FSNMT

# Feishang Non-metal Materials Technology Limited

# 飛尚非金屬材料科技有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8331)**

# ANNUAL REPORT 2017

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# Contents

# Corporate Information

## BOARD OF DIRECTOR

**Executive Director**
Mr. SU Chun Xiang (appointed on 9 January 2018)

**Independent Non-executive Directors**
Mr. KO Yat Fei (appointed on 9 January 2018)
Mr. CHOW Chi Hang Tony (appointed on 9 January 2018)
Ms. SHAO Yu (appointed on 9 January 2018)

## AUTHORISED REPRESENTATIVES

Mr. SU Chun Xiang
Mr. KAM Tik Lun

## COMPANY SECRETARY

Mr. KAM Tik Lun

## COMPLIANCE OFFICER

Mr. SU Chun Xiang

## AUDIT COMMITTEE

Mr. KO Yat Fei *(Chairman)*
Mr. CHOW Chi Hang Tony
Ms. SHAO Yu

## NOMINATION COMMITTEE

Mr. CHOW Chi Hang Tony *(Chairman)*
Mr. KO Yat Fei
Ms. SHAO Yu

## REMUNERATION COMMITTEE

Mr. KO Yat Fei *(Chairman)*
Mr. CHOW Chi Hang Tony
Ms. SHAO Yu

## AUDITORS

Elite Partners CPA Limited
10/F, 8 Observatory Road
Tsim Sha Tsui
Kowloon, Hong Kong

## REGISTERED OFFICE

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

## HONG KONG OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 739, 7/F, Lower Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

## COMPANY'S WEBSITE

http://www.fsnmmaterials.com

## COMPANY'S STOCK CODE

8331.HK

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## LEGAL ADVISERS

*(As to Cayman Islands Law)*
Conyers Dill & Pearman

## PRINCIPAL BANKERS

Bank of China Limited ( Wuhu branch)
Industrial and Commercial Bank of China
(Fanchang branch)

# Management Discussion and Analysis

## BUSINESS REVIEW

The gradual recovery of the general economy and further advancement of the supply-side reform policy resulted in improvement in profitability in the iron and steel industry. However, as discussed in the paragraph headed "Chairman's Statement – Outlook" of the Company's annual report for the year ended 31 December 2016 and the business review for the 2017 third quarterly report for the nine months ended 30 September 2017 (the "2017 Third Quarterly Report") of the Company, the iron and steel industry was still overcasted by overcapacity. Measures adopted to address overcapacity and rising costs continued to exert adverse impact on sales of pelletising clay of the Group for the year ending 31 December 2017. In spite of the difficult situation, the Group has strived to enhance major customers' satisfaction through improved quality management, resulting in an increase in sales of pelletising clay in the 2017 as compared to the corresponding period in 2016. It was also set out in the paragraph headed "Chairman's Statement – Outlook" of the Company's annual report for the year ended 31 December 2016 and the business review for the 2017 Third Quarterly Report of the Company that investment prospects of the energy industry continued to be uncertain. Although investment in infrastructure construction has increased, prices for the oil and gas market continued to fluctuate. The investment sentiment of oil and gas transportation pipelines construction projects, which was directly linked to the Group's drilling mud business, was still weak. It has continued to exert pressure on the sales of the Group's drilling mud business, resulting in a drop in the sales of drilling mud of the Group in 2017 as compared to the corresponding period in 2016.

### 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.

| | | **2017** | 2016 | Variance |
|---|---|---|---|---|
| Revenue | *CNY'000* | **28,796** | 26,311 | 9.4% |
| (Loss) profit attributable to shareholders | *CNY'000* | **72,080** | 2,800 | (2,674.3)% |
| Basic earnings (loss) per share | *CNY* | **(14.21) cents** | 0.56 cents | (2,637.5)% |
| Return on equity | *%* | **(64.6)** | 4.5 | (1,535.6)% |
| Net assets per share | *CNY* | **0.20** | 0.13 | 53.8% |
| Trade receivables collection period | *Days* | **55** | 76 | (27.6)% |

### Business Strategies Review with Progress of Implementation

The Group aims to strengthen its market position in the PRC. In order to achieve this objective, the Group intends to pursue the following strategies. The following table sets out the Group's business strategies as disclosed in the Company's annual report for the year ended 31 December 2016 with the actual progress of implementation as at 31 December 2017.

# Management Discussion and Analysis

| Business Strategy | Implementation Plan | Progress of Implementation as of 31 December 2017 |
|---|---|---|
| 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; |
| | (ii) attending and participating in industry forums and events to network with other industry professionals and potential customers; and | (ii) The management team had attended and participated in an industry seminar and established contacts with several industry experts and potential customers to explore cooperation opportunities and there were one new drilling mud customer and five new pelletising clay customers starting their purchases with the Group in 2017; 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. |

# Management Discussion and Analysis

| Business Strategy | Implementation Plan | Progress of Implementation as of 31 December 2017 |
|---|---|---|
| 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 entered MOU with the Potential Vendor to acquire certain equity interest in a company in the PRC principally engaging in mining, processing and sales of black marble (dolerite) mine. For further details, please refer to the Company's announcement dated 14 February 2017. |
| 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 pelletizing clay production line;<br><br>Completed the construction of new storage facilities for pelletising clay;<br><br>Completed the expansion of storage facilities for dried bentonite ore to be processed into drilling mud;<br><br>Replaced the old forklift truck;<br><br>Replaced a transformer in the processing plant; and<br><br>Completed the modification of existing rotary drum dryer. |

## 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 | | | | | | | Actual use of net proceeds up to the date of this report (HK$ million) |
|---|---|---|---|---|---|---|---|---|
| | 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 ended 30 June 2017 (HK$ million) | For the six months ended 31 December 2017 (HK$ million) | Total net proceeds (HK$ million) | Approximate percentage of net proceeds % | |
| 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.

# Management Discussion and Analysis

### 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<br>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 2017) (Note 2) | Dry | Wet |
| Proved reserve (metric tonnes) | 1,525,000 | 1,891,000 |
| Probable reserve (metric tonnes) | 4,724,000 | 5,910,000 |
| Total (metric tonnes) | 6,249,000 | 7,801,000 |
| 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 2017 | CNY303,000 | |
| Output for the year ended 31 December 2017 (metric tonnes) | 81,000 | |

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 2017 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 2017 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 2017.

(3) There is no exploration activity carried out by the Group during the year ended 31 December 2017.

### Employees and Remuneration Policy

On 31 December 2017, the Group had a total of 87 full-time employees (2016: 83) for its main business. For the year ended 31 December 2017, the Group incurred staff costs, including Directors' remuneration, of approximately CNY17.4 million (2016: CNY4.5 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 28 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 29 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 2017 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 2017, 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. 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 2017.

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Items of the Consolidated Statement of Profit or Loss

| Items | **For the year ended 31 December 2017 CNY'000** | For the year ended 31 December 2016 CNY'000 | **Change** (%) |
|---|---|---|---|
| Revenue | **28,796** | 26,311 | 9.4 |
| Cost of sales | **(18,456)** | (14,791) | 24.8 |
| Gross profit | **10,340** | 11,520 | (10.2) |
| Other income | **693** | 3,245 | (78.6) |
| Selling and distribution expenses | **(3,148)** | (1,413) | (122.8) |
| Administrative and other expenses | **(73,536)** | (8,932) | 723.3 |
| Finance costs | **(376)** | (521) | (27.8) |
| Loss on deconsolidation of subsidiaries | **(5,616)** | – | – |
| Income tax expense | **(437)** | (1,099) | (60.2) |
| Profit (loss) and total comprehensive income (expense) for the year | **(72,080)** | 2,800 | (2,674.3) |

### Revenue

***Breakdown of the Group's Revenue by Products***

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | **CNY'000** | **%** | CNY'000 | % |
| Drilling mud | **10,184** | **35.4** | 14,729 | 56.0 |
| Pelletising clay | **16,926** | **58.8** | 11,582 | 44.0 |
| Ballasts and others | **1,685** | **5.8** | – | – |
| Total revenue | **28,795** | **100.0** | 26,311 | 100.0 |

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

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Sales volume (tonnes)** | **Average selling price (CNY/tonne)** | Sales volume (tonnes) | Average selling price (CNY/tonne) |
| Drilling mud | **27,631** | **368.6** | 33,536 | 439.2 |
| Pelletising clay | **57,246** | **295.7** | 42,648 | 271.6 |
| Ballasts and others | **N/A** | **N/A** | – | – |

The revenue increased by approximately 9.4% from approximately CNY26.3 million in 2016 to approximately CNY28.8 million in 2017. Such increase in revenue was mainly contributed by the increase in sales volume and average price of pelletising clay, which was partially offset by the decrease in sales volume and average price of drilling mud. Although China's iron and steel industry still faced overcapacity, the Group managed to increase the sales volume and average selling price of pelletising clay through strengthening its quality management, marketing and sales effort. Although the Group's adopted the strategy of "selling more with low margin" for drilling mud since the second half of 2017, the sales volume and average selling price of drilling mud still dropped because of the unfavourable general economic condition, especially the uncertainty in investment prospects of the energy industry in the PRC.

## Cost of Sales

***Breakdown of the Group's Cost of Sales***

| Cost Items | 2017 | | 2016 | |
|---|---|---|---|---|
| | CNY'000 | % | CNY'000 | % |
| Extraction costs | 657 | 3.5 | 552 | 3.7 |
| Processing costs | | | | |
| –Air-drying costs | 1,655 | 9.0 | 1,622 | 11.0 |
| –Consumables, materials and supplies | 5,192 | 28.1 | 2,925 | 19.8 |
| –Depreciation and amortisation | 1,047 | 5.7 | 1,086 | 7.3 |
| –Staff costs | 3,042 | 16.5 | 2,781 | 18.8 |
| –Transportation costs | 2,860 | 15.5 | 2,137 | 14.4 |
| –Utility costs | 2,984 | 16.2 | 2,511 | 17.0 |
| –Others | 423 | 2.3 | 350 | 2.4 |
| Sales tax and surcharges | 596 | 3.2 | 827 | 5.6 |
| Total cost | 18,456 | 100.0 | 14,791 | 100.0 |

***Breakdown of the Group's Cost of Sales by Products***

| Cost Items | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | 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 | 234.0 | 6,465 | 35.0 | 208.0 | 6,976 | 47.2 |
| Pelletising clay | 185.1 | 10,596 | 57.4 | 183.2 | 7,815 | 52.8 |
| Ballasts and others | N/A | 1,395 | 7.6 | – | – | – |
| | | 18,456 | 100.0 | | 14,791 | 100.0 |

# Management Discussion and Analysis

The total cost of sales increased by approximately 25.0% from approximately CNY14.8 million in 2016 to approximately CNY18.5 million in 2017. The increase in total cost of sales was mainly due to (i) an increase in sales volume of pelletising clay; and (ii) an increase in the unit processing costs, which was partly offset by the decrease in sales volume of drilling mud and the reduction of sales tax and surcharge caused by the reduction in the resource tax and the cessation of resources compensation fee payment since 1 July 2016. The increase in unit processing costs was mainly attributed to (i) the increase in unit transportation costs; and (ii) the increase in unit costs of consumables, materials and suppliers mainly due to a rise in the purchase price of coal and sodium carbonate and more frequent use of rotary drum-drying when compared with 2016's.

Cost of sales for drilling mud decreased by approximately 7.3% from approximately CNY7.0 million in 2016 to approximately CNY6.5 million in 2017. The decrease in cost of sales for drilling mud was mainly due to a decrease in the sales volume of drilling mud by approximately 17.6%, which is partially offset by the increase in unit transportation costs and consumptions of materials. The reasons for the increase in unit transportation costs and consumptions of materials had been discussed above.

Cost of sales for pelletising clay increased by approximately 35.6% from approximately CNY7.8 million in 2016 to approximately CNY10.6 million in 2017. 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 34.2%; (ii) the increase in unit transportation costs and consumptions of materials, which was partially offset by the reduction of sales tax and surcharge caused by the reduction in the resource tax and the cessation of resources compensation fee payment since 1 July 2016. The reasons for the increase in unit transportation costs and consumptions of materials had been discussed above.

### Gross Profit and Gross Margin

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

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Gross profit CNY'000** | **Gross profit margin %** | Gross profit CNY'000 | Gross profit margin % |
| Drilling mud | **3,719** | **36.5** | 7,753 | 52.6 |
| Pelletising clay | **6,330** | **37.4** | 3,767 | 32.5 |
| Ballasts and others | **291** | **17.3** | – | – |
| | **10,340** | **35.9** | 11,520 | 43.8 |

# Management Discussion and Analysis

The overall gross profit decreased by approximately 10.4% from approximately CNY11.5 million in 2016 to approximately CNY10.3 million in 2017, while the overall gross profit margin decreased from approximately 43.8% in 2016 to approximately 35.9% in 2017. The decrease in the overall gross profit was mainly caused by the decrease in sales volume and average selling price of drilling mud, partly offset by the increase in sales volume and average selling price 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 with relatively higher gross profit margin, which accounted for approximately 56.0% of total revenue in 2016 and decreased to approximately 37.6% of total revenue in 2017; and (ii) an increase in unit cost of sales.

Gross profit for the sale of drilling mud decreased by approximately 52.0% from approximately CNY7.8 million in 2016 to approximately CNY3.7 million in 2017, while the gross profit margin for the sale of drilling mud decreased from approximately 52.6% in 2016 to approximately 36.5% in 2017. The decrease in gross profit for the sale of drilling mud was mainly caused by the decrease in sales volume and average selling price. The decrease in gross profit margin for the sale of drilling mud was mainly due to (i) the decrease of the average selling price of drilling mud by approximately 16.1%, and (ii) the increase in unit cost of drilling mud by approximately 12.5% from approximately CNY208.0 per tonne in 2016 to approximately CNY234.0 per tonne in 2017 primarily because of (i) the increase in unit transportation costs; and (ii) the increase in unit consumptions of materials mainly due to a rise in the purchase price of coal and sodium carbonate and more frequent use of rotary drum-drying.

Gross profit for the sale of pelletising clay significantly increased by approximately 68.0% from approximately CNY3.8 million in 2016 to approximately CNY6.3 million in 2017, while the gross profit margin for the sale of pelletising clay also increased from approximately 32.5% in 2016 to approximately 37.4% in 2017. 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 34.2% and the increase in the average selling price by approximately 8.9%.

### Other Income

The drop in other income from approximately CNY3.2 million in 2016 to approximately CNY0.7 million in 2017 was mainly due to the Group's receipt of a one-off monetary award in the sum of CNY2.0 million from Fanchang County People's Government*（繁昌縣人民政府）in the first quarter of 2016 for the successful listing of the Company's shares (the "Shares") on GEM on 29 December 2015 (the "Listing Date"). The other income in 2017 mainly comprised bank interest income.

### Selling and Distribution Expenses

The selling and distribution expenses increased by approximately 122.8% from approximately CNY1.4 million in 2016 to approximately CNY3.1 million in 2017. This was primarily due to the increase in transportation cost arising from the increase in sales volume of pelletising clay, which the Group was responsible for the delivery cost which has been factored into the selling price and the increase in unit transportation price raised by the third parties with provision of transportation service.

# Management Discussion and Analysis

### Administrative and Other Expenses

The administrative and other expenses increased by approximately 725.8% from approximately CNY8.9 million in 2016 to approximately CNY73.5 million in 2017. The administrative and other expenses from 2017 was mainly included the shares-based payment of approximately CNY46.0 million, the legal and professional fees of approximately CNY16.7 million and operating expenses of approximately CNY10.8 million.

As the share-based payments do not involve any immediate material cash outlay, the expense will not adversely affect the financial position of the Group.

### Finance Costs

The finance costs decreased by approximately 27.8% from approximately CNY521,000 in 2016 to approximately CNY376,000 in 2017. This was due to the decrease in interest expense of bank loan which was drawn down in December 2015 and repaid in December 2016. The finance cost in 2017 represented the unwinding of discount on dismantlement provision.

### Loss on de-consolidation of subsidiaries

Due to the reluctance of the Former Board and the hindrance of the legal representatives, the directors, the management and the personnel of the De-consolidated Subsidiaries assigned by the Former Board, the Board considered that the Company was unable to exercise effective control over the De-consolidated Subsidiaries, being the non-principal subsidiaries of the Group newly formed by the Former Board during the last quarter of the year ended 31 December 2017, despite various efforts made by the Board to resolve the matter. Accordingly, the Board resolved that it was impracticable to consolidate the financial information of the De-consolidated Subsidiaries. Under this circumstances, the financial results, assets and liabilities have been de-consolidated from the Group with effective from 31 December 2017 ("De-consolidation").

The De-consolidation had resulted in a loss of approximately CNY5,616,000 as recorded in the consolidated financial statements for the year ended 31 December 2017, including impairment losses on the amounts due from the investments in the De-consolidated Subsidiaries of approximately CNY5,846,000. To the best of knowledge and belief of the Board, the carrying values of the amounts due from the investments in the De-consolidated Subsidiaries were not recoverable and, accordingly, an impairment loss of approximately CNY5,846,000 had been recognised in the profit or loss.

Please refer to the section under heading "De-consolidation of certain subsidiaries of the Group" for the detailed explanation of the Deconsolidation.

### Income Tax Expense

The Group had an income tax expense of approximately CNY0.4 million in 2017 as compared to approximately CNY1.1 million in 2016. The decrease was mainly due to a decline in the profit before tax in Wuhu Feishang Non-metallic Material Company Limited, the indirect wholly-owned subsidiary of the Company.

# Management Discussion and Analysis

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

The loss and total comprehensive expense for the year was approximately CNY72.1 million in 2017, a decrease of approximately CNY74.9 million from the profit of approximately CNY2.8 million in 2016. This was mainly attributable by (i) shares options at fair values under share-based payments by approximately CNY46.0 million during the year; (ii) the increase of approximately CNY18.6 million in administrative and other expenses mainly due to the increase in legal and professional fees, research and operating expenses; (iii) the lack of one-off monetary award from Fanchang County People's Government* (繁昌縣人民政府) recognised in the first quarter of 2016 amounting to CNY2.0 million in 2017; (iv) the increase of approximately CNY1.7 million in selling expense mainly due to the increase in transportation fee; and (v) the decrease of approximately CNY1.5 million in gross profit mainly due to the decrease in sales volume and average selling price of drilling mud. The effect was partially offset by the decrease of approximately CNY0.8 million in income tax expense mainly due to the decrease in profit before tax.

## FINANCIAL RESOURCES REVIEW

### Liquidity, Financial Resources and Capital Structure

As at 31 December 2016 and 2017, the Group had net current assets of approximately CNY42.7 million and approximately CNY90.6 million, respectively.

The Group intends to fund the cash requirements from operating cash inflow, listing proceeds and placing and subscription of shares during the year.

As at 31 December 2017, the Group had cash and cash equivalents of approximately CNY32.2 million which was mainly dominated in CNY.

As at 31 December 2017, the Group did not have any bank loans, hedge, or pledge of assets.

### Gearing Ratio

During 2017, the gearing ratio as at 31 December 2016 and 2017 is nil.

### 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.

### Contingent Liabilities

As at 31 December 2017, 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.

# Management Discussion and Analysis

## OUTLOOK

It is expected that there will be no fundamental change in the general situation of oversupply in the iron and steel industry and the problem of overcapacity has yet to be addressed. In addition, affected by the new series of real estate market regulation and control policies, it is expected that the iron and steel industry will be confronted with major challenges, imposing greater downward pressure on the demand for pelletising clay. Although the Group has strived to increase sales of pelletising clay by means of, among others, improved product quality and enhanced marketing efforts, the Group may not be able to maintain the current level of gross profit margin in the coming months. The Group intends to continue expanding its customer base and market share by boosting product awareness of pelletising clay, refining its production technology and developing new products with a view to enhance the Group's overall competitiveness to cope with the unfavorable business environment. The weak investment sentiment in infrastructure construction in the energy industry coupled with impacts from the new series of real estate market control policies will seriously adversely affect the sales of the Group's drilling mud. The Group aims to maintain the sales volume of drilling mud by improving product quality and adhering to the "selling more with lower margin" strategy, and yet the Group may not be able to maintain the current level of gross profit margin in the forthcoming months due to the increasing pressure on the selling price.

## CAPITAL COMMITMENTS AND FINANCING NEEDS

As at 31 December 2017, 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 and in the section headed "Fund Raising Activities" in this annual report, the Group had no other new implementation plans or financing plans.

## EVENTS AFTER THE REPORTING PERIOD

### (a) Cancellation of Share Options

Reference is made to the announcement of the Company dated 6 December 2017 in relation to, among other things, the grant of an aggregate of 50,000,000 share options by the former board of directors of the Company under the share option scheme of the Company adopted on 12 December 2015, each entitling the holder thereof to subscribe for one ordinary share of HK$0.01 in the capital of the Company, to ten participants who are former directors and consultants of the Company.

As announced by the Board in the Company's announcement dated 28 March 2018, out of the 50,000,000 share options granted, 8,810,000 share options have been exercised, 13,100,000 share options have been lapsed and 28,090,000 share options remain outstanding and held by the consultants. Having assessed by the Board, the Board considered that the continuing engagement with the consultants was not necessary and therefore the Company had entered into the termination agreement with each of them respectively to cease their services immediately and, as agreed thereof, all the outstanding share options held by them had also been cancelled. As at the date of this annual report, no share option is outstanding.

**(b) Termination of subscription of new shares under general mandate**

Reference is made to the announcement of the Company dated 5 December 2017 in relation to the subscription of new shares of nominal value of HK0.01 each in the share capital of the Company under general mandate granted the former board of directors of the Company at the annual general meeting of the Company held on 30 June 2017. On 12 January 2018 (after the trading hours), the Company and Mr. Zhuang Shibin as the subscriber have mutually agreed to terminate the subscription agreement and accordingly the subscription thereunder shall not proceed as set out therein.

**(c) Possible Disposal of the De-consolidated Subsidiaries**

With reference to the note 1 to the consolidated financial statements, the Board considered that the Company was unable to exercise effective control over the De-consolidated Subsidiaries, being the non-principal subsidiaries of the Group newly formed by the Former Board during the last quarter of the year ended 31 December 2017, despite various efforts made by the Board to resolve the matter. Accordingly, the Board resolved that it was impracticable to consolidate the financial information of the De-consolidated Subsidiaries. Under this circumstances, the financial results, assets and liabilities have been de-consolidated from the Group with effective from 31 December 2017 ("De-consolidation").

As the De-consolidated Subsidiaries are not principal and operating subsidiaries of the Group and with an aim to resolving the matters arising from or in connection with the non-effective control over the De-consolidated Subsidiaries, the Board is in negotiations with relevant party(ies) in relation to the possible disposal of the De-consolidated Subsidiaries (the "Possible Disposal"). The Current Board has consulted the legal advisers both in Hong Kong and the PRC and has been advised that it is legally feasible to regain effective control over the De-consolidated Subsidiaries through legal means and procedures. However, in view of the scale, size and operation of the De-consolidated Subsidiaries, which are not principal operating subsidiaries of the Company, the Current Board has, after assessing all the benefits and costs involved, formed its view that disposing the De-consolidated Subsidiaries would be the best option and in the interests of the Company and its shareholders to cast away the De-consolidated Subsidiaries to solve the audit issue and avoid further costs and time to be spent on regaining effective control over the De-consolidated Subsidiaries, which is not justified. As at the date of this annual report, there is no any agreement or terms (including consideration) reached and agreed between the parties in relation to the Possible Disposal.

It is expected that the Possible Disposal would not constitute any notifiable transaction or connected transaction of the Company pursuant to Chapter 19 and Chapter 20 of the GEM Listing Rules. In the event that there is any notifiable transaction or connected transaction triggered from the Possible Disposal, further announcement(s) will be made by the Company as and when appropriate pursuant to the GEM Listing Rules.

**(d) Proposed change of Company name**

Reference is made to the announcement of the Company dated 23 May 2018 in relation to the proposed change of Company name. The Board proposed to change the English name of the Company from "Feishang Non-metal Materials Technology Limited" to "HangKan Group Limited" and to change the dual foreign name in Chinese of the Company from "飛尚非金屬材料科技有限公司" to "恆勤集團有限公司" (the "Change of Company Name"). The Change of Company Name is subject to the approval by passing a special resolution by the shareholders at the annual general meeting and from the Registrar of Companies in the Cayman Islands.

## MATERIAL LITIGATIONS

The Company had the following material litigations during the year and up to date of this annual report:

(1) On 27 November 2017, Mr. Zhang Qiang wrote to the Company requesting the Company to convene an extraordinary general meeting (the "EGM") to replace the Board. The EGM shall be held as scheduled on Friday, 26 January 2018.

As disclosed in the announcement dated 15 January 2018, the Company shall adjourn the EGM scheduled on 26 January 2018 sine die and the Plaintiff and the 1st, 2nd, 3rd, 4th and 7th Defendants shall take all steps necessary to adjourn the EGM scheduled on 26 January 2018 sine die, including but not limited to vote in favour of a motion to adjourn the Plaintiff's motion dated 27 November 2017 sine die if necessary pursuant to an court order granted on 15 January 2018 by the Honourable Mr. Justice Godfrey Lam Wan-ho in relation to the Legal Proceeding together with the terms of the Settlement Agreement.

Further details of the above were disclosed in the announcements and circular of the Company dated 5 December 2017, 18 December 2017, 19 December 2017, 3 January 2018, 15 January 2018 and 18 January 2018.

(2) On 18 December 2017, the Company has received an originating summons (the "OS") dated 18 December 2017 filed by Mr. Zhang Qiang as the plaintiff (the "Plaintiff") against (i) the Company; (ii) Mr. Deng Li, a former executive director of the Company (the "Director"); (iii) Mr. Tsai Nam Lun, a former executive Director; (iv) Mr. Zhang Yongmin, a former executive Director; (v) Mr. Chan Chiu Hung Alex, a former independent non-executive Director; (vi) Ms. Chan Shuk Kwan Winnie, a former independent non-executive Director; (vii) Ms. Cheuk Tat Yee, a former independent non-executive Director; (viii) Ms. Yin Yi, a former independent non-executive Director; and (ix) the grantees of the share options (the "Grantees") granted by the Company on 6 December 2017 (other than Mr. Deng Li, Mr. Zhang Yongmin and Mr. Tsai Nam Lun), (collectively, the "Defendants") under a legal proceeding no. HCMP 2715/2017 (the "Legal Proceeding") in the Court of First Instance of the High Court of Hong Kong (the "Court").

Pursuant to the claims indorsed on the OS, the Plaintiff sought for, among others: (a) a declaration that the subscription agreement dated 5 December 2017 between the Company and Mr. Zhuang Shibin is voidable and is avoided by the commencement of this action; (b) a declaration that the grant of the 50,000,000 share options to Mr. Deng Li, Mr. Tsai Nam Lun, Mr. Zhang Yongmin and other Grantees by the Company on 6 December 2017 under the share option scheme adopted by the Company on 12 December 2015 is voidable and is avoided by the commencement of this action; (c) damages (to be assessed) and costs.

The Defendants referred hereinafter in this annual report includes (i) the Company ("1st Defendant"); (ii) Mr. Deng Li ("2nd Defendant"), a former executive Director; (iii) Mr. Tsai Nam Lun ("3rd Defendant"), a former executive Director; (iv) Mr. Zhang Yongmin ("4th Defendant"), a former executive Director; (v) Mr. Chan Chiu Hung Alex ("5th Defendant"), a former independent non-executive Director; (vi) Ms. Chan Shuk Kwan Winnie ("6th Defendant"), a former independent non-executive Director; (vii) Ms. Cheuk Tat Yee ("7th Defendant"), a former independent non-executive Director; (viii) Ms. Yin Yi ("8th Defendant"), a former independent non-executive Director; (ix) the Grantees ("9th Defendant"); (x) Mr. Wang Ruilin ("10th Defendant"); (xi) Mr. Chen Sigen ("11th Defendant"); (xii) Ms. Ding Meiyi ("12th Defendant"); (xiii) Ms. Zhan Yu ("13th Defendant"); (xiv) Mr. Cheung Shun Fung ("14th Defendant"); (xv) Mr. Zhang Taiqiang ("15th Defendant"); (xvi) Mr. Guo Xuepeng ("16th Defendant"); and (xvii) Mr. Zhuang Shibin ("17th Defendant") (collectively, the "Defendants").

On 15 January 2018, the Company and (1) the 2nd Defendant; (2) the 3th Defendant; (3) the 4th Defendant, (4) the 6th Defendant and (5) the 7th Defendant, have reached a settlement agreement ("Settlement Agreement") in relation to the Legal Proceeding with the Plaintiff.

Upon a joint application by way of consent summons ("Consent Summons") dated 15 January 2018 by the Plaintiff and the 1st, 2nd, 3rd, 4th, 6th and 7th Defendants, an order has been granted, after trading hours on 15 January 2018, by the Honourable Mr. Justice Godfrey Lam Wan-ho in relation to the Legal Proceeding, the key terms of which are summarised as follows:–

(1) All further proceedings in the Legal Proceeding between the Plaintiff and the Defendants (collectively, "Parties") be permanently stayed upon the terms set out in the Schedule of Settlement Agreement annexed hereto except for the purpose of enforcing those terms.

(2) Leave to the Plaintiff to withdraw the Summons.

(3) The injunction order granted by the Honourable Mr. Justice Louis Chan pursuant to the 18 December Order and continued as amended by paragraph 7 of the 29 December Order be discharged.

(4) There be no order as to costs as between the Parties.

Further details of the above were disclosed in the announcements of the Company dated 19 December 2017, 3 January 2018 and 15 January 2018.

## FUND RAISING ACTIVITIES

The Company has conducted the following fund raising activities during the year:

### Placing and Subscription of Shares

On 24 November 2017, a total of 40,000,000 new shares (the "Placing Shares") of nominal value of HK0.01 each in the share capital of the Company were successfully placed under the general mandate (the "General Mandate") granted the former board of directors of the Company at the annual general meeting of the Company held on 30 June 2017 to not fewer than six placees at the placing price of HK$1.45 per Placing Share (the "Placing") and a total of 10,000,000 new shares (the "Subscription Shares") of nominal value of HK0.01 each in the share capital of the Company have been allotted under the General Mandate to Mr. Cheong Weixiong at the subscription price of HK$1.45 per Subscription Share (the "Subscription"). The aggregate of 50,000,000 new shares of the Company represents 10% of issued share capital of the Company immediately before the completion of the Placing and the Subscription and approximately 9.09 % of the issued share capital of the Company as enlarged by the Placing Shares and the Subscription Shares. Details of the Placing and the Subscription are set out in the Company's announcements dated 31 October 2017, 20 November 2017 and 24 November 2017.

The aggregate net proceeds of the Placing and Subscription, after deduction of expenses, are estimated to be approximately HK$71.04 million (equivalent to CNY59.2 million) and intended to be used for: (i) future resources trading business development; (ii) formation of joint venture company with potential strategic partners for trading business development; (iii) potential investment in mining resources projects; and (iv) acquisition of potential resources companies. The net proceeds from the Placing and Subscription have been used as intended for the trading business development of the Group except that the trading business was not conducted through the formation of joint venture with other partners as disclosed.

# Management Discussion and Analysis

### Prepayment to suppliers

During the year ended 31 December 2017, the Group entered into serval trading agreements for the purchases of materials (including LME registered Nickel Cathodes/Briquettes, and Iron One Fe Content 60.5% bases, below 30.5% rejection) (the "Purchases Transactions") for its ordinary business with trade deposits of approximately CNY57.8 million in total that had been paid to those suppliers namely, LITUO ENTERPRISE (HK) LIMITED, TRADE ROSY GLOBAL LIMITED, KAI MUK COMPANY. Following the complete change in the composition of the Board with effect from 12 February 2018 and having assessed the Purchases Transactions by the Board, the Board considered that the Purchases Transactions were not be in the best interests of the Company given that facts that all of the Purchases Transactions has been entered into by the Former Board and the Board has no knowledge about those suppliers. As the trading contracts were concluded by the Former Board, the Current Board has not conducted business with these suppliers before and therefore has no detailed information about their credit worthiness, payment records, business history, shareholding structure and financial background etc. The same applies to the suppliers who have not conducted business with the Current Board before. As deposits have been paid by the Group but the trading contracts have yet to be performed and there had been concern by the Group over the qualify of materials from the supplies, both parties have no detailed information as to how to contact each other effectively to follow up the transactions. As such, the Current Board has taken a prudent approach to terminate all the transactions and obtain refund of deposits first in order to preserve the assets of the Group and protect the interest of the Company. Having said that, the Current Board does not rule out the possibility to conduct business with these suppliers in future after proper due diligence has been done by the Current Board on these suppliers. In this regard, arrangement has been made by the Board to terminate all of the Purchases Transactions and obtain full refund of trade deposits from those suppliers. The Board has been in negotiation with those suppliers to the Purchases Transactions for the refund. Up to the date of this annual report, those suppliers to the Purchases Transactions refunded the trade deposit of HK$500,000 (equivalent to CNY416,000) to the Company. The Company is still in the process of obtaining the refund of trade deposits from the relevant suppliers, which may take some time.

If the Company has recovered all the refund of trade deposits, the Board expected that the Company will intend to pursue with the Group's existing business and to apply the net proceeds from the Placing and the Subscription as disclosed in the announcement dated 20 November 2017 except the Company may not proceed with such transactions by way of formation of joint venture with other partners as disclosed. In the event that there is any change in use of proceeds from the Placing and Subscription, the Company will comply with all necessary requirements under the GEM Listing Rules.

## SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

Save as disclosed in this annual report, there was no significant investment, material acquisition and disposal during the year.

## ADDRESSING ALL CONCERNS RAISED BY THE COMPANY'S AUDITORS

The consolidated financial statements of the Company for the year ended 31 December 2017 had been subject to the disclaimer (the "Disclaimer") of opinion of Elite Partners CPA Limited, the auditor of the Company for the year ended 31 December 2017, on the basis as set out in the section headed "INDEPENDENT AUDITOR'S REPORT".

**(A) Disclaimer on de-consolidation of certain subsidiaries:**

The reason for de-consolidation of certain subsidiaries due to the lack of the supporting documents of the De-consolidated Subsidiaries, being certain non-principal subsidiaries of the Group newly formed by the Former Board during the last quarter of the year ended 31 December 2017 as a result of the reluctance of the Former Board and the hindrance of the legal representatives, the directors, the management and the personnel of the De-consolidated Subsidiaries assigned by the Former Board following the complete change in the composition of the Board with effect from 12 February 2018. As no supporting documents are given to the auditor for audit purpose, the management considers that it is logical that the auditor would qualify its opinion in this regard as its usual auditing practice.

The Current Board is in negotiations with independent third parties to dispose of the De-consolidated Subsidiaries with an aim to resolving the matters arising from the non-effective control over the De-consolidated Subsidiaries. The Current Board believes that the possible disposal could avoid further efforts to be spent on negotiation or other actions to be taken in connection with resuming effective control over the De-consolidated Subsidiaries which after all are not principal subsidiaries of the Company. Further announcement will be made as and when necessary in accordance with the GEM Listing Rules if the possible disposal is materialised.

**(B) Disclaimer on prepayment to suppliers:**

As the relevant suppliers under the Purchase Transactions were acquainted, negotiated and communicated by the Former Board, the Current Board has no detailed information as to how to contact these suppliers effectively in order to facilitate the auditor to carry out its confirmation procedures in relation to the deposit paid to those suppliers under the purchase agreement. Nevertheless, through the assistance and arrangement by the Former Board, the Company has entered into termination agreements with these suppliers who agreed to cancel the trading contracts and refund the deposits paid by the Company. The Current Board considers that by signing these termination agreements, all these suppliers have acknowledged and agreed that they have received the deposits and that they shall refund all the deposits by the end of June 2018. Although HK$500,000 has been refunded to the Company up to the date of this announcement, the repayment time (i.e. by June 2018) agreed by these suppliers does not allow the auditor to carry out sufficient audit procedure to assess its subsequent settlement. The fact that the Current Board has no knowledge about these suppliers (because they were acquainted by the Former Board) does not also give any comfort to the auditor on their past trading records and history. As such, the management considers that it is reasonable and practical for the auditor to qualify its opinion in this regard.

As mentioned above, the Company has entered into termination agreements with the relevant suppliers who agreed to cancel the trading contracts and refund the deposits paid by the Company. It remains to be seen if they would honor their agreements to refund all the deposits to the Group by the end of June 2018. In the event of any default in refund, the Company will take legal action to recover the same.

**(C) Disclaimer on inventories:**

Given that the current auditor was appointed in March 2018, i.e. after the year end of 31 December 2017, they are unable to attend the stock count as at 31 December 2016 and 2017. However, stock counts were carried out by the Group twice during the year which were held at the end of June and December 2017 respectively in accordance with the normal policy of the Group and, based on the existing management's understandings and views, there has been no issue whatsoever raised by the Company's former auditor before on the inventories of the Group on its letter to the Current Board and the audit committee of the Company dated 14 March 2018. Moreover, the Current Board was informed that the relevant working papers of the former auditor on inventories count before its resignation cannot be released to the current auditor. Having said that, the Current Board confirmed that none of the former auditor nor the current auditor has released any of documents or information related to their audit procedures and workings to the management. Without physical inventories count by the current auditor itself due to insufficient time for the Current Board to arrange an ad hoc stock count for audit purpose, the current auditor cannot perform any roll back procedure and there is no alternative audit procedure for the current auditors to obtain sufficient appropriate audit evidence regarding the quantities of inventories as at 31 December 2016 and 31 December 2017. As no stock count is carried out by the current auditor, the management considers that it is reasonable for the current auditor highlight this fact in its audit opinion.

The stock count by the current auditor is a technical one. As mentioned above, the Group has policy to carry out stock count twice a year: at the end of June and December. It has been planned that the next stock counts will take place on or about 30 June 2018 and 31 December 2018 respectively.

Notwithstanding the Disclaimer, the Current Board considers that the financial statement of the Company as shown in this annual report remain true and fair for the following reasons:

a. The De-consolidated Subsidiaries are all non-principal operating subsidiaries of the Group. Based on the financial information of the De-consolidated Subsidiaries available to the Current Board (which is disclosed in this annual report), the revenue for the period from their incorporation/establishment up to 31 December 2017 is just about CNY1,680,000 (as compared to CNY28,796,000 for the Group) with loss of just CNY436,000 (as compared to CNY72,80,000 for the Group). The net assets of the De-consolidated Subsidiaries as at 31 December 2017 were just about CNY15,210,000 (as compared to CNY111,183,000 for the Group). As such, the exclusion of the results of the De-consolidated Subsidiaries, if they could be consolidated, would not materially affect the financial position of the Group for the year ended 31 December 2017 as disclosed in this annual report.

b. The signing of the termination agreements by the relevant suppliers has signified that they confirmed the amount of deposits received from the Group and that they agreed to refund the deposits to the Group. While it remains to be seen if they would honor their agreements to refund all the deposits to the Group by the end of June 2018, the prepayments figure, which is included in Trade, Bills and other Receivables, in the Consolidated Statement of Financial Position is supported by the signed termination agreement.

c. Based on the existing management's understandings and views, there has been no issue whatsoever raised by the Company's former auditor before on the inventories of the Group on its letter to the Current Board and the audit committee of the Company dated 14 March 2018. The value of the inventory has been stated at the lower of costs or net realizable value in accordance with the accounting policy of the Group.

d. Other than the Disclaimer, there is no other audit issue on the principal subsidiaries of the Company of which the results are disclosed in this annual report.

# Profiles of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. SU Chun Xiang**, aged 30, was appointed as an executive Director on 9 January 2018. Mr. Su obtained a degree a degree of Master of Engineering in Software Engineering from Xiamen University (廈門大學) in the People's Republic of China (the "PRC") in 2012. Mr. Su has extensive experience in finance and investment fund management. He was the founder and the general manager of the risk control department of 昆明貴金屬交易所 (Kunming Precious Metal Exchange*) in the PRC and was the marketing director of the trading department of the COFCO Futures Co., Ltd. (中糧期貨有限公司) in the PRC. Mr. Su is currently the chairman of the board of an assets management company located in Beijing, the PRC, responsible for the overall investment management thereof. Mr. Su has also obtained the qualifications of 基金從業人員 (Fund Practitioner*) and 期貨從業人員 (Futures Practitioner*) respectively in the PRC.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. KO Yat Fei**, aged 28, was appointed as an Independent non-executive Director on 9 January 2018. Mr. Ko was educated at and holds a Bachelor's degree in Commerce (Honours) in Accounting from Hong Kong Shue Yan University. Mr. Ko is a member of Hong Kong Institute of Certified Public Accountants and holds a practicing certificate. Mr. Ko has more than six years of experience in accounting, auditing and corporate advisory. He has worked in local and international Certified Public Accountants firm and Deloitte Touche Tohmatsu. Currently, Mr. Ko is a Practicing Director of a local Certified Public Accountants firm.

**Mr. CHOW Chi Hang Tony**, aged 26, was appointed as an Independent non-executive Director on 9 January 2018. Mr. Chow obtained a degree of Bachelor of Laws and a Postgraduate Certificate in Laws from The Chinese University of Hong Kong in 2014 and 2015 respectively. Mr. Chow is currently a practicing Barrister-At-Law in Hong Kong practicing in both civil and criminal litigation.

**Ms. SHAO Yu**, aged 39, was appointed as an Independent non-executive Director on 9 January 2018. Ms. Shao was educated at and holds a degree of Bachelor of International Economics and Trade from Beijing Foreign Studies University 北京外國語大學 in the PRC. Ms. Shao has extensive experience in marketing and general corporate management. She has served as a senior manager for several enterprises in the PRC for over 10 years. From May 2013 to June 2015, Ms. Shao has served as the general manager of the sales department of 北京紅石房地產有限公司 (Beijing Hong Shi Real Estate Company Limited*). From July 2015 to December 2016, She was the chief operating officer of 北京漢頌律師事務所 (Beijing Hansong Law Firm*). Currently, Ms. Shao is the chairwoman of the board and the chief executive officer of a local television culture enterprise in the PRC, responsible for the overall operation and management thereof.

.* 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 2017.

## 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 "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 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 64 of the annual report.

No interim dividend (2016: Nil) was paid to the Shareholders during the year ended 31 December 2017.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: 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 pages 67 to 68 of this annual report.

The Company's reserves available for distribution to Shareholders at 31 December 2017 amounted to CNY97,715,000 (2016: CNY49,907,000).

## 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 118 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.

# Report of the Directors

## SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 27 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:**
Mr. XU Chengyin (retired on 30 June 2017)
Mr. ZHANG Pingwu (retired on 30 June 2017)
Mr. CHEN Gongbao (resigned on 7 July 2017)
Mr. DENG Li (appointed on 13 March 2017; resigned on 9 February 2018)
Mr. ZHANG Yongmin (appointed on 23 March 2017; resigned on 9 February 2018)
Mr. TSAI Nam Lun (appointed on 5 December 2017; resigned on 9 February 2018)
Mr. SU Chun Xiang (appointed on 9 January 2018)

**Independent Non-executive Directors:**
Mr. CHAN Chiu Hung Alex (resigned on 18 December 2017)
Mr. ZHENG Shuilin (resigned on 6 December 2017)
Mr. DUAN Xuechen (resigned on 6 December 2017)
Ms. CHAN Shuk Kwan, Winnie (appointed on 5 December 2017; resigned on 9 January 2018)
Ms. YIN Yi (appointed on 5 December 2017; resigned on 9 January 2018)
Ms. CHEUK Tat Yee (appointed on 5 December 2017; resigned on 12 February 2018)
Mr. KO Yat Fei (appointed on 9 January 2018)
Mr. CHOW Chi Hang Tony (appointed on 9 January 2018)
Ms. SHAO Yu (appointed on 9 January 2018)

In accordance with Articles 83(3) and 84(1) of the Articles of Association of the Company (the "Articles of Association"), Mr. SU Chun Xiang, Mr. KO Yat Fei, Mr. CHOW Chi Hang Tony and Ms. SHAO Yu 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 2017, 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. ZHANG Qiang | Long position | Beneficial owner | 275,000,000 | 1 | 49.21 |

On 20 April 2017, Mr. ZHANG Qiang acquired a total of 275,000,000 Shares, representing 55% of the entire issued share capital of the Company, held by Feishang Group Limited. Upon the completion of the acquisition, Mr. ZHANG Qiang became the substantial shareholder of the Company. For further details of the acquisition and the mandatory unconditional cash offer of Mr. ZHANG Qiang, please refer to the announcement and notices on 19 and 20 April 2017, 10 and 24 May 2017 and 14 June 2017 of the Company.

Save as disclosed above, as at 31 December 2017, 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 2017, 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:

| Name of Directors or chief executives | Long/Short position | Capacity | Class of Shares | Number of Shares held | Percentage of the issued shares (%) |
|---|---|---|---|---|---|
| DENG Li (Note 2) | Long position | Beneficial owner | Ordinary share | 4,920,000 | 0.88% |
| | Long position | Beneficial owner | Share option (Note 1) | 3,200,000 | 0.57% |
| ZHANG Yongmin (Note 3) | Long position | Beneficial owner | Ordinary share | 50,000 | 0.01% |
| | Long position | Beneficial owner | Share option (Note 1) | 4,950,000 | 0.89% |
| TSAI Nam Lun (Note 4) | Long position | Beneficial owner | Ordinary share | 6,270,000 | 1.12% |
| | Long position | Beneficial owner | Share option (Note 1) | 4,950,000 | 0.89% |

Notes:

1. These represented the interests in underlying shares in respect of share options granted by the Company, details of which are disclosed in section headed "SHARE OPTION SCHEME OF THE COMPANY" below.

2. Mr. DENG Li resigned as executive Director on 9 February 2018.

3. Mr. ZHANG Yongmin resigned as executive Director on 9 February 2018.

4. Mr. TSAI Nam Lun resigned as executive Director on 9 February 2018.

Save as disclosed above, as at 31 December 2017, 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 2017.

## 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.

Movements of the share options, which were granted under the Share Option Scheme, during the year ended 31 December 2017 are set out below:

| | | | | Number of share options | | | | |
|---|---|---|---|---|---|---|---|---|
| | Date of grant | Exercise price per option | Exercise period | Balance as at 1 January 2016, 31 December 2016 and 1 January 2017 | Granted during the year | Exercised during the year | Expired/ lapsed/ cancelled during the year | Balance as at 31 December 2017 |
| | | HK$ | | | | | | |
| *Directors and chief executives* | | | | | | | | |
| DENG Li (Note 1) | 6 December 2017 | 1.64 | 10 years from the date of grant | – | 5,000,000 | (1,800,000) | – | 3,200,000 |
| ZHANG Yongmin (Note 2) | 6 December 2017 | 1.64 | 10 years from the date of grant | – | 5,000,000 | (50,000) | – | 4,950,000 |
| TSAI Nam Lun (Note 3) | 6 December 2017 | 1.64 | 10 years from the date of grant | – | 5,000,000 | (50,000) | – | 4,950,000 |
| Individuals in aggretate | | 1.64 | 10 years from the date of grant | – | 35,000,000 | (6,910,000) | – | 28,090,000 |
| | | | | – | 50,000,000 | (8,810,000) | – | 41,190,000 |

Notes:

1. Mr. DENG Li resigned as executive Director on 9 February 2018.

2. Mr. ZHANG Yongmin resigned as executive Director on 9 February 2018.

3. Mr. TSAI Nam Lun resigned as executive Director on 9 February 2018.

Additional information in relation to the Share Option Scheme is set out in note 28 to the consolidated financial statements of this annual report.

# Report of the Directors

## 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.

## INTEREST IN COMPETING BUSINESS

During the year ended 31 December 2017 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.

## 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

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2017.

## EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2017, total staff cost including Directors' emoluments was CNY51 million as compared to CNY4.8 million in 2016, including equity-settled share-based payments to certain directors and consultants in the amount of approximately CNY46.0 million.

The Group continues to review remuneration packages of employees with reference to the level and composition of pay, the general market condition and individual performance. Staff benefits include contributions to the Mandatory Provident Fund Schemes and a discretionary bonus payment which is linked to the profit performance of the Group and individual performance. A share option scheme has also been adopted by the Company for employees of the Group. On 6 December 2017, the Company granted 50,000,000 share options by the former board of directors of the Company to certain eligible participants including the former directors of the Company. During the year ended 31 December 2017, 8,810,000 share options granted had been exercised by the former directors and consultants of the Company.

As at 31 December 2017, the Group employed 87 full time employees (2016: 83) for its principal activities. Employees' costs (including Directors' emoluments) amounted to approximately CNY17.4 million for the year ended 31 December 2017 (2016: CNY4.5 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.

# Report of the Directors

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 28 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 2017 (2016: 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. KO Yat Fei, Mr. CHOW Chi Hang Tony and Ms. SHAO Yu. 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 2017 have been reviewed by the Audit Committee.

## AUDITORS

SHINEWING (HK) CPA Limited, who acted as the auditor of the Company since 15 July 2015 (date of incorporation), resigned with effect on 23 March 2018 and Elite Partners CPA Limited was appointed as the auditor of the Company with effect from 23 March 2018. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Elite Partners CPA Limited as the auditor of the Company.

On behalf of the Board

**Feishang Non-metal Materials Technology Limited**
**SU Chun Xiang**
*Executive Director*

Hong Kong, 31 May 2018

# 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 provisions A.2.1, E.1.2 and A.6.7 as set out below.

### Chairman and Chief Executive

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 division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

At the annual general meeting of the Company held on 30 June 2017 ("AGM"), Mr. Xu Chengyin ("Mr. Xu"), did not offer himself for re-election due to devote more time on his personal commitments which requires more of his time and dedication and accordingly retired as the chairman, executive Director and chief executive officer of the Company upon the conclusion of the AGM.

Since then, the Company did not have a designated chief executive officer and chairman. The day-to-day management of the Group's business and the major decisions are made after consultation with the Board and appropriate Board committees, as well as senior management. The Board also reviewed the Group structure and assessed whether any changes needed, including the appointment of a chief executive officer and the chairman of the Board.

### Effective communication

Code provision E.1.2 of the CG Code requires that the chairman of the board should attend and answer questions in the annual general meeting. Mr. XU Chengyin, the chairman of the Company was unable to attend the annual general meeting of the Company held on 30 June 2017 due to other business engagement. Other Board members, however, attended such annual general meeting and made themselves available to answer questions to ensure effective communication with the shareholders of the Company.

### Responsibilities of directors

Code provision A.6.7 of the CG Code requires that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. CHAN Chiu Hung Alex, Mr. ZHENG Shuilin and Mr. DUAN Xuechen (the independent non-executive Directors) were unable to attend the annual general meeting of the Company held on 30 June 2017 due to other crucial business commitment.

# Corporate Governance Report

## BOARD OF DIRECTORS

### Composition

As at the date of this report, the Board comprises four members, consisting of one executive Director, namely Mr.SU Chun Xiang, and three independent non-executive Directors, namely Mr. KO Yat Fei, Mr. CHOW Chi Hang Tony and Ms. SHAO Yu.

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 page 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 one year from 9 January 2018 to 8 January 2019 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, 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 day-to-day management of the Group's business and the major decisions are made after consultation with the Board and appropriate Board committees, as well as senior management.

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 2017, 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)* (retired on 30 June 2017) | 10/10 |
| ZHANG Pingwu (retired on 30 June 2017) | 10/10 |
| CHEN Gongbao (resigned on 7 July 2017) | 10/10 |
| DENG Li (appointed on 13 March 2017 and resigned on 9 February 2018) | 17/17 |
| ZHANG Yongmin (appointed on 23 March 2017 and resigned on 9 February 2018) | 15/15 |
| Tsai Nam Lun (appointed on 5 December 2017 and resigned on 9 February 2018) | 3/3 |
| *Independent Non-executive Directors* | |
| CHAN Chiu Hung Alex (resigned on 18 December 2017) | 20/20 |
| ZHENG Shuilin (resigned on 6 December 2017) | 20/20 |
| DUAN Xuechen (resigned on 6 December 2017) | 20/20 |
| CHAN Shuk Kwan Winnie (appointed on 5 December 2017 and resigned on 9 January 2018) | 4/4 |
| CHEUK Tat Yee (appointed on 5 December 2017 and resigned on 12 February 2018) | 4/4 |
| YIN Yi (appointed on 5 December 2017 and resigned on 9 January 2018) | 4/4 |

During the year ended 31 December 2017, 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)* (retired on 30 June 2017) | 0/1 |
| ZHANG Pingwu (retired on 30 June 2017) | 0/1 |
| CHEN Gongbao (resigned on 7 July 2017) | 0/1 |
| DENG Li (appointed on 13 March 2017 and resigned on 9 February 2018) | 1/1 |
| ZHANG Yongmin (appointed on 23 March 2017 and resigned on 9 February 2018) | 1/1 |
| Tsai Nam Lun (appointed on 5 December 2017 and resigned on 9 February 2018) | 0/0 |
| *Independent Non-executive Directors* | |
| CHAN Chiu Hung Alex (resigned on 18 December 2017) | 0/1 |
| ZHENG Shuilin (resigned on 6 December 2017) | 0/1 |
| DUAN Xuechen (resigned on 6 December 2017) | 0/1 |
| CHAN Shuk Kwan Winnie (appointed on 5 December 2017 and resigned on 9 January 2018) | 0/0 |
| CHEUK Tat Yee (appointed on 5 December 2017 and resigned on 12 February 2018) | 0/0 |
| YIN Yi (appointed on 5 December 2017 and resigned on 9 January 2018) | 0/0 |

## 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 annual report, the Audit Committee comprises three independent non-executive Directors, namely Mr. KO Yat Fei, Mr. CHOW Chi Hang Tony and Ms. SHAO Yu and is chaired by Mr. KO Yat Fei.

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 four 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 2016, three months ended 31 March 2017, six months ended 30 June 2017 and nine months ended 30 September 2017;

- 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; and

- reviewed the external auditors' findings.

The Audit Committee had also reviewed the Group's audited annual results for the year ended 31 December 2017, this annual report, and confirmed that this annual report complies with the applicable standard, the GEM Listing Rules, and other applicable legal requirements and that adequate disclosures have been made. There is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditors.

# Corporate Governance Report

During the year ended 31 December 2017, 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)* (resigned on 18 December 2017) | 4/4 |
| ZHENG Shuilin (resigned on 6 December 2017) | 4/4 |
| DUAN Xuechen (resigned on 6 December 2017) | 4/4 |
| CHAN Shuk Kwan Winnie (appointed on 5 December 2017; resigned on 9 January 2018) | 0/0 |
| CHEUK Tat Yee (appointed on 5 December 2017; resigned on 12 February 2018) | 0/0 |
| YIN Yi (appointed on 5 December 2017; resigned on 9 January 2018) | 0/0 |

## Nomination Committee

As at the date of this annual report, the Nomination Committee comprises three independent non-executive Directors, namely Mr. CHOW Chi Hang Tony, Mr. KO Yat Fei and Ms. SHAO Yu and is chaired by Mr. CHOW Chi Hang Tony.

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.

During the year ended 31 December 2017, 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)* (resigned on 6 December 2017) | 1/1 |
| CHAN Chiu Hung Alex (resigned on 18 December 2017) | 1/1 |
| DUAN Xuechen (resigned on 6 December 2017) | 1/1 |
| CHEN Gongbao (resigned on 7 July 2017) | 1/1 |
| CHAN Shuk Kwan Winnie (appointed on 5 December 2017; resigned on 9 January 2018) | 0/0 |
| CHEUK Tat Yee (appointed on 5 December 2017; resigned on 12 February 2018) | 0/0 |
| YIN Yi (appointed on 5 December 2017; resigned on 9 January 2018) | 0/0 |

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 annual report, the Remuneration Committee comprises three independent non-executive Directors, namely Mr. KO Yat Fei, Mr. CHOW Chi Hang Tony and Ms. SHAO Yu and is chaired by Mr. KO Yat Fei.

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.

During the year ended 31 December 2017, 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)* (resigned on 6 December 2017) | 1/1 |
| XU Chengyin (retired on 30 June 2017) | 1/1 |
| CHAN Chiu Hung Alex (resigned on 18 December 2017) | 1/1 |
| ZHENG Shuilin (resigned on 6 December 2017) | 1/1 |
| CHAN Shuk Kwan Winnie (appointed on 5 December 2017; resigned on 9 January 2018) | 0/0 |
| CHEUK Tat Yee (appointed on 5 December 2017; resigned on 12 February 2018) | 0/0 |
| YIN Yi (appointed on 5 December 2017; resigned on 9 January 2018) | 0/0 |

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.

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 annual report, Mr. SU Chun Xiang is the Compliance Officer of the Group. The primary purpose 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

During the year ended 31 December 2017, the Company has received confirmation from its compliance adviser, Zhaobangji International Capital Limited (the "Compliance Adviser"), except for the compliance adviser's agreement entered into between the Company and the Compliance Adviser dated 28 February 2017, neither the Compliance Adviser nor its directors, employees or close associates (as defined in the GEM Listing Rules) 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.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by Directors in respect of the shares of the Company (the "Code of Conduct"). The Company did not receive the confirmations from former directors, namely Mr. Xu Chengyin, Mr. Zhang Pingwu, Mr. Chen Gongbao, Mr. Deng Li, Mr. Chan Chiu Hung Alex, Mr. Zheng Shuilin, Mr. Duan Xuechen, Mr. Zhang Yongmin, Mr. Tsai Nam Lun, Ms. Chan Shuk Kwan Winnie, Ms. Cheuk Tat Yee and Ms. Yin Yi to confirm that they have fully complied with the required standard set out in the Code of Conduct during the year.

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

## AUDITORS' REMUNERATION

The remuneration of external auditors of the Company, SHINEWING (HK) CPA Limited (resigned on 26 March 2018) and Elite Partners CPA Limited (appointed on 26 March 2018), in respect of audit services and non-audit services for the year ended 31 December 2017 is set out below:

| Description of services performed | Fee (HK$) |
|---|---|
| Audit Services (SHINEWING) | 600,000 |
| Non-audit services for quarterly reports and interim report (SHINEWING) | 491,000 |
| Audit Services (Elite Partners) | 550,000 |
| Non-audit services for quarterly reports and interim report (Elite Partners) | – |

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining a sound and effective internal control and risk management systems. Such systems are in place and designed to manage risks and provide reasonable assurance against any material misstatement or loss in order to safeguard the interests of the shareholders and the assets of the Group against unauthorised use or disposition, ensuring maintenance of proper books and records for the provision of reliable financial information, and ensuring compliance with the relevant rules and regulations.

During the year, the Group has engaged a professional firm as an independent advisor to hold an annual internal control review and risk management assessment to aid the Group in ensuring the internal controls and risk management systems are functioning adequately. The Board through its Audit Committee are kept regularly apprised of significant risks that may impact on the Group's performance.

### Process and Main Features of Risk Management and Internal Control

The goal of the Group is to identify and manage the risks which are inherent in the Group's business and its operating markets so that the risks can be reduced, mitigated, transferred or avoided.

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems. The Board would oversee its management in the design, implementation and monitoring of the risk management and internal control systems.

The Board oversees the Group's overall risk management and internal control process through the Audit Committee which forms an important part of the corporate governance regime of the Group. 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 for and 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 Board considers the works and findings of the Audit Committee in forming its own view on the effectiveness of such systems.

The Group does not maintain its own internal audit team due to cost saving reason. However, the independent advisor engaged by the Company would assist the Audit Committee to review the effectiveness of the Group's risk management and internal control systems and the external auditor of the Company would also assess the adequacy and effectiveness of certain key risk management and internal controls of the Group as part of their statutory audit process. The Group would review the need for an internal audit function on an annual basis.

The Group's risk management and integrated internal control framework, as disclosed in the below chart, are closely intertwined, and major control measures are tested to assess performance. 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.

<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="3">Audit Committee</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="3">Assists the Board in monitoring risk exposure, design and operating effectiveness of the underlying 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>

### Review of Effectiveness of the Risk Management and Internal Control Systems

The Board has overseen the Group's risk management and internal control systems on an ongoing basis to ensure that a review of the effectiveness of the Group's risk management and internal control systems has been conducted at least once a year.

The Directors acknowledge their responsibility for reviewing the effectiveness of the Group's internal control and risk management systems and would communicate regularly with the Audit Committee and the independent advisor engaged by the Group. The Board has reviewed through the work of its Audit Committee and the annual internal control review report and the findings performed by independent advisor and was satisfied to the effectiveness of the Group's internal control and risk management systems for the year ended 31 December 2017.

### Inside information

With regard to the internal controls and procedures for the handling and dissemination of inside information, the Group is in compliance with under the Part XIVA and relevant parts of the Securities and Future Ordinances and GEM Listing Rules. To be certain that all the staff members in the Group are aware of the inside information handling, the Group's disclosure policy sets out guidance and procedures to ensure that the inside information of the Group is disseminated to the public completely, accurately and timely. Besides, the Board is responsible to approve the dissemination of the information. The Group also has reasonable measures regarding keeping the sensitive information confidential and ensuring the confidentiality terms are in place in the significant agreements.

## 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

During the 31 December 2017, there had been no significant changes in the constitutional documents of the Company.

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 (Unit 739, 7/F, Lower Block, Grand Millennium Plaza, 181 Queen's Road Central, 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: –

Unit 739, 7/F, Lower Block, Grand Millennium Plaza, 181 Queen's Road Central, 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 are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the financial statements for the year ended 31 December 2017, the directors have adopted suitable accounting policies and applied them consistently. The directors are also responsible for keeping proper accounting records with reasonable accuracy for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities. The financial statements for the reporting year have been prepared on a going concern basis.

The Board has not taken any different view from that of the audit committee regarding the selection, appointment, resignation or dismissal of external auditors.

# Environmental, Social and Governance Report

## INTRODUCTION

This is the Environmental, Social and Governance ("ESG") report published by Feishang Non-metal Materials Technology Limited (the "Company", together with its subsidiaries, the "Group"). The contents of this report comply with the requirements of the ESG Reporting Guide as set out in Appendix 20 to the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited.

To operate as a responsible producer of bentonite products has always been a core value of our Group, for we believe people, community, society and the environment are all precious assets to our life. We strive to maintain outstanding standards and best practices in every aspect, as we believe it is the only key to long-term success, for us and for our future generations.

## REPORTING PERIOD AND SCOPE

The scope of this report includes the activities and data from our office in Hong Kong and manufacturing facilities in Anhui, the People's Republic of China (the "PRC"). The reporting period is from 1 January 2017 to 31 December 2017 as per the financial period of our Annual Report 2017. In relation to the information regarding corporate governance, please refer to the Corporate Governance Report contained in the Annual Report 2017.

## A. ENVIRONMENTAL PROTECTION

Our mining and production operations are subject to various PRC environmental protection laws and regulations relating to a broad range of environmental protection matters, such as land rehabilitation, water and soil preservation, noise control and discharge of wastewater and pollutants. Our policy is to comply with all relevant laws and regulations.

The Group strictly abides by relevant laws and regulations relating to air and greenhouse gas ("GHG") emissions, discharges into water and land, and generation and disposal of waste. Those laws and regulations include but not limited to the Environmental Protection Law of the PRC, the Water Pollution Prevention and Control Law of the PRC, the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste, the Law of the PRC on Prevention and Control of Pollution from Environmental Noise.

To ensure on-going compliance with the relevant environmental protection laws and regulations in the PRC, the Group has formulated Environmental Protection Management Measures relating to water, air and noise prevention and control, waste and use of resources. We have implemented and/or will implement certain measures, such as (i) conducting additional training on topics relating to latest developments in environmental protection laws and regulations; and (ii) organizing environmental protection team which will be responsible for updating our management and ensuring our compliance with the latest regulatory compliance.

## A1. Emissions and Wastes

***Dust and gas emissions***

The main sources of dust emission of Huanghu Bentonite Mine are mainly from open-pit mining, loading and unloading, flour mill, drying and movement of vehicles and mobile equipment. No obvious fugitive dust emissions were observed during the site visit to our Huanghu Bentonite Mine and our processing plant. We have a water truck for conducting water sprinkling to prevent fugitive dust emission at our Huanghu Bentonite Mine site. The Group's raw material storage facility uses a top-level meter to increase the degree of automation, