

	Notes	Three months ended		Nine months ended	
		30 September		30 September	
		2016	2015	2016	2015
		CNY'000	CNY'000	CNY'000	CNY'000
Revenue	3	5,238	6,328	18,866	21,575
Cost of sales		(3,156)	(3,314)	(11,082)	(11,220)
Gross profit		2,082	3,014	7,784	10,355
Other income		186	564	2,731	1,046
Selling and distribution expenses		(276)	(433)	(927)	(1,077)
Administrative and other expenses		(2,543)	(6,546)	(6,324)	(12,199)
Finance costs		(122)	(83)	(415)	(251)
(Loss) profit before tax		(673)	(3,484)	2,849	(2,126)
Income tax expense	4	(52)	(201)	(852)	(1,470)
(Loss) profit and total comprehensive (expense) income for the period attributable to the owners of the Company		(725)	(3,685)	1,997	(3,596)
(Loss) earnings per share (CNY):					
Basic and diluted	6	(0.15) cents	(0.98) cents	0.40 cents	(0.96) cents

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2016

	Share capital	Share premium	Other reserve	Statutory reserve	Safety fund and production maintenance fund	Retained earnings	Total
	CNY'000	CNY'000	CNY'000 (Note i)	CNY'000 (Note ii)	CNY'000 (Note iii)	CNY'000	CNY'000
At 1 January 2015	-	-	26,492	2,148	490	14,679	43,809
Loss and total comprehensive expenses for the period	-	-	-	-	-	(3,596)	(3,596)
Appropriation to statutory reserve	-	-	-	527	-	(527)	-
Appropriation and utilisation of safety fund and production maintenance fund, net	-	-	-	-	93	(93)	-
Arising from reorganisation	3,141	-	(3,141)	-	-	-	-
At 30 September 2015	<u>3,141</u>	<u>-</u>	<u>23,351</u>	<u>2,675</u>	<u>583</u>	<u>10,463</u>	<u>40,213</u>
At 1 January 2016	4,188	25,954	23,351	2,830	652	2,961	59,936
Profit and total comprehensive income for the period	-	-	-	-	-	1,997	1,997
Appropriation to statutory reserve	-	-	-	373	-	(373)	-
Appropriation and utilisation of safety fund and production maintenance fund, net	-	-	-	-	126	(126)	-
At 30 September 2016	<u>4,188</u>	<u>25,954</u>	<u>23,351</u>	<u>3,203</u>	<u>778</u>	<u>4,459</u>	<u>61,933</u>

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 period 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 ("Feishang Material") is required to accrue the safety production fund and the production maintenance fund which is based on the production volume for the utilisation of future safety production expense.



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL RESULTS

For the three months and nine months ended 30 September 2016

1. GENERAL INFORMATION AND BASIS OF PREPARATION

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 GEM of 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. The address of the principal place of business of the Company is Xiao Keshan, Xingang Town, Fanchang County, Wuhu, Anhui Province, the 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.

The unaudited condensed consolidated financial statements of the Group are presented in Chinese Yuan ("CNY"), which is the same as the functional currency of the Company. CNY is the currency of the primary economic environment in which the principal subsidiary of the Company operates (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諮詢有限公司), 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 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 unaudited condensed consolidated financial statements of the Group have 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 nine months ended 30 September 2015.

2. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standard Board (“IASB”) and the applicable disclosure requirements of the GEM Listing Rules.

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial statements are consistent with those used in the annual accounts for the year ended 31 December 2015. The Group has adopted new or revised standards, amendments to standards and interpretations of IFRSs which are effective for accounting periods commencing on or after 1 January 2016. The adoption of such new or revised standards, amendments to standards and interpretations does not have material impact on the consolidated accounts and does not result in substantial changes to the Group’s accounting policies.

3. REVENUE AND SEGMENT INFORMATION

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
	CNY’000	CNY’000	CNY’000	CNY’000
Drilling mud	2,360	3,713	10,937	13,925
Pelletising clay	2,878	2,615	7,929	7,174
Unprocessed clay	-	-	-	476
	<u>5,238</u>	<u>6,328</u>	<u>18,866</u>	<u>21,575</u>

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 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.

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.

4. • INCOME TAX EXPENSE

	Three months ended		Nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
	CNY'000	CNY'000	CNY'000	CNY'000
Current tax:				
PRC Enterprise Income Tax ("EIT")	41	230	667	933
Deferred taxation:				
Current year	11	(29)	185	20
Attributable to change in tax rate (<i>Note iv</i>)	-	-	-	517
	<u>52</u>	<u>201</u>	<u>852</u>	<u>1,470</u>

Notes:

- (i) 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.
- (ii) 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 periods.
- (iii) 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 periods.
- (iv) On 2 July 2014, Feishang Material was recognised as a High Technology Enterprise and subject to EIT at 15% in accordance with the EIT Law effective from 1 January 2015.

