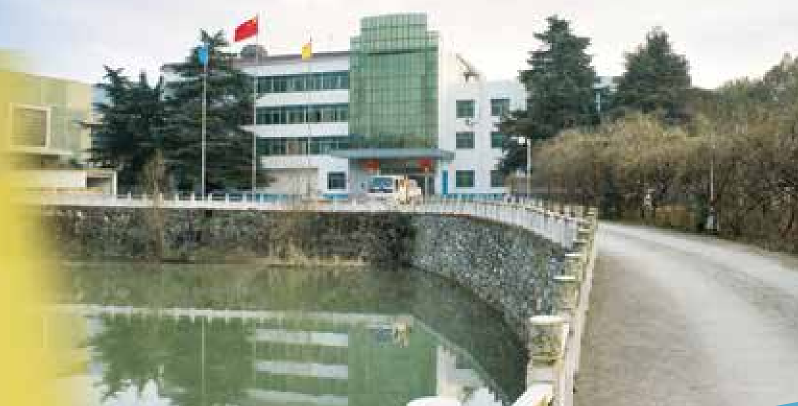
FSNMT

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

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



Annual Report 2016

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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.

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

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
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Causeway Bay
Hong Kong

REGISTERED OFFICE

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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
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Cayman Islands

Corporate Information

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
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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

Zhaobangji International Capital Limited
Unit 1 & 17, 19/F, China Merchants Tower,
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

PRINCIPAL BANKERS

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 2016 to the shareholders of the Company (the "Shareholders").

REVIEW

In 2016, China's economy managed to maintain a steady growth. The growth rate of China's gross domestic product in 2016 was 6.7%, which was comparable to 6.9% in 2015. The Chinese government has promoted policies of supply-side reform, deleveraging, addressing overcapacity and reducing inventory, and the effect of these policies has emerged in the fourth quarter of 2016. The increased demand for commodities led to a sharp recovery in most of the commodity prices in the fourth quarter of 2016.

Although the Group's downstream steel industry has turned around in the fourth quarter of 2016, the profitability of the steel makers was relatively low. And the direct impact of addressing overcapacity policy implemented by the Chinese government has caused pressure on sales of pelletising clay of the Group. The impact on sales of the Group in 2016 was exacerbated by the depression in the energy industry as investments in oil and gas transportation pipelines construction projects decreased.

In addition, the severe floods in eastern China in June 2016 (the "2016 Floods") also led to the poor performance of the Group in the second half of 2016. Due to the 2016 Floods, the Group's mining operations was temporarily suspended. Both production and sales volumes of drilling mud were decreased and there were increases in water drainage expenses incurred for the mining site and production costs as a result of increased reliance on rotary drum-drying in the third quarter of 2016. Details of the impact of the 2016 Floods have been disclosed in the Company's announcement dated 11 July 2016 and the Company's 2016 interim report and the third quarterly report.

As a result of the foregoing, although the Group increased its marketing efforts, the sales volume of drilling mud decreased by approximately 18.6% in 2016 as compared to 2015, and its average selling price dropped by approximately 2.1% in 2016.

In view of the various market pressures, the Group adhered to the policy of "selling more with lower margin" strategy, making the sales volume of pelletising clay increased by approximately 28.9% in 2016 as compared to 2015. Notwithstanding the drop of its average selling price by approximately 8.8%, the sales amount of pelletising clay increased by approximately 17.5% in 2016. At the same time, as the outlook for the steel-making sector is uncertain, the Group has delayed the construction of other three new facilities for the storage of pelletising clay and Raymond mill renovation project, and the detailed implementation time will depend on the outlook for the steel-making sector. The Group has strived to maintain and improve its market position by enhancing its research and development capabilities to lower costs, increase efficiency and increase competitiveness, thus further expanding its market share and customer base.

Chairman's Statement

OUTLOOK

At the date of this report, China's economy is in the L-type bottom stage and in the key stage which old growth model has weakened while the new growth model has yet to be established, and there is a series of new internal and external uncertainties superposition. Affected by the macro economy, the steel industry would continue to face the pressure of addressing overcapacity and rising costs and other unfavourable factors, therefore, the Board expects that the demand for and sales of pelletising clay will remain weak for the year ending 31 December 2017. Although the impact of 2016 Floods has passed, sales of drilling mud are still facing great pressure in 2017 as the real estate industry is facing severe regulations coupled with the uncertainty in investment prospects of the energy industry. In order to cope with unfavourable operating conditions, the Group intends to continue expanding its customer base and market share by boosting product awareness of its main products, refining its production technology and developing new products with a view to enhancing the Group's overall competitiveness. In addition, as disclosed in the Company's announcement dated 14 February 2017, the Group intends to acquire an operating black marble (dolerite) mine and entered into a non-legally binding memorandum of undertaking (the "MOU") with an independent individual (the "Potential Vendor"). It is expected that the potential acquisition (if materialised) can diversify the Group's business. The potential acquisition may or may not proceed and, if materialised, may constitute a notifiable transaction for the Company under the GEM Listing Rules. Further announcement(s) in respect of the potential acquisition will be made by the Company as and when appropriate in compliance with the GEM Listing Rules.

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 continuous support.

XU Chengyin
Chairman and Chief Executive Officer

Hong Kong, 17 March 2017

Management Discussion and Analysis

BUSINESS REVIEW

Key Performance

While many factors contribute to the results of the Group's businesses, the Group also considered trade receivables collection period as one of the most important key performance indicators to assess the performance and financial position of its business. The Group continues to monitor the collection days of trade receivables on a continuing basis to reduce the potential credit risk.

		2016	2015	Variance
Revenue	CNY'000	**26,311**	28,823	(8.7%)
Profit (loss) attributable to shareholders	CNY'000	**2,800**	(10,874)	125.7%
Basic earnings (loss) per share	CNY	**0.56 cents**	(2.89) cents	119.4%
Return on equity	%	**4.5**	(18.1)	124.9%
Net assets per share	CNY	**0.13**	0.16	(18.8%)
Trade receivables collection period	Days	**76**	60	26.7%

Business Strategies Review with Progress of Implementation

The Group is aware of the risk of concentrated customer base as stated in "Risk factors" of the prospectus of the Company dated 18 December 2015 (the "Prospectus"), and has worked positively to expand customer base and improve market position. 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 with the actual progress of implementation as of 31 December 2016.

Business Strategy	**Implementation Plan**	**Progress of Implementation as of 31 December 2016**
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;	(i) The Group has completed techno-economic viability study of two new bentonite products as mentioned below. The external institutions are currently conducting laboratory-scale testing of the two products. In addition, the internal research and development team was working on the multifunctional pelletising clay; and it was also working with the external institutions on the techno-economic viability of several other new bentonite products and processing technologies;

Business Strategy	Implementation Plan	Progress of Implementation as of 31 December 2016
Broaden customer base and develop product recognition *(Continued)*	(ii) attending and participating in industry forums and events to network with other industry professionals and potential customers; and	(ii) The Group has established contacts with several industry experts and potential customers to explore cooperation opportunities and there were four new drilling mud customers starting their purchases with the Group in 2016; and
	(iii) expanding sales and marketing team to further enhance sales and marketing activities.	iii) The Group was in the process of recruiting more experienced personnel for sales and marketing.
Development of new production technology and new products	Signing collaboration agreements with two universities and one research institute	Completed techno-economic viability study of two new products: (a) polyaniline/montmorillonitenano-composite conductive coating materials and (b) titanium dioxide/montmorillonitenano-composite materials and photocatalytic.
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	The Group was in the process of recruiting more experienced personnel for processing, sales and marketing, and research and development.
Acquisition of other non-metal mines	Evaluating any potential targets meeting the criteria when opportunities arise	The Company did not identify any qualified targets as of 31 December 2016. However, the Company entered into a MOU with the Potential Vendor to acquire certain equity interest in a company in the PRC principally engaging in mining, processing and sale of black marble (dolerite). For further details, please refer to the Company's announcement dated 14 February 2017.

Business Strategy	Implementation Plan	Progress of Implementation as of 31 December 2016
Improvement of plant and equipment	Upgrading current processing plant by, among others, purchasing new processing equipment such as Raymond mill, modifying the rotary drum dryer and construction of new storage bins for storing pelletising clay.	Completed the feeding system for one pelletising clay production line; Completed the construction of new storage facilities for pelletising clay; Completed the expansion of storage facilities for dried bentonite ore to be processed into drilling mud; Replaced the old forklift truck; Replaced a transformer in the processing plant; and Completed the modification of existing rotary drum dryer.

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. Although the techno-economic viability study of two new products have been completed, 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

The actual net proceeds from the placing of the 125,000,000 new shares of the Company on 29 December 2015 (the "Listing Date") (the "Placing") was approximately HK$12.7 million. There was approximately HK$12.3 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 Hong Kong and the PRC. The Group is aware of the uncertainties of China's general economic conditions and therefore adopts a conservative approach in the use of proceeds. Set out below is the revised timeline, as disclosed in the Company's announcement dated 21 March 2016, from the Listing Date to 31 December 2017 for the Group to deploy the net proceeds raised from the Placing taking into account the actual placing price of HK$0.32 per share in accordance with the implementation of future plans, and the actual use of net proceeds up to the date of this report:

	Revised timeline as disclosed in the Company's announcement dated 21 March 2016							
	From Listing Date up to 31 December 2015 (HK$ million)	For the six months ended 30 June 2016 (HK$ million)	For the six months ended 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 %	Actual use of net proceeds up to the date of this report (HK$ million)
Development of production technology for new products	–	–	–	–	7.7	7.7	60.6	–
Improvement of plant and equipment	–	0.4	4.6 (Note)	–	–	5.0	39.4	0.4 (Note)
Total	–	0.4	4.6	–	7.7	12.7	100.0	0.4

Note:

During the second half of 2016, China's economy has been in the L-type bottom stage and in the key stage which old growth model has weakened and the new growth model has yet to be established. The Company has decided to postpone the (i) modification and/or improvement of its existing Raymond mill; and (ii) enhancement of electricity power capacity of its processing plant which was originally scheduled in the second half of 2016 until a sustainable positive industry signal is envisaged.

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 2016) (Note 2)	Dry	Wet
Proved reserve (metric tonnes)	1,606,000	1,999,000
Probable reserve (metric tonnes)	4,724,000	5,910,000
Total (metric tonnes)	6,330,000	7,909,000
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 2016	CNY1,809,000	
Output for the year ended 31 December 2016 (metric tonnes)	78,000	

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 2016 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 2016 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 2016.

(3) There is no exploration activity carried out by the Group during the year ended 31 December 2016.

Compliance

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 at 31 December 2016 and 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 not aware of the occurrence of any other material non-compliance incidences during the financial year of 2016.

Customer and Supplier Relationship

As stated in "Risk factors" of the Prospectus, the Group relied on a limited number of customers for a substantial portion of its revenue. In 2015 and 2016, sales of the bentonite products to the top customer amounted to approximately CNY8.3 million and CNY6.9 million respectively, representing approximately 29.0% and 26.2% of the Group's total revenue respectively. In 2015 and 2016, sales of the bentonite products to the top five customers amounted to approximately CNY25.6 million and CNY23.3 million respectively, representing approximately 88.9% and 88.6% of the Group's total revenue respectively. The Group strives to provide high quality and reliable products to its customers. Complaints (if any) from customers are handled and investigated in a thorough and efficient manner. As of 31 December 2016 and the date of this report, the Group has continued to maintain sound business relationships with existing customers and has established business relationship with four new drilling mud customers. Save for the impact of 2016 Floods on the Group as disclosed in the Company's announcement dated 11 July 2016 and the Company's 2016 interim report and third quarterly report, there was no other 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. The Group is committed to forging collaborative partnerships with third party contractors and procuring such contractors to comply with relevant laws, rules and regulations in the PRC. As of 31 December 2016 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 2015 and 2016, the top supplier amounted to approximately CNY2.6 million and CNY2.8 million respectively, representing approximately 23.1% and 23.0% of the Group's total purchase respectively. In 2015 and 2016, the top five suppliers amounted to approximately CNY6.8 million and CNY8.9 million respectively, representing approximately 61.4% and 72.1% of the Group's total purchase respectively. At the same time, the Board is satisfied that as of 31 December 2016 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 2016, the Group had a total of 83 full-time employees (2015: 86) for its main business. For the year ended 31 December 2016, the Group incurred staff costs, including Directors' remuneration, of approximately CNY4.5 million (2015: CNY3.3 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 29 to the consolidated financial statements under the heading "Equity-settled share option scheme of the Company" of this report.

Details of the staff pension scheme are set out in note 30 to the consolidated financial statements, and retired employees are entitled to benefits under the social pension scheme approved and provided by the labour and social security authority of the local governments.

As of 31 December 2016 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 2016, 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 CNY0.2 million on related environmental compliance and measures in 2016. 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 several measures to effectively reduce the need for coal energy and electricity thus contributing to a significant decrease in carbon emissions and harmful gas emissions, to prevent fugitive dust emission at the mining site, to reduce impact on nearby brooks and to manage waste rock dump. For details of the Group's performance on environmental, social and governance ("ESG") aspects and compliance with relevant laws and regulations that have a significant impact on the Group, please refer to the Group's separate ESG report for the year 2016.

FINANCIAL REVIEW

Items of the Consolidated Statement of Profit or Loss

Items	For the year ended 31 December 2016 CNY'000	For the year ended 31 December 2015 CNY'000	Change (%)
Revenue	**26,311**	28,823	(8.7%)
Cost of sales	**(14,791)**	(15,463)	(4.3%)
Gross profit	**11,520**	13,360	(13.8%)
Other income	**3,245**	1,229	164.0%
Selling and distribution expenses	**(1,413)**	(1,314)	7.5%
Administrative and other expenses	**(8,932)**	(21,956)	(59.3%)
Finance costs	**(521)**	(358)	45.5%
Income tax expense	**(1,099)**	(1,835)	(40.1%)
Profit (loss) and total comprehensive income (expense) attributable for the year to the owners of the Company	**2,800**	(10,874)	125.7%

Revenue

Breakdown of the Group's Revenue by Products

	2016 CNY'000	2016 %	2015 CNY'000	2015 %
Drilling mud	**14,729**	**56.0**	18,493	64.2
Pelletising clay	**11,582**	**44.0**	9,854	34.2
Unprocessed clay	**–**	**–**	476	1.6
Total revenue	**26,311**	**100.0**	28,823	100.0

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

	2016		2015	
	Sales volume (tonnes)	**Average selling price (CNY/tonne)**	Sales volume (tonnes)	Average selling price (CNY/tonne)
Drilling mud	**33,536**	**439.2**	41,220	448.6
Pelletising clay	**42,648**	**271.6**	33,087	297.8
Unprocessed clay	**–**	**–**	8,695	54.7

The revenue decreased by approximately 8.7% from approximately CNY28.8 million in 2015 to approximately CNY26.3 million in 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.

Cost of Sales

Breakdown of the Group's Cost of Sales

Cost Items	**2016**		2015	
	CNY'000	**%**	CNY'000	%
Extraction costs	**552**	**3.7**	528	3.4
Processing costs				
– Air-drying costs	**1,622**	**11.0**	1,313	8.5
– Consumables, materials and supplies	**2,925**	**19.8**	3,088	20.0
– Depreciation and amortisation	**1,086**	**7.3**	1,184	7.7
– Staff costs	**2,781**	**18.8**	2,715	17.5
– Transportation costs	**2,137**	**14.4**	1,812	11.7
– Utility costs	**2,511**	**17.0**	2,970	19.2
– Others	**350**	**2.4**	604	3.9
Sales tax and surcharges	**827**	**5.6**	1,249	8.1
Total cost	**14,791**	**100.0**	15,463	100.0

Breakdown of the Group's Cost of Sales by Products

	2016			2015		
	Average cost of sales CNY/tonne	**Total cost of sales CNY'000**	**%**	Average cost of sales CNY/tonne	Total cost of sales CNY'000	%
Drilling mud	**208.0**	**6,976**	**47.2**	219.1	9,032	58.4
Pelletising clay	**183.2**	**7,815**	**52.8**	189.0	6,252	40.4
Unprocessed clay	**–**	**–**	**–**	20.6	179	1.2
		14,791	**100.0**		15,463	100.0

The total cost of sales decreased by approximately 4.3% from approximately CNY15.5 million in 2015 to approximately CNY14.8 million in 2016. The decrease in total cost of sales was mainly due to (i) a decrease in sales volume of drilling mud and unprocessed clay; and (ii) a decrease in the unit processing costs, which was partly offset by the increase in sales volume of pelletising clay. The drop in the unit processing costs was mainly contributed by: (i) the decrease in sales tax and surcharges because of the reduction in the resource tax and the cessation of resources compensation fee payment since 1 July 2016; and (ii) the decrease in repair expenses of the warehouse as the major repair was done and recognised in December 2015, which was partly offset by the increase in air-drying costs and transportation costs as a result of the use of one additional air-drying facility from the existing third party contractor which nevertheless counterbalanced the decrease in costs of consumables, materials and supplies and utility in 2016.

Cost of sales for drilling mud decreased by approximately 22.8% from approximately CNY9.0 million in 2015 to approximately CNY7.0 million in 2016. The decrease in cost of sales for drilling mud was mainly due to a decrease in the sales volume of drilling mud by approximately 18.6%, a reduction in the resource tax and a cessation in the payment of resources compensation fee since 1 July 2016, and a decrease in repair expenses of warehouse as the major repair was done and recognised in December 2015.

Cost of sales for pelletising clay increased by approximately 25.0% from approximately CNY6.3 million in 2015 to approximately CNY7.8 million in 2016. The increase in cost of sales for pelletising clay was mainly due to (i) the increase in the sales volume of pelletising clay by approximately 28.9%; (ii) the increase in depreciation for the new storage facilities for pelletising clay; and (iii) the higher product specification requirement of a pelletising clay customer, which was partly offset by the reduction in the resource tax and the cessation of resources compensation fee payment since 1 July 2016 and a decrease in repair expenses of warehouse as the major repair was done and recognised in December 2015.

Gross Profit and Gross Margin

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

	2016		2015	
	Gross profit CNY'000	Gross profit margin %	Gross profit CNY'000	Gross profit margin %
Drilling mud	**7,753**	**52.6**	9,461	51.2
Pelletising clay	**3,767**	**32.5**	3,602	36.6
Unprocessed clay	**–**	**–**	297	62.4
	11,520	**43.8**	13,360	46.4

The overall gross profit decreased by approximately 13.8% from approximately CNY13.4 million in 2015 to approximately CNY11.5 million in 2016, while the overall gross profit margin decreased from approximately 46.4% in 2015 to approximately 43.8% in 2016. The decrease in the overall gross profit was mainly caused by (i) the decrease in average selling price of pelletising clay; and (ii) the decrease in sales volume of drilling mud and unprocessed clay, 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 65.8% of total revenue in 2015 and decreased to approximately 56.0% of total revenue in 2016; and (ii) a decrease in gross profit margin for the sale of pelletising clay.

Gross profit for the sale of drilling mud decreased by approximately 18.1% from approximately CNY9.5 million in 2015 to approximately CNY7.8 million in 2016. However, gross profit margin for the sale of drilling mud slightly increased from approximately 51.2% in 2015 to approximately 52.6% in 2016. The decrease in gross profit for the sale of drilling mud was mainly caused by the decrease of sales volume. The slight increase in gross profit margin was mainly caused by the decrease in the unit cost of drilling mud by approximately 5.1% from approximately CNY219.1 per tonne in 2015 to approximately CNY208.0 per tonne in 2016 primarily because of the reduction in resource tax and the cessation of resources compensation fee payment since 1 July 2016 and the decrease in repair expenses of warehouse as the major repair was done and recognised in December 2015, which was partly offset by the decrease in sales proportion of drilling mud with higher technical specifications.

Gross profit for the sale of pelletising clay slightly increased by approximately 4.6% from approximately CNY3.6 million in 2015 to approximately CNY3.8 million in 2016. However, the gross profit margin for the sale of pelletising clay decreased from approximately 36.6% in 2015 to approximately 32.5% in 2016. The increase in gross profit for the sale of pelletising clay was contributed by an increase in the sales volume of pelletising clay by approximately 28.9%. The decreases in gross profit margin for the sale of pelletising clay was primarily caused by a decrease in the average selling price of pelletising clay as discussed above.

Other Income

The rise in other income from approximately CNY1.2 million in 2015 to approximately CNY3.2 million in 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 the Listing Date. The other income in 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 increased by approximately 7.5% from approximately CNY1.3 million in 2015 to approximately CNY1.4 million in 2016, primarily as a result of the increase in transportation fee arising from the increase in sales volume of pelletising clay, which the Group was responsible for the delivery.

Administrative and Other Expenses

The administrative and other expenses decreased by approximately 59.3% from approximately CNY22.0 million in 2015 to approximately CNY8.9 million in 2016. The decrease was mainly due to the one-off listing expenses amounting to approximately CNY15.4 million recognised in 2015, which was partially offset by (i) the professional fees and expenses amounting to approximately CNY2.2 million incurred in respect of ongoing compliance with, among others, the relevant regulatory requirements for listed companies in 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 45.5% from approximately CNY0.4 million in 2015 to approximately CNY0.5 million in 2016, primarily due to the increase in accrual of bank loan interest expense for a bank loan drawn down in December 2015.

Income Tax Expense

The Group had an income tax expense of approximately CNY1.1 million in 2016 as compared to approximately CNY1.8 million in 2015. The decrease was contributed by a decline in the opening deferred tax assets in 2015 resulting from a reduction of enterprise income tax rate applicable to Wuhu Feishang Non-metallic Material Company Limited ("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 and effective from 1 January 2015.

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

The profit and total comprehensive income attributable to the owners of the Company for the year was approximately CNY2.8 million in 2016, an increase of approximately CNY13.7 million from the loss of approximately CNY10.9 million in 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 in 2015 amounting to approximately CNY15.4 million in 2016. The increase was partially offset by (i) the decrease of approximately CNY1.8 million in gross profit; (ii) the increase in administrative and management staff cost amounting to approximately CNY0.8 million; and (iii) the increase in professional fees and expenses amounting to approximately CNY2.2 million in respect of ongoing compliance with, among others, the relevant regulatory requirements for listed companies in 2016.

* *For identification purpose only*

FINANCIAL RESOURCES REVIEW

Liquidity, Financial Resources and Capital Structure

As of 31 December 2015 and 31 December 2016, the Group had net current assets of approximately CNY43.6 million and approximately CNY42.7 million, respectively.

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

As at 31 December 2016, the Group had cash and cash equivalents of approximately CNY34.6 million which was mainly dominated in CNY.

As at 31 December 2016, the Group did not have any bank loans, hedge, or pledge of assets.

Capital Commitments and Financing Needs

As of 31 December 2016, apart from the implementation plans, capital needs and financing plans as stated in the section headed "Future Plans and Use of Proceeds" (adjusted as disclosed in the Company's announcement dated 21 March 2016) and "Financial Information" of the Prospectus, the Group had no other new implementation plans or financing plans.

Gearing Ratio

As of 31 December 2015 and 31 December 2016, 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 23.9% and nil respectively. The gearing ratio dropped in 2016 as during 2016 the Group fully repaid the interest-bearing borrowing which was drawn down in December 2015.

Significant Investments/Material Acquisitions and Disposals

Save as disclosed under the sections headed "Business Strategies Review with Progress of Implementation" and "Use of Listing Proceeds" above, the Group did not make any significant investment or have any material acquisition and disposal during the year ended 31 December 2016.

Contingent Liabilities

As of 31 December 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.

Currency Exposure and Management

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.

Subsequent Event

On 14 February 2017, the Company (as the potential purchaser) and the Potential Vendor entered into a MOU. Pursuant to the MOU, the Company intends to acquire and the Potential Vendor intends to sell certain equity interests in a limited liability company established in the PRC, which principally engaged in mining, processing and sale of black marble (dolerite) in the PRC, which is used in polished slabs, shaped stones and construction materials. Details of the MOU has been disclosed in the Company's announcement dated 14 February 2017.

Save for the entering into the MOU, there is no material event undertaken by the Company or the Group subsequent to 31 December 2016 and up to the date of this report.

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. XU Chengyin（徐承銀）, aged 54, 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 35 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 Changsha Metallurgical Industry School*（長沙冶金工業學校）in July 1981, industrial enterprise management from Wuhu Branch of the Economic Management Correspondence United Institute*（經濟管理刊授聯合大學蕪湖市分校）in December 1988 and economic management from Correspondence Institute of the Party School of the Central Committee of the Communist Party of China*（中共中央黨校函授學院）in December 1999. Mr. Xu was awarded the qualifications of smelting engineer by Wuhu City Title Reform Leading Committee*（蕪湖市職稱改革領導小組）in September 1993, senior economist by Wuhu City Personnel Bureau*（蕪湖市人事局）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 42, 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 Fanchang County Iron-zinc Ore Mine*（繁昌縣鋅鐵礦）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 14 years of mining experience. He obtained a bachelor's degree in engineering in chemical engineering and crafts from Huainan Industrial Institute*（淮南工業學院）(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 Wuhu City Personnel Bureau*（蕪湖市人事局）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 Fanchang County Iron-zinc Ore Mine*（繁昌縣鋅鐵礦）, 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.

Profiles of Directors and Senior Management

Mr. CHEN Gongbao（陳功保）, aged 39, 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 16 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 Anhui Business College*（安徽商業高等專科學校）(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.

Mr. DENG Li（鄧力）, aged 55, was appointed as an executive Director on 13 March 2017. He has over 20 years' extensive experience in investment and management, and keen industry insight. He is the founder, legal representative, general manager and the executive director of Beijing Shengyue Commerce and Trading Company Limited*（北京盛躍商貿有限責任公司）, a limited liability company established under the laws of the PRC, which is principally engaged in sale and distribution of metallic construction materials. From 2015, he is legal representative and general manager of Zhong Hui Xing Rong (Beijing) Investment Service Company Limited*（中匯興融（北京）投資服務有限公司）. Mr. Deng graduated from Beijing Xuanwu Hongqi Spare-time University with post-secondary qualification, majoring in Chinese, in 1985. 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 50, was appointed as an independent non-executive Director on 12 December 2015. 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 18 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), Royal Century Resources Holdings Limited (formerly known as Kate China Holdings Limited) (Stock code: 8125), and Cinderella Media Group Limited (Stock code: 550), all 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.

Profiles of Directors and Senior Management

Mr. ZHENG Shuilin（鄭水林）, aged 60, was appointed as an independent non-executive Director on 12 December 2015. He is also the chairman of the Nomination Committee and a member of the Audit Committee and Remuneration Committee. Mr. Zheng has over 15 years of experience in the field of material engineering. He graduated from Wuhan Institute of Building Materials*（武漢建築材料工業學院）(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 Wuhan Industrial College*（武漢工業大學）(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.

Mr. DUAN Xuechen（段學臣）, aged 67, was appointed as an independent non-executive Director on 12 December 2015. 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 Central South School of Mining & Metallurgy*（中南礦冶學院）(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 Central South Industrial University*（中南工業大學）(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 "China Powder Science and Technology*（中國粉體技術）". Mr Duan was also involved in the education and research of material chemistry and related fields in various universities in China for 35 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 49, 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 an executive director, chief financial officer and corporate secretary of China Natural Resources, Inc. (Stock symbol: CHNR), a company listed in New York State, and an independent non-executive director of A.Plus Group Holdings Limited (Stock code: 8251), a company listed in Hong Kong. Mr. Yue has over 25 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 2016.

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 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 33 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" and "Corporate Governance Report – Risk management and internal control" 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 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 55 of the annual report.

No interim dividend (2015: Nil) was paid to the Shareholders during the year ended 31 December 2016.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: 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 58 of this annual report.

The Company's reserves available for distribution to Shareholders at 31 December 2016 amounted to CNY49,907,000 (2015: CNY52,838,000).

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for each of the last four financial years is set out on page 108 of this annual report.

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 28 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:
XU Chengyin *(Chairman and Chief Executive Officer)*
ZHANG Pingwu
CHEN Gongbao
DENG Li (appointed on 13 March 2017)

Independent Non-executive Directors:
CHAN Chiu Hung Alex
ZHENG Shuilin
DUAN Xuechen

In accordance with Articles 83(3) and 84(1) of the Articles of Association of the Company (the "Articles of Association"), Mr. XU Chengyin, Mr. ZHANG Pingwu and Mr. DENG Li 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 2016, 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	325,000,000	1	65.00
Laitan Investments Limited	Long position	Interest held by its controlled corporation	325,000,000	1	65.00
Feishang Group Limited	Long position	Beneficial Owner	325,000,000	1	65.00

Note:

1. The 325,000,000 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 325,000,000 ordinary shares held by Feishang Group Limited.

Save as disclosed above, as at 31 December 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.

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

As at 31 December 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 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	5,000	1	0.02

Note:

1. The 5,000 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 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.

DISCLOSURE OF CHANGE OF DIRECTORS' INFORMATION

The Directors are not aware of any change in the Directors' information required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules subsequent to the publication of the interim report of the Company for the six months ended 30 June 2016.

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

Other than the share option scheme 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 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 31 December 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) and the remaining life of the Share Option Scheme was approximately 8 years and 9 months.

Additional information in relation to the Share Option Scheme is set out in note 29 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 2016, 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 2016.

INTEREST IN COMPETING BUSINESS

During the year ended 31 December 2016 and up to the date of this report, 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 and any other conflicts of interests which such person had or may have with the Group.

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 31 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 29 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 2016.

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

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 2016.

EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2016, the Group employed 83 full time employees (2015: 86) for its principal activities. Employees' costs (including Directors' emoluments) amounted to approximately CNY4.5 million for the year ended 31 December 2016 (2015: CNY3.3 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 29 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 2016 (2015: 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 2016 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, 17 March 2017

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 year, 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 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 and 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.

BOARD OF DIRECTORS

Composition

As at the date of this report, the Board comprises seven members, consisting of four executive Directors, namely Mr. XU Chengyin (chairman of the Board and chief executive officer), Mr. ZHANG Pingwu, Mr. CHEN Gongbao and Mr. DENG Li, 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 21 to 23 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 risk management function and internal control system are essential and that the Board plays an important role in implementing monitoring and risk management and internal financial control.

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 year ended 31 December 2016, four Board meetings were 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)*	4/4
ZHANG Pingwu	4/4
CHEN Gongbao	4/4
Independent Non-executive Directors	
CHAN Chiu Hung Alex	4/4
ZHENG Shuilin	3/4
DUAN Xuechen	4/4

During the year ended 31 December 2016, one general meeting was held and the attendance record of each Director is set out below:

	Attendance/No. of general meeting(s)
Executive Directors	
XU Chengyin *(Chairman and Chief Executive Officer)*	1/1
ZHANG Pingwu	0/1
CHEN Gongbao	1/1
Independent Non-executive Directors	
CHAN Chiu Hung Alex	1/1
ZHENG Shuilin	1/1
DUAN Xuechen	1/1

Directors' Induction and Continuous Professional Development

During the financial year, all the Directors attended a training session organised by the Company. Topics of the training included update on the GEM Listing Rules and continuing and statutory obligations for directors of listed companies. In addition, relevant reading materials on risk management and internal control and ESG have been circulated to all the Directors.

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. 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 organisational 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;

– 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 financial year, the Board had performed the following corporate governance duties:

– approval of quarterly results, interim results and annual results of the Group;

– 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 risk management and internal control 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 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 financial year, the Audit Committee held five meetings, 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, three months ended 31 March 2016, six months ended 30 June 2016 and nine months ended 30 September 2016;

– reviewed the effectiveness of the risk management and internal control systems, and such review covered all material controls including financial control;

– reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions;

– reviewed the external auditors' findings; and

– reviewed and approved remuneration of auditors for the financial year of 2016 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)*	5/5
ZHENG Shuilin	4/5
DUAN Xuechen	4/5

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 have complied with the CG Code which are 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 financial year, 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 financial year, 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 2016 is set out below:

Remuneration bands (CNY)	**Number of person(s)**
0 to 1,000,000	4

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 and 14 to the consolidated 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, 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 former compliance adviser, Celestial Capital Limited (terminated on 1 March 2017) (the "Former Compliance Adviser"), that as at 31 December 2016, except for the compliance adviser's agreement entered into between the Company and the Former Compliance Adviser, neither the Former 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.

CHANGE OF COMPLIANCE ADVISER

The Company and the Former Compliance Adviser have mutually agreed to terminate the compliance adviser's agreement between them with effect from 1 March 2017 due to the consideration of fee levels. Zhaobangji International Capital Limited has been appointed as the replacement compliance adviser pursuant to Rule 6A.27 of the GEM Listing Rules with effect from 1 March 2017. For further details, please refer to the announcement of the Company dated 28 February 2017.

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 financial year ended 31 December 2016.

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.

INSIDE INFORMATION

The Group acknowledges its responsibilities under the SFO and the GEM Listing Rules and the overriding principle that inside information should be announced immediately when it is the subject of a decision. The procedures and internal controls for the handling and dissemination of inside information are as follows:

– the Group conducts its affairs with close regard to the disclosure requirement under the GEM Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission of Hong Kong in June 2012;

– the Group has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and its website;

– the Group has strictly prohibited unauthorised use of confidential or inside information; and

– the Group has established and implemented procedures for responding to external enquiries about the Group's affairs, so that only the executive Directors and company secretary are authorised to communicate with parties outside the Group.

AUDITORS' REMUNERATION

The services provided by SHINEWING (HK) CPA Limited and the associated fees thereof for the year ended 31 December 2016 were as follows:

Description of services performed	**Fee** (HK$)
Audit services	714,000
Non-audit review services for quarterly reports and interim report	330,000

RISK MANAGEMENT AND INTERNAL CONTROL

Risk Management Philosophy

Risk is inherent in the Group's business and the markets in which it operates. The goal of the Group is to identify and manage these risks so that the risks can be reduced, mitigated, transferred or avoided. To this end, the Group adopts a proactive risk management approach and implements an effective group-wide risk management framework.

The Board oversees the Group's overall risk management process through the Audit Committee, and it forms an important part of the corporate governance regime of the Group. The Group understands that risk management is the responsibility of everyone within the Group. Rather than being a separate and standalone process, risk management is integrated into business and decision-making processes including strategy formulation, business development, business planning, capital allocation, investment decisions, internal control and daily operations.

Group Risk Management and Internal Control Framework

The Board is responsible for the Group's risk management and internal control systems and for reviewing their effectiveness, while management is responsible for designing and implementing an internal control system to manage risks.

The Audit Committee assists the Board in monitoring the risk exposures, the design and operating effectiveness of the relevant risk management and internal control systems. The Audit Committee oversees the following procedures on behalf of the Board:

(i) Periodic assessment of key operational risks and control measures aimed at mitigating, reducing or transferring such risks; the strengths and weaknesses of the overall internal control system, and action programs to address the control weaknesses or improve the assessment process;

(ii) Regularly review the business processes and operational reports, including the action plan to address the identified weaknesses in control, and the latest status and monitor results in the implementation of the recommendations; and

(iii) The external auditors regularly report on the control issues identified in the course of their work and meet with the Audit Committee to discuss the scope and results of the review.

The Audit Committee will then report to the Board after properly reviewing the effectiveness of the Group's risk management and internal control systems. The Group does not maintain its own internal audit team due to cost-saving reason but the internal audit team of the Group's related party is shared with the Group to assist the Audit Committee to review the effectiveness of the Group's risk management and internal control systems.

The Board considers the works and findings of the Audit Committee in forming its own view on the effectiveness of the systems.

<table>
<tr><td rowspan="3">"Top-down"
Overseeing, identification, assessment and mitigation of risk at corporate level.</td><td colspan="4">The Board of Directors</td></tr>
<tr><td>Responsible for the Group's risk management and internal control systems.</td><td>Sets strategic objectives and reviews the effectiveness of the Group's risk management and internal control systems.</td><td>Monitors the nature and extent of the Group's major risks.</td><td>Provides guidance on the importance of risk management and risk management culture.</td></tr>
<tr><td>Management</td><td colspan="2">Audit Committee</td><td>Internal Audit</td></tr>
<tr><td rowspan="3">"Bottom-up"
Identification, assessment and mitigation of risk at business unit level and across functional areas.</td><td>Designs, implements, and monitors risk management and internal control systems.</td><td colspan="2">Assists the Board in monitoring risk exposure, design and operating effectiveness of the underlying risk management and internal control systems.</td><td>Assists the Audit Committee to review the effectiveness of the Group's risk management and internal control systems.</td></tr>
<tr><td colspan="4">Operational level</td></tr>
<tr><td colspan="2">Risk identification, assessment and mitigation performed across the business.</td><td colspan="2">Risk management process and internal control practised across business operations and functional areas.</td></tr>
</table>

Risk Management Procedures

This "top-down" approach is complemented by the "bottom-up" aspects, which require the head of the operating unit to participate in the identification of operational risks to determine the Group's major risks.

The Group's risk management and integrated internal control framework are closely intertwined, and major control measures are tested to assess performance.

Major Risk Management and Internal Control Initiatives in 2016

- The Group has adopted a number of policies and procedures to assess and prudently improve the effectiveness of risk management and internal control systems, including requiring the management of the Group to assess the relevant matters every year on a regular basis. The Group believes that this will help enhancing the Group's future corporate governance and business operations.

- The Group has penetrated its risk management system into its core business operations. The operating units of the Company will continue to review and assess the potential risks that may have an impact on the ability to reach operational units and/or the Company's business objectives. The review process includes assessing whether the existing internal control system continues to meet business demand, it responds to potential risks sufficiently and/or whether it needs to be supplemented. The results of the relevant review are entered into the risk register of each operating unit for control and loading into the Group's comprehensive risk register for analysis of potential policy implications and for regular reporting purposes to senior management and Directors of the Company.

- The Audit Committee has developed and supervised a reporting policy and a comprehensive set of procedures. Employees, customers, suppliers and other interested parties are able to report any actual or suspected misconduct involving the Company so that the matter may be investigated and effectively dealt with in an appropriate and transparent manner.

- The Group regulates the handling and issuance of inside information contained in the corporate responsibility policy and the subsidiary procedures to ensure that inside information is kept confidential until properly approved for disclosure and to ensure the effective and consistent publication of the relevant information.

- Other initiatives include: increasing the number of training courses and risk workshops when necessary; further standardising risk reporting terms, categories and quantifications; making the assessment of internal controls more closely linked to their potential risks; and increasing the frequency and depth of interaction with designated Directors on the Company's risk management system design, operation and findings.

- During 2016, selective reviews of the effectiveness of the systems of risk management and internal control of the Group over financial, operational and compliance controls with emphasis on manufacturing, procurement, sales and business continuity management and procurement have been conducted by the internal audit team of the Group's related party. In addition, the heads of major business and corporate functions of the Group were required to undertake control self-assessments of their key controls. These results were assessed by the same internal audit team and reported to the Audit Committee and the Board.

Risk Profile

As a basis for the risk management approach, the Group's current risk profile is evaluated and how these risks change over time. In 2016, the Group's significant risks were identified through the risk identification process as follows:

Introduction to risk	Risk changes in 2016	Major risk mitigation measures
Changes in customer demand China's economic development has shifted from high-speed growth to sustainable development. The slowdown in economic growth triggers a decline in steel, metal and mining production output which ultimately affects the demand for the bentonite products.	Unchanged from the previous year	Expands sales and marketing teams, increases marketing efforts, strengthens cooperation with external research institutions, develops new technologies and new products to meet customer demand; participates in industry seminars and related activities, and establishes relationship with other industries experts and other customers within the industry; further strengthens product quality management. These measures help the Group to hedge potential impact on the demand for the bentonite products.
Trade receivables risk The Groups offers revolving credit lines to two major customers. In 2016, the two customers' balance of trade receivables were about CNY0.94 million and CNY51,000 respectively, which accounted for approximately 18.0% of the total amount of trade receivables at the end of 2016. If the above customers' credit payments cannot be recovered, it will have an impact on the normal operation of the Group.	Unchanged from the previous year	The Group assesses the pre-set credit line annually by considering the customer background, credit records, the amount of historical transactions, the current market conditions to determine whether to grant a new amount and the revolving credit line; designates sales team to monitor customer payments and credit status on a regular basis; the Group may also grant the customer's temporary credit line based on customer demands and credit conditions, and the amount granted must be subject to the Group's internal credit assessment in advance and backed by asset pledge; and the customers are required to fully settle the outstanding amount around Chinese Lunar New Year annually.

Introduction to risk	Risk changes in 2016	Major risk mitigation measures
Disaster risk Bad weather conditions and natural disasters (such as earthquakes, floods, landslides and blizzard) can cause personal injury or damage or damage to the Group's main facilities and equipment, which may eventually interfere with the business operation of the Group. The 2016 Floods caused temporary suspension of the Group's mining operations and air-drying activities.	Increased	Mitigates part of the potential risks and losses associated with operations, such as taking the property insurance, vehicle insurance/ employer liability insurance/safety production liability insurance, etc.
Safety production risk Safety risks are inherent in the Group's mining operations that could result in death or serious injury. Serious security incidents may cause serious disruption to the Group's business and operations, damage to reputation, litigation and investigation and sanctions (eg, fines and suspension of production).	Unchanged from the previous year	To develop a comprehensive safety production system, to strengthen safety management, to give production staffs training about mining and production safety periodically, to avoid the occurrence of major safety accidents.
Supervision risk China's mining industry is highly regulated by central, provincial and local authorities. The business operation of the Group is regulated by Chinese laws, regulations, policies and standards for mining, production and site safety, environmental protection, taxation, labour and overseas investment. Failure to comply with applicable laws and regulations may result in fines, penalties or even suspension of operation or revocation of licenses.	Unchanged from the previous year	The Group has established the Compliance Committee to monitor and supervise the compliance issues of the Group; and appointed company secretary, compliance officer, compliance adviser, qualified PRC legal adviser and qualified Hong Kong legal adviser. The compliance officer, with the support of the company secretary and external professional consultants, will review and supervise the compliance of the Group with relevant laws, regulations, codes and related policies and practices, and the GEM Listing Rules on a regular basis.

2016 Annual Risk Management and Internal Control Effectiveness

The Board conducts review of the Group's risk management and internal control systems at least once a year.

For the year ended 31 December 2016, the Board has conducted a review on the risk management and internal control systems of the Group and considered the risk management and internal control systems effective and adequate. No significant areas of concern that may affect the financial, operational, compliance controls, and risk management functions of the Group have been identified.

During the course of the review, the Board believed the resources, qualification/experience of staff of the Group's accounting, financial reporting function, and internal audit function of the Group's related party, and their training and budget were adequate.

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 profit or 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 2016, 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 51 to 54 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)

OPINION

We have audited the consolidated financial statements of Feishang Non-Metal Materials Technology Limited (the "Company") and its subsidiaries (the "Group") set out on pages 55 to 107, which comprise the consolidated statement of financial position as at 31 December 2016, 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 then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code") and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

IMPAIRMENT OF TRADE RECEIVABLES

Refer to note 22 to the consolidated financial statements and the accounting policies on page 71.

The key audit matter	How the matter was addressed in our audit
We have identified impairment of trade receivables as a key audit matter because the policy for making such impairment involves significant degree of management judgement and may be subject to management bias. As at 31 December 2016, the Group has an outstanding trade receivables of approximately CNY1.9 million which were past due but no impairment was required. These conclusions are dependent upon management judgement in respect of assessing the ultimate realisation of these receivables.	Our audit procedures were designed to review the management's assessment of the indicators of impairment and challenge the reasonableness of the methods and assumptions used to estimate the allowance for doubtful debts. We have discussed the indicators of possible impairment with the management and, where such indicators were identified, assessed the management's impairment testing. We have also challenged the assumptions and critical judgement used by the management by assessing the reliability of the management's past estimates and taking into account the ageing at year end and cash received after year end as well as the recent creditworthiness of each debtor.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion, solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tang Kwan Lai.

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

Hong Kong
17 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Notes	**2016 CNY'000**	2015 CNY'000
Revenue	7	**26,311**	28,823
Cost of sales		**(14,791)**	(15,463)
Gross profit		**11,520**	13,360
Other income	9	**3,245**	1,229
Selling and distribution expenses		**(1,413)**	(1,314)
Administrative and other expenses		**(8,932)**	(21,956)
Finance costs	10	**(521)**	(358)
Profit (loss) before tax		**3,899**	(9,039)
Income tax expense	11	**(1,099)**	(1,835)
Profit (loss) and total comprehensive income (expense) for the year attributable to the owners of the Company	12	**2,800**	(10,874)
Earnings (loss) per share (CNY):			
Basic and diluted	16	**0.56 cents**	(2.89) cents

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 CNY'000	2015 CNY'000
Non-current assets			
Property, plant and equipment	17	**13,034**	13,910
Prepaid lease payments	18	**2,663**	2,740
Intangible asset	19	**5,209**	3,850
Restricted bank balances	23	**6,150**	2,203
Deferred tax assets	20	**612**	722
		27,668	23,425
Current assets			
Inventories	21	**2,887**	2,253
Trade, bills and other receivables	22	**8,617**	16,361
Prepaid lease payments	18	**77**	77
Pledged bank deposit	23	**–**	15,000
Bank balances and cash	23	**34,641**	32,097
		46,222	65,788
Current liabilities			
Trade and other payables	24	**3,162**	7,543
Income tax payables		**368**	333
Secured bank borrowing	25	**–**	14,323
		3,530	22,199
Net current assets		**42,692**	43,589
		70,360	67,014

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 CNY'000	2015 CNY'000
Capital and reserves			
Share capital	28	**4,188**	4,188
Reserves		**58,548**	55,748
		62,736	59,936
Non-current liabilities			
Asset retirement obligations	26	**6,954**	6,598
Deferred income	27	**670**	480
		7,624	7,078
		70,360	67,014

The consolidated financial statements on pages 55 to 107 were approved and authorised for issue by the board of directors on 17 March 2017 and are signed on its behalf by:

Xu Chengyin	**Chen Gongbao**
Director	*Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	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 2015	–	–	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 28(c))	3,141	–	(3,141)	–	–	–	–
Issue of ordinary shares in connection with the listing of shares of the Company (Note 28(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
Profit and total comprehensive income for the year	–	–	–	–	–	2,800	2,800
Appropriation to statutory reserve	–	–	–	571	–	(571)	–
Appropriation and utilisation of safety fund and production maintenance fund, net	–	–	–	–	156	(156)	–
At 31 December 2016	4,188	25,954	23,351	3,401	808	5,034	62,736

Notes:

(i) Other reserve

It represented (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 Co., Ltd.（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.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 CNY'000	2015 CNY'000
OPERATING ACTIVITIES		
Profit (loss) before tax	**3,899**	(9,039)
Adjustments for:		
Depreciation of property, plant and equipment	**1,252**	1,330
Amortisation of intangible asset	**57**	44
Amortisation of prepaid lease payments	**77**	46
Government grants	**(2,133)**	(433)
Net loss on disposal/written off of property, plant and equipment	**5**	25
Finance costs	**521**	358
Bank interest income	**(463)**	(205)
Release of government grant for property, plant and equipment	**(95)**	(80)
Reversal of impairment loss of trade receivables	**(50)**	–
Impairment loss on trade receivables	**–**	50
Net gain on financial assets at fair value through profit or loss	**–**	(414)
Operating cash flows before movements in working capital	**3,070**	(8,318)
Increase in inventories	**(634)**	(227)
Decrease (increase) in trade, bills and other receivables	**7,794**	(7,954)
(Decrease) increase in trade and other payables	**(4,381)**	4,211
Decrease in financial assets at fair value through profit or loss	**–**	414
Cash generated from (used in) operations	**5,849**	(11,874)
Income tax paid	**(954)**	(2,175)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**4,895**	(14,049)
INVESTING ACTIVITIES		
Increase in bank deposits with a maturity of more than three months	**(15,000)**	–
Placement of restricted bank balances	**(3,947)**	(67)
Payment to acquire mining right	**(1,416)**	(713)
Purchases of property, plant and equipment	**(392)**	(1,859)
Proceeds from disposal of property, plant and equipment	**11**	10
Bank interest income received	**463**	205
Withdrawal of pledged bank deposit	**15,000**	–
Placement of pledged bank deposit	**–**	(15,000)
Payment to acquire land use right	**–**	(2,863)
Repayment from a controlling shareholder	**–**	25
Repayment from a related company	**–**	1,020
NET CASH USED IN INVESTING ACTIVITIES	**(5,281)**	(19,242)

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016 CNY'000	2015 CNY'000
FINANCING ACTIVITIES			
Government grant received		**2,433**	433
Interests paid on bank loan		**(180)**	–
Repayment of bank loan		**(14,323)**	–
Proceeds from placing of shares		**–**	33,504
New bank loan raised		**–**	14,323
Advance from a controlling shareholder		**–**	11,702
Repayment to a controlling shareholder		**–**	(11,702)
Share issue expenses		**–**	(6,503)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(12,070)**	41,757
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(12,456)**	8,466
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**32,097**	23,631
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	23	**19,641**	32,097

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, 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. Details of the subsidiaries are set out in note 33.

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 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 involved interspersing a shell company, the Company, between Feishang International and the Controlling Shareholders, which did not represent combination of businesses. Therefore, the Group comprising the Company and its subsidiaries resulting from the Reorganisation was regarded as a continuing entity, accordingly, the consolidated financial statements of the Group had 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 year 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 year ended 31 December 2015.

* The English name is for identification purpose only.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has applied the following 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").

Amendments to IFRSs	Annual Improvements to IFRSs 2012 – 2014 Cycle
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IAS 27	Equity Method in Separate Financial Statements
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations

The application of the above new and revised IFRSs in the current year has no material impact on the Group's financial performance and positions for the current year and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised IFRSs issued but not yet effective

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

IFRS 9 (2014)	Financial Instruments[2]
IFRS 15	Revenue from Contracts with Customers[2]
IFRS 16	Leases[3]
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration[2]
Amendments to IAS 7	Disclosure Initiative[1]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendments to IAS 40	Transfers of Investment Property[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[2]
Amendments to IFRSs	Annual Improvements to IFRSs 2014 – 2016 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2017.
2 Effective for annual periods beginning on or after 1 January 2018.
3 Effective for annual periods beginning on or after 1 January 2019.
4 Effective date not yet been determined.
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

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") *(Continued)*

New and revised IFRSs issued but not yet effective *(Continued)*

IFRS 9 (2014) Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 was amended in 2010 and includes the requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, IFRS 9 was further amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. A finalised version of IFRS 9 was issued in 2014 to incorporate all the requirements of IFRS 9 that were issued in previous years with limited amendments to the classification and measurement by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain financial assets. The finalised version of IFRS 9 also introduces an "expected credit loss" model for impairment assessments.

Key requirements of IFRS 9 (2014) are described as follows:

- 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 reporting periods. In addition, under IFRS 9 (2014), 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 ("FVTPL"), IFRS 9 (2014) 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 FVTPL was presented in profit or loss.

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

New and revised IFRSs issued but not yet effective *(Continued)*

IFRS 9 (2014) Financial Instruments *(Continued)*

- In the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in IAS 39 for the recognition of credit losses. Under the impairment approach in IFRS 9 (2014) it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

- IFRS 9 (2014) introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, IFRS 9 (2014) looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under IAS 39, it is necessary to exhibit eligibility and compliance with the requirements in IAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for IAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

IFRS 9 (2014) will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The directors of the Company anticipate that the adoption of IFRS 9 (2014) in the future may have an impact on amounts reported in respect of the Group's financial assets in relation to the impairment assessment on trade receivables, with the potential early recognition of credit losses based on the expected loss model in relation to the Group's financial assets measured at amortised costs. The directors of the Company are in the process of assessing the impact of IFRS 9 (2014) on the consolidated financial statements.

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

New and revised IFRSs issued but not yet effective *(Continued)*

IFRS 15 Revenue from Contracts with Customers

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. Thus, IFRS 15 introduces a model that applies to contracts with customers, featuring a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

(i) Identify the contract with the customer;

(ii) Identify the performance obligations in the contract;

(iii) Determine the transaction price;

(iv) Allocate the transaction price to the performance obligations; and

(v) Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows 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. IFRS 15 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

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 disclosure are required by IFRS 15.

The directors of the Company are in the process of assessing the impact of IFRS 15 on the consolidated financial statements.

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

New and revised IFRSs issued but not yet effective *(Continued)*

IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of IAS 16 Property, Plant and Equipment, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 will supersede the current lease standards including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 will be effective for annual periods beginning on or after 1 January 2019 with early application permitted provided that the entity has applied IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. The directors of the Company are in the process of assessing the impact of IFRS 16 on the 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. 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.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. If a subsidiary prepares its financial statements using accounting policies other than those adopted in the consolidated financial statements, appropriate adjustments are made to that subsidiary's financial statements in preparing the consolidated financial statements to ensure conformity with the Group's accounting policies.

Control is achieved when the Company has:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the Group's 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 of the subsidiary and ceases when the Group loses control of the subsidiary. Income and expenses of subsidiaries are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 a units-of-production basis over the estimated recoverable mineral reserves that directly benefit from the stripping activity.

Dismantlement asset and capitalised stripping costs are depreciated on a 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 a 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

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 the 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.

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 as expenses 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 twelve 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 with a maturity of three months or less.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified into 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.

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, 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 and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- 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.

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 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 or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition *(Continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 terms of the relevant leases.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 "profit (loss) 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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. 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.

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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

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 2016, the carrying amounts of property, plant and equipment were approximately CNY13,034,000 (2015: CNY13,910,000).

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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Reserve estimates *(Continued)*

As at 31 December 2016, the carrying amounts of dismantlement asset were approximately CNY3,403,000 (2015: CNY3,445,000) while the carrying amounts of intangible asset were approximately CNY5,209,000 (2015: CNY3,850,000).

Impairment of property, plant and equipment

The Group performs assessments on whether items of property, plant and equipment have suffered any impairment whenever events or changes in circumstances indicated that the carrying amounts of the assets may not be recoverable, in accordance with the stated accounting policy. Where there is an indicator of impairment, an estimation of the recoverable amount is required. Such estimations is based on certain assumptions which are subject to uncertainty and might differ from the actual result.

As at 31 December 2016, the carrying amounts of property, plant and equipment were approximately CNY13,034,000 (2015: CNY13,910,000), no impairment loss was recognised for the years ended 31 December 2016 and 2015.

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 2016, the carrying amounts of trade receivables were approximately CNY5,478,000 (2015: CNY4,710,000) (net of allowance for doubtful debts of nil (2015: approximately CNY50,000)). The carrying amounts of other receivables were approximately CNY328,000 (2015: CNY7,583,000), no impairment loss on other receivables was recognised for the years ended 31 December 2016 and 2015.

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 2016, the carrying amounts of inventories were approximately CNY2,887,000 (2015: CNY2,253,000), no allowance for inventories was recognised for the years ended 31 December 2016 and 2015.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

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 2016, the carrying amounts of asset retirement obligations were approximately CNY6,954,000 (2015: CNY6,598,000).

Income taxes

As at 31 December 2016, the Group has recognised deferred tax assets of approximately CNY612,000 (2015: CNY722,000). 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 25, 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 debts or the repayment of existing debts.

6. FINANCIAL INSTRUMENTS

a) Categories of financial instruments

	2016 **CNY'000**	2015 CNY'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**49,145**	65,486
Financial liabilities		
Financial liabilities at amortised cost	**2,895**	21,706

6. FINANCIAL INSTRUMENTS *(Continued)*

b) Financial risk management objectives and policies

The Group's major financial instruments include trade, bills and other receivables, 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.

Market risk

(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$"), currencies 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:

	2016	2015
	CNY'000	CNY'000
Assets	**7,416**	28,132
Liabilities	**(833)**	(18,332)
	6,583	9,800

Sensitivity analysis

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

The following table details the Group' sensitivity to a 5% (2015: 5%) increase and decrease in CNY against HK$ for the year ended 31 December 2016. 5% (2015: 5%) is the sensitivity rate 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% (2015: 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.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis *(Continued)*

A negative (2015: positive) number below indicates a decrease (2015: increase) in profit after tax (2015: loss after tax) for the year where CNY strengthen 5% (2015: 5%) against HK$. For a 5% (2015: 5%) weakening of CNY against HK$, there would be an equal and opposite impact on the profit after tax (2015: loss after tax) for the year and the balance below would be positive (2015: negative).

	2016	2015
	CNY'000	CNY'000
Post-tax profit or loss	**(303)**	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, bank balances and bank deposits. 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-term maturities, the exposure of the interest rate risk is minimal and no sensitivity to interest rate risk is presented.

During the year ended 31 December 2015, the Group's cash flow interest rate risk related primarily to variable-rate secured bank borrowing (see note 25) (2016: nil). It was 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.

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 (2016: 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.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(ii) Interest rate risk (Continued)

Sensitivity analysis *(Continued)*

If the interest rates had been 100 basis points (2016: 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 (2016: nil).

Credit risk

As at 31 December 2016, 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 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 2016 and 2015.

The Group has concentration of credit risk as 1% (2015: 6%) and 86% (2015: 88%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively as at 31 December 2016.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

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 2016		
	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	**2,895**	**2,895**	**2,895**

	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

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.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

The directors of the Compnay consider that the carrying amounts of the non-current financial assets approximate its fair value as the impact of discounting is immaterial.

The directors of the Company consider that the carrying amounts of other current financial assets and financial liabilities recorded at amortised cost approximate their fair values.

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 their 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.

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:

	2016 **CNY'000**	2015 CNY'000
Customer A	**6,890**	8,349
Customer B	**6,822**	8,199
Customer C	**6,124**	5,295

8. SEGMENT INFORMATION (Continued)

Information from major products

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

	2016 CNY'000	2015 CNY'000
Drilling mud	**14,729**	18,493
Pelletising clay	**11,582**	9,854
Unprocessed clay	**–**	476
	26,311	28,823

9. OTHER INCOME

	2016 CNY'000	2015 CNY'000
Bank interest income	**463**	205
Government grants (Note)	**2,133**	433
Release of government grant for property, plant and equipment (Note 27)	**95**	80
Net exchange gain	**500**	–
Reversal of impairment loss on trade receivables	**50**	–
Gain on disposal of property, plant and equipment	**3**	–
Recovery of bad debts	**–**	89
Net gain on financial assets at FVTPL	**–**	414
Others	**1**	8
	3,245	1,229

Note:

Included in the amount of government grants recognised during the year ended 31 December 2016, CNY2,000,000 (2015: nil) was received from local government authority for the Company's shares listed on GEM successfully and approximately CNY133,000 (2015: CNY433,000) was granted in respect of product innovation contributed to the industry, which were immediately recognised as other income for the year as the Group fulfilled the relevant granting criteria.

10. FINANCE COSTS

	2016 CNY'000	2015 CNY'000
Interest expenses on secured bank borrowing	165	15
Unwinding of discount on provision for dismantlement (Note 26)	356	343
	521	358

11. INCOME TAX EXPENSE

	2016 CNY'000	2015 CNY'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	1,029	1,261
Over-provision in previous year	(40)	–
	989	1,261
Deferred taxation (Note 20):		
Current year	110	57
Attributable to change in tax rate (Note d)	–	517
	1,099	1,835

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 for both years as the Group did not have any assessable profits subject to Hong Kong Profits Tax.

(c) Under the Law of the PRC on EIT (the "EIT Law") and implementation regulation of the EIT Law, the tax rate of the subsidiary established in the PRC other than Feishang Material 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 2016, 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 CNY2,914,500 (2015: CNY2,829,800). No deferred tax liabilities have been recognised in respect of these temporary differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such temporary differences will not be reversed in the foreseeable future.

11. INCOME TAX EXPENSE *(Continued)*

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

	2016 **CNY'000**	2015 CNY'000
Profit (loss) before tax	**3,899**	(9,039)
Tax at the tax rate of 25%	**975**	(2,260)
Preferential income tax rates applicable to a subsidiary	**(751)**	(840)
Tax effect of expenses not deductible for tax purpose	**916**	4,418
Tax effect of income not taxable for tax purpose	**(1)**	–
Over-provision in previous year	**(40)**	–
Decrease in opening deferred tax assets resulting from a decrease in applicable tax rate	**–**	517
Income tax expense	**1,099**	1,835

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

12. PROFIT (LOSS) FOR THE YEAR

	2016 **CNY'000**	2015 CNY'000
Profit (loss) for the year has been arrived at after charging:		
Directors' and chief executive's emoluments (Note 13)	**814**	297
Salaries, wages, allowances and other benefits	**2,615**	2,832
Contributions to retirement benefits scheme (excluding directors' and chief executive's emoluments) (Note a)	**619**	188
	4,048	3,317
Staff costs included in inventories	**716**	412
Total staff costs	**4,764**	3,729
Auditor's remuneration	**617**	554
Amortisation of intangible asset	**57**	44
Amortisation of prepaid lease payments	**77**	46
Professional expenses incurred in connection with the Company's listing	**–**	15,352
Amount of inventories recognised as an expense	**14,386**	15,149
Exchange loss, net	**–**	700
Depreciation of property, plant and equipment	**1,252**	1,330
Loss on disposal/written off of property, plant and equipment	**8**	25
Impairment loss on trade receivables	**–**	50
Research and development cost (Note b)	**1,799**	1,882
Lease payments paid under operating lease in respect of plant and equipment	**1,869**	2,376

Notes:

(a) Contributions to retirement benefits scheme of Feishang Material mainly comprised cost of approximately CNY1,019,000 (2015: CNY952,000) offset by the reversal of provision for prior years of approximately CNY349,000 (2015: CNY726,000). The Group reversed the provision for retirement benefits costs after considering respective relevant local rules and regulations.

(b) Staff costs of approximately CNY304,000 (2015: CNY344,000) are included in the research and development cost for the year ended 31 December 2016.

13. DIRECTORS' AND CHIEF EXECUTIVE'S 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	Contributions to retirement benefits scheme	Total
	CNY'000	CNY'000	CNY'000	CNY'000
Year ended 31 December 2016				
Executive directors				
Mr. Xu Chengyin (Notes i, ii)	**–**	**85**	**28**	**113**
Mr. Zhang Pingwu (Note i)	**–**	**80**	**23**	**103**
Mr. Chen Gongbao (Notes i, iii)	**–**	**236**	**53**	**289**
Independent non-executive directors				
Mr. Chan Chiu Hung, Alex (Note iv)	**103**	**–**	**–**	**103**
Mr. Zheng Shuilin (Note iv)	**103**	**–**	**–**	**103**
Mr. Duan Xuechen (Note iv)	**103**	**–**	**–**	**103**
Total	**309**	**401**	**104**	**814**
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

13. DIRECTORS' AND CHIEF EXECUTIVE'S 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) Appointed on 15 July 2015 and 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 2016 and 2015. 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 2016 and 2015.

Mr. Deng Li was appointed as the Company's executive director on 13 March 2017. During the year ended 31 December 2016, Mr. Deng Li has not yet been appointed and did not receive any remuneration.

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2015: three) 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 (2015: two) highest paid individuals were as follows:

	2016 **CNY'000**	2015 CNY'000
Salaries, allowances, and other benefits	**146**	110
Contributions to retirement benefits scheme	**47**	22
	193	132

Their emoluments were within the following bands:

	2016 **Number of individuals**	2015 Number of individuals
Nil to HK$1,000,000 (equivalent to approximately CNY896,000 (2015: CNY838,000))	**2**	2

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 2016 and 2015.

15. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2016, nor has any dividend been proposed since the end of the reporting period (2015: nil).

16. EARNINGS (LOSS) PER SHARE

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

	2016 **CNY'000**	2015 CNY'000
Earnings (loss)		
Earnings (loss) for the purpose of basic and diluted earnings (loss) per share	**2,800**	(10,874)

	2016	2015
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings (loss) per share ('000 shares)	**500,000**	376,370

The weighted average number of ordinary shares in issue during the year ended 31 December 2016 represents 500,000,000 ordinary shares in issue during the year ended 31 December 2016.

The weighted average number of ordinary shares in issue during the year ended 31 December 2015 represented 376,370,000 ordinary shares assuming in issue during the year ended 31 December 2015 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 28(d).

The dilutive earnings (loss) per share is equal to the basic earnings (loss) per share as there were no dilutive potential ordinary shares outstanding during the years ended 31 December 2016 and 2015.

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 2015	9,857	13,911	2,572	401	–	26,741
Asset retirement obligations adjustment (note 26)	–	–	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
Additions	75	47	–	80	190	392
Transfer	137	53	–	–	(190)	–
Disposal/written off	–	(120)	–	(80)	–	(200)
At 31 December 2016	10,629	14,597	3,706	662	–	29,594
ACCUMULATED DEPRECIATION						
At 1 January 2015	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
Charge for the year	479	648	42	83	–	1,252
Eliminated on disposal/written off	–	(111)	–	(73)	–	(184)
At 31 December 2016	4,304	11,583	303	370	–	16,560
CARRYING VALUES						
At 31 December 2016	6,325	3,014	3,403	292	–	13,034
At 31 December 2015	6,592	3,571	3,445	302	–	13,910

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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 a 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:

	2016 **CNY'000**	2015 CNY'000
Current assets	**77**	77
Non-current assets	**2,663**	2,740
	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.

19. INTANGIBLE ASSET

	Mining right CNY'000
COST	
At 1 January 2015	3,537
Additions	713
At 31 December 2015	4,250
Additions	1,416
At 31 December 2016	5,666
AMORTISATION	
At 1 January 2015	356
Charge for the year	44
At 31 December 2015	400
Charge for the year	57
At 31 December 2016	457
CARRYING VALUES	
At 31 December 2016	5,209
At 31 December 2015	3,850

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 a 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:

	2016 **CNY'000**	2015 CNY'000
Deferred tax assets	**612**	722

The following are 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 2015	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
Credit (charge) to profit or loss	(114)	53	(49)	(110)
At 31 December 2016	475	1,043	(906)	612

21. INVENTORIES

	2016 **CNY'000**	2015 CNY'000
Materials and supplies	**1,809**	1,182
Work-in-progress	**797**	684
Finished goods	**281**	387
	2,887	2,253

22. TRADE, BILLS AND OTHER RECEIVABLES

	2016 CNY'000	2015 CNY'000
Trade receivables	5,478	4,760
Less: allowance for impairment of trade receivables	–	(50)
	5,478	4,710
Bills receivables	2,548	3,893
Trade deposits paid	35	54
Prepayments	228	121
Other receivables (Note)	328	7,583
	8,617	16,361

Note: As at 31 December 2015, included in other receivables was an amount of approximately HK$8,667,000 (equivalent to approximately CNY7,259,000) (2016: nil) which represented 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 in January 2016.

The Group offers revolving credit to two of its customers amounted approximately CNY988,000 (2015: CNY914,000) as at 31 December 2016. 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 CNY988,000 (2015: CNY914,000) as at 31 December 2016. 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 approximately CNY4,490,000 (2015: CNY3,796,000) as at 31 December 2016, the Group does not hold any collateral over these amounts.

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 ageing 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.

	2016 CNY'000	2015 CNY'000
Within 30 days	3,210	1,734
31 to 60 days	846	935
61 to 90 days	447	1,048
91 to 180 days	809	563
More than 180 days	166	430
Total	5,478	4,710

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

As at 31 December 2016 and 2015, all of the bills receivables were aged within 180 days.

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

	2016	2015
	CNY'000	CNY'000
At the beginning of the year	**50**	–
Impairment loss recognised on trade receivables	**–**	50
Reversal on impairment of 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 (2016: 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.

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

	2016	2015
	CNY'000	CNY'000
Past due but not impaired:		
Within 30 days	**448**	1,118
31 to 60 days	**314**	555
61 to 90 days	**358**	397
More than 90 days	**828**	449
Total	**1,948**	2,519

Included in the Group's trade receivables are debtors with aggregate carrying amount of approximately CNY1,948,000 (2015: CNY2,519,000) as at 31 December 2016 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 2016 was 109 days (2015: 121 days).

23. 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 0.40% to 2.18% per annum (2015: 2.17% to 3.25% per annum) during the year ended 31 December 2016.

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 CNY15,000,000 (2016: nil) has been pledged by Feishang Material to secure short-term bank borrowing (note 25) and was therefore classified as current asset. The pledged bank deposit carried interest at a fixed interest rate of 1.80% per annum during the year ended 31 December 2015 (2016: 1.80% per annum). The amount was fully released upon the settlement of bank borrowing during the year ended 31 December 2016.

Bank balances and cash

Bank balances and cash include the following for the purposes of the consolidated statement of cash flows:

	2016 **CNY'000**	2015 CNY'000
Cash at bank and in hand	**12,886**	30,794
Short-term bank deposits	**21,755**	1,303
Bank balances and cash shown in the consolidated statement of financial position	**34,641**	32,097
Less: Bank deposits with a maturity of more than three months	**(15,000)**	–
Cash and cash equivalents shown in the consolidated statement of cash flows (Note)	**19,641**	32,097

Note: As at 31 December 2015, included in cash and cash equivalents was an amount of approximately CNY3,063,000 which represented a short-term bank deposit placed in a bank. As at 31 December 2016, such bank deposit was classified as restricted bank balance as it was designated for the settlement of asset retirement obligations for future environmental rehabilitation.

Bank balances and bank deposits carried at prevailing market rates ranging from 0.20% to 1.80% per annum during the year ended 31 December 2016 (2015: 0.30% to 1.60% per annum).

24. TRADE AND OTHER PAYABLES

	2016 CNY'000	2015 CNY'000
Trade payables	**1,254**	952
Other payables and accruals	**1,679**	6,511
Accrued directors' remunerations	**57**	–
Advance from customers	**172**	80
	3,162	7,543

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

	2016 CNY'000	2015 CNY'000
Within 30 days	**1,042**	725
31 to 60 days	**64**	76
61 to 90 days	**26**	60
91 to 365 days	**57**	46
Over 1 year	**65**	45
Total	**1,254**	952

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.

25. SECURED BANK BORROWING

	2016 CNY'000	2015 CNY'000
Secured bank borrowing and repayable within one year	**–**	14,323

(a) No bank borrowing was obtained by the Group during the year ended 31 December 2016.

(b) During the year ended 31 December 2015, the Group obtained a bank borrowing of HK$17,100,000 (equivalent to approximately CNY14,323,000) (2016: 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 loan has been fully settled in December 2016.

(c) The bank borrowing carried floating rate at HIBOR effectively 1.89% per annum as at ended 31 December 2015 (2016: nil).

(d) At 31 December 2015, the secured bank borrowing was secured by the Group's pledged bank deposit of CNY15,000,000 (2016: nil).

26. 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:

	2016 **CNY'000**	2015 CNY'000
At the beginning of the year	**6,598**	5,121
Adjustment on change in discount rate	**–**	1,134
Unwinding of discount (Note 10)	**356**	343
At the end of the year	**6,954**	6,598

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% per annum at 31 December 2016 (2015: 5.40% per annum).

27. DEFERRED INCOME

	2016 **CNY'000**	2015 CNY'000
Analysed as:		
Current liabilities (included in other payables)	**95**	80
Non-current liabilities	**670**	480
	765	560

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 2016, government grants released to the consolidated statement of profit or loss and other comprehensive income amounted to CNY80,000 (2015: CNY80,000).

During the year ended 31 December 2016, the Group received government grants of CNY300,000, which was designated for buildings improvement work. Such government grants are presented as deferred income and are released to income over the useful lives of building. During the year ended 31 December 2016, government grants released to the consolidated statement of profit or loss and other comprehensive income amounted to CNY15,000 (2015: nil).

28. SHARE CAPITAL

The Company

	Number of shares	Share capital	
			(Equivalent to)
		HK$	CNY'000
Ordinary share of HK$0.01 each			
Authorised			
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	
At 31 December 2015 and 2016	10,000,000,000	100,000,000	
Issued and fully paid			
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
At 31 December 2015 and 2016	500,000,000	5,000,000	4,188

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 aspects among themselves and with the then existing shares (2016: nil).

29. 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 years ended 31 December 2016 and 2015.

30. 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 2016, 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 CNY723,000 (2015: CNY253,000).

31. 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 follows:

	2016	2015
	CNY'000	CNY'000
Short-term benefits	**856**	380
Post-employment benefits	**180**	93
	1,036	473

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

(b) During the year ended 31 December 2015, a trademark owned by a related company, which is beneficially owned by the ultimate controlling shareholder, was used by the Group at nil consideration (2016: nil). The Group has ceased to use the trademark since August 2015.

(c) During the years ended 31 December 2016 and 2015, 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.

* The English name is for identification purpose only.

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

	Note	2016 CNY'000	2015 CNY'000
Non-current asset			
Investment in a subsidiary		**47,192**	47,192
Current assets			
Other receivables		**207**	7,380
Amount due from a subsidiary		**4,081**	48
Bank balances		**3,452**	20,738
		7,740	28,166
Current liabilities			
Other payables		**837**	4,009
Secured bank borrowing		**–**	14,323
		837	18,332
Net current assets		**6,903**	9,834
		54,095	57,026
Capital and reserves			
Share capital		**4,188**	4,188
Reserves	(a)	**49,907**	52,838
		54,095	57,026

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

Note:

(a) Movements in reserves

	Share premium CNY'000	Other reserve CNY'000 (Note)	Accumulated losses CNY'000	Total 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 28(d))	32,457	–	–	32,457
Share issue expenses	(6,503)	–	–	(6,503)
At 31 December 2015	25,954	44,051	(17,167)	52,838
Loss and total comprehensive expense for the year	–	–	(2,931)	(2,931)
At 31 December 2016	25,954	44,051	(20,098)	49,907

Note: 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.

33. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries as at 31 December 2016 and 2015 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment/ operation	Issued and fully paid ordinary share capital/ registered capital	Percentage of equity interest and voting power attributable to the Company				Principal activities
			Direct		Indirect		
			2016	2015	**2016**	2015	
Feishang International	BVI	United States Dollar 1	**100%**	100%	**–**	–	Investment holding
Feishang Material (Note i)	The PRC	HK$35,000,000 (2015: 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%**	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. On 21 January 2016, an addition paid-up share capital of HK$10,000,000 has been injected in Feishang Material.

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

None of the subsidiaries has issued any debt securities sublisting at the end of both years or at any time during both years.

34. EVENT AFTER THE REPORTING PERIOD

Proposed acquisition

On 14 February 2017, the Company entered into a non-legally binding memorandum of understanding with an independent third party, for the proposed acquisition of the equity interests in a limited liability company established in the PRC. No legally binding contract was signed as of the date of approval of the consolidated financial statements. Further details of the proposed acquisition are set out in the Company's announcement dated 14 February 2017.

Financial Summary

	For the year ended 31 December			
	2016	2015	2014	2013
	CNY'000	CNY'000	CNY'000	CNY'000
Revenue and Profit				
Revenue	**26,311**	28,823	30,447	29,987
Cost of sales	**(14,791)**	(15,463)	(17,686)	(18,749)
Gross profit	**11,520**	13,360	12,761	11,238
Other income	**3,245**	1,229	1,100	698
Selling and distribution expenses	**(1,413)**	(1,314)	(1,057)	(1,847)
Administrative and other expenses	**(8,932)**	(21,956)	(2,911)	(2,940)
Finance costs	**(521)**	(358)	(317)	(296)
Profit (loss) before tax	**3,899**	(9,039)	9,576	6,853
Income tax expense	**(1,099)**	(1,835)	(2,551)	(1,792)
Profit (loss) and total comprehensive income (expense) attributable for the year to the owners of the Company	**2,800**	(10,874)	7,025	5,061
Earnings (loss) per share (CNY)				
Basic and diluted	**0.56 cents**	(2.89) cents	1.87 cents	1.35 cents

	As at 31 December			
	2016	2015	2014	2013
	CNY'000	CNY'000	CNY'000	CNY'000
Assets and Liabilities				
Current assets	**46,222**	65,788	35,159	32,450
Non-current assets	**27,668**	23,425	18,895	19,022
Current liabilities	**(3,530)**	(22,199)	(4,564)	(9,559)
Non-current liabilities	**(7,624)**	(7,078)	(5,681)	(5,129)
Total equity	**62,736**	59,936	43,809	36,784

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