5. DIVIDEND

No dividend was paid or declared by the Group during the nine months ended 30 September 2016, nor has any dividend been proposed since the end of 30 September 2016 (nine months ended 30 September 2015: nil).

6. (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:

Three months ended		Nine months ended	
30 September		30 September	
2016	2015	2016	2015
CNY'000	CNY'000	CNY'000	CNY'000

(Loss) earnings

(Loss) earnings for the purpose of basic and diluted (loss) earnings per share

<u>(725)</u>	<u>(3,685)</u>	<u>1,997</u>	<u>(3,596)</u>
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Three months ended		Nine months ended	
30 September		30 September	
2016	2015	2016	2015

Number of shares

Weighted average number of ordinary shares for the purpose of basic and diluted (loss) earnings per share ('000 shares)

<u>500,000</u>	<u>375,000</u>	<u>500,000</u>	<u>375,000</u>
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Basic and diluted (loss) earnings per share (CNY)

<u>(0.15) cents</u>	<u>(0.98) cents</u>	<u>0.40 cents</u>	<u>(0.96) cents</u>
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Note:

The weighted average number of ordinary shares in issue during the nine/three months ended 30 September 2015 assuming 375,000,000 ordinary shares were in issue during the nine/three months ended 30 September 2015 after taking into account the ordinary shares issue pursuant to the Reorganisation as stated in note 1.

The dilutive (loss) earnings per share is equal to the basic (loss) earnings per share as there were no dilutive potential ordinary shares outstanding for both periods.



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Following the implementation of the supply-side reform and the steady growth policies in China, China's economic growth has improved slightly and commodity prices are gradually rebounding in the third quarter of 2016. Notwithstanding the slight improvement, China's overall economy is still facing downward pressure. The Group's downstream industries such as energy, steel and real estate industries did not have fundamental improvement, and this made great pressure on the sales of the Group's drilling mud and pelletising clay.

As disclosed in the Company's announcement dated 11 July 2016 and the 2016 interim report, the impact of the severe floods in eastern China in June 2016 (the "2016 Floods") on the Group, both directly and indirectly, mainly include, (a) temporary suspension of mining operations; (b) decrease in production volumes and sales volumes of drilling mud; and (c) increase in (i) water drainage expenses for the mining site; and (ii) production costs due to increased reliance on rotary drum-drying as a result of temporary suspension of air-drying activities. The above factors led to the poor performance of the Group in the third quarter of 2016.

FINANCIAL REVIEW

Revenue

The revenue decreased by approximately 12.6% from approximately CNY21.6 million for the nine months ended 30 September 2015 to approximately CNY18.9 million for the nine months ended 30 September 2016. Such decrease in revenue was mainly due to (i) the decrease in sales volume of drilling mud and unprocessed clay; and (ii) the decrease in average selling price of pelletising clay, which was partially offset by the increase in sales volume of pelletising clay. The drop in sales volume of drilling mud was mainly caused by the 2016 Floods and the general economic condition in the PRC. The general economic slowdown in China's iron and steel industry also exerted pressure on the average selling price of pelletising clay. Despite the adverse environment, the Group managed to boost the sales volume of pelletising clay by strengthening its marketing and sales effort.

Gross Profit

The overall gross profit decreased by approximately 24.8% from approximately CNY10.4 million for the nine months ended 30 September 2015 to approximately CNY7.8 million for the nine months ended 30 September 2016, while the overall gross profit margin decreased from approximately 48.0% for the nine months ended 30 September 2015 to approximately 41.3% for the nine months ended 30 September 2016. The decrease in the gross profit was mainly caused by (i) the decrease in sales volume of drilling mud and unprocessed clay, which had higher gross profit than that of pelletising clay; and (ii) the decrease in average selling price of pelletising clay, which was partly offset by the increase in sales volume of pelletising clay. The decrease in overall gross profit margin was mainly due to (i) a decrease in the proportion of sales amount of drilling mud and unprocessed clay with relatively higher gross profit margin, which in aggregate, accounted for approximately 66.7% of the total revenue for the nine months ended 30 September 2015 and which subsequently decreased to approximately 58.0% of the total revenue for the nine months ended 30 September 2016; (ii) a decrease in gross profit margin for the sale of pelletising clay; and (iii) a slight increase in unit production cost.

Other Income

The rise in other income from approximately CNY1.0 million for the nine months ended 30 September 2015 to approximately CNY2.7 million for the nine months ended 30 September 2016 was mainly due to the Group's receipt of a monetary award in the sum of CNY2.0 million from Fanchang County People's Government* (繁昌縣人民政府) in the first quarter of 2016 for the successful listing of the Company's shares (the "Shares") on GEM on 29 December 2015 (the "Listing Date"). The other income for the nine months ended 30 September 2015 mainly comprised net gain on financial assets and the government grants received from Fanchang County People's Government* (繁昌縣人民政府) and Fanchang County Science and Technology Bureau* (繁昌縣科學技術局) for the Group's contribution to the economy, research and development and technological innovation of Fanchang county.

Selling and Distribution Expenses

The selling and distribution expenses decreased by approximately 13.9% from approximately CNY1.1 million for the nine months ended 30 September 2015 to approximately CNY0.9 million for the nine months ended 30 September 2016. The decrease was generally in line with the drop in revenue.



Administrative and Other Expenses

The administrative and other expenses decreased by approximately 48.2% from approximately CNY12.2 million for the nine months ended 30 September 2015 to approximately CNY6.3 million for the nine months ended 30 September 2016. The decrease was mainly due to the one-off listing expenses amounting to approximately CNY8.7 million recognised for the nine months ended 30 September 2015, which was partially offset by (i) the professional fees and expenses amounting to approximately CNY1.9 million incurred in respect of ongoing compliance with, among others, the relevant regulatory requirements for listed companies for the nine months ended 30 September 2016; and (ii) the increase in staff cost amounting to approximately CNY0.8 million resulting from an increase in the headcount of administrative and management staff.

Finance Costs

The finance costs increased by approximately 65.1% from approximately CNY0.3 million for the nine months ended 30 September 2015 to approximately CNY0.4 million for the nine months ended 30 September 2016, primarily due to the increase in interest payment of bank loan drawn down in December 2015.

Income Tax Expense

The Group had income tax expense of approximately CNY0.9 million for the nine months ended 30 September 2016 as compared to approximately CNY1.5 million for the nine months ended 30 September 2015. The decrease was mainly due to a decline in the opening deferred tax assets for the nine months ended 30 September 2015 resulting from a reduction of enterprise income tax rate applicable to Feishang Material, the indirect wholly-owned subsidiary of the Company, from 25% to 15% as it was categorised as a High Technology Enterprise on 2 July 2014.

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

The profit and total comprehensive income attributable to the owners of the Company for the nine months ended 30 September 2016 was approximately CNY2.0 million, an increase of approximately CNY5.6 million from the loss of approximately CNY3.6 million for the nine months ended 30 September 2015. This was mainly contributed by (i) the CNY2.0 million monetary award from Fanchang County People's Government* (繁昌縣人民政府) in the first quarter of 2016; and (ii) the lack of one-off listing expenses recognised for the nine months ended 30 September 2015 amounting to approximately CNY8.7 million for the nine months ended 30 September 2016. The increase was partially offset by the (i) the decrease of approximately CNY2.6 million in gross profit; (ii) the increase in staff cost amounting to approximately CNY0.8 million; and (iii) the increase in professional fees and expenses amounting to approximately CNY1.9 million in respect of ongoing compliance with, among others, the relevant regulatory requirements for listed companies.

OUTLOOK

As at the date of this report, the Group's mining operations which were previously suspended as a result of the 2016 Floods have fully resumed and the construction projects of the Group's downstream customers affected by the 2016 Floods have, to the best knowledge of the Directors, gradually returned to normal. It is expected that the Group's drilling mud sales will gradually recover in 2017. However, as price bubble risk for the property sector increases, the Group expects that any new regulatory policy may reduce the growth rate of real estate investment which may in turn affect the sales of drilling mud in the future.

To cope with the adverse external environment, the Group continues to adopt the "selling more with lower margin" strategy to maintain continuous growth of pelletising clay sales and speed up the related new products development.

CONTINGENT LIABILITIES

As of 30 September 2016, 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.



DIVIDEND

The Board does not recommend the payment of a dividend for the nine months ended 30 September 2016 (nine months ended 30 September 2015: Nil).

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

As at 30 September 2016, 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 the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong) (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 (%)
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Mr. CHEN Gongbao	Long position	Interest of his spouse	14,603	1	0.06
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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 shares	Note	Percentage of the issued shares (%)
Mr. CHEN Gongbao	Long position	Interest of his spouse	12,500	1	0.0009

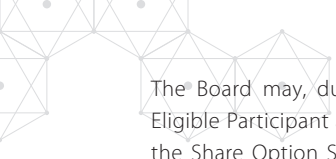
Note:

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

Save as disclosed above, as at 30 September 2016, 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.

SHARE OPTION SCHEME

A share option scheme was adopted by the Company on 12 December 2015 (the "Share Option Scheme"), under which the Board may, at its discretion, offer any Eligible Participant (as hereinafter defined) options to subscribe for the Shares subject to the terms and conditions stipulated therein. The Share Option Scheme is valid and effective for a period of 10 years from the Listing Date (the "Scheme Period"). The purpose of the Share Option Scheme is to recognise and acknowledge the contributions of Eligible Participants to the Group by granting options to them as incentives or rewards. An Eligible Participant may include any (a) executive, employee, director, consultant, adviser and/or agent of any member of the Group; and (b) any other person who has contributed to the success of the listing of the Company on GEM, in each case, as determined by the Board. The eligibility of an Eligible Participant will be determined by the Board with reference to his or her past and expected commitment and contribution to the Group.



The Board may, during the Scheme Period, at its absolute discretion, offer to an Eligible Participant an option to subscribe, at the subscription price prescribed under the Share Option Scheme, such number of Shares as the Board may determine. No further options may be granted after the expiry of the Scheme Period. The options may be exercised by an Eligible Participant, in whole or in part, at any time during the period commencing from the date on which an option certificate is issued to an Eligible Participant upon the grant of any option to him ("Date of Grant") and ending on such date as the Board may determine, but in any event not exceeding 10 years from the Date of Grant. 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 and under any other schemes of the Group (if any) must not in aggregate exceed 10% of the total number of Shares in issue on the Listing Date ("Scheme Mandate Limit"), unless approved by the Company's shareholders. The Company may seek the approval of its shareholders in general meeting to renew the Scheme Mandate Limit, and such 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 approval of the refreshed Scheme Mandate Limit. The number of Shares in respect of which options may be granted to any Eligible Participant 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 Participant (who is a substantial shareholder or an independent non-executive Director of the Company, 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 an aggregate of HK\$5,000,000, 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 to be issued pursuant to the Share Option Scheme shall be a price determined by the Board at its sole discretion and notified to the Eligible Participants (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.

Each Eligible Participant is required to pay HK\$1 as consideration for the grant of option.

As at 30 September 2016, no options had been granted pursuant to the Share Option Scheme. As at the date of this report, 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).

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

As at 30 September 2016, so far as the Directors are aware, 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 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:

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

Note:

1. The 375,000,000 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 Shares held by Feishang Group Limited.

Save as disclosed above, as at 30 September 2016, 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.



CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the “CG Code”) contained in Appendix 15 to the GEM Listing Rules throughout the nine months ended 30 September 2016, 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 states that the roles of the chairman and chief executive should be separate and should not be performed by the same individual. However, the Company has deviated from this code provision of the CG Code as Mr. XU Chengyin being the chairman and chief executive officer of the Company concurrently. The Board considers this arrangement is appropriate for the Group’s current situation and believes that such arrangement 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, the appropriate Board committees as well as senior management. The Board is therefore of the view that there are adequate safeguards in place to ensure the balance of power and authority within the Company.

FOREIGN EXCHANGE EXPOSURE

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

DEED OF NON-COMPETITION



Feishang Group Limited, Laitan Investments Limited and Mr. LI Feilie, 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 purpose 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.



INTEREST IN COMPETING BUSINESS

Save as disclosed, throughout the nine months ended 30 September 2016, none of the Directors and controlling shareholders of the Company or their respective close associates (as defined in the GEM Listing Rules) had any interest in a business that competes or may compete with the business of the Group and any other conflicts of interests which such person had or may have with the Group.

PRE-EMPTIVE RIGHTS

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

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

There was no purchase, sale or redemption of the Shares by the Company or any of its subsidiaries throughout the nine months ended 30 September 2016.

AUDIT COMMITTEE

The Company has an audit committee (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 unaudited condensed consolidated financial statements of the Group for the nine months ended 30 September 2016 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such statements complied with applicable IFRSs and that adequate disclosure has been made in respect thereof.

MATERIAL ACQUISITION AND DISPOSAL

No material acquisitions or disposals of subsidiaries and associated companies were made by the Company during the nine months ended 30 September 2016.

PUBLIC FLOAT

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

INTEREST OF COMPLIANCE ADVISER

The Company has received confirmation from its compliance adviser, Celestial Capital Limited (the "Compliance Adviser"), that as at 30 September 2016, 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 of the Shares, 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.

BOARD OF DIRECTORS

As at the date of this report, the executive Directors are Mr. XU Chengyin, Mr. ZHANG Pingwu and Mr. CHEN Gongbao, and the independent non-executive Directors are Mr. CHAN Chiu Hung Alex, Mr. ZHENG Shuilin and Mr. DUAN Xuechen.

By order of the Board

Feishang Non-metal Materials Technology Limited

XU Chengyin

Chairman

Hong Kong, 11 November 2016

* *The English name is for identification purpose only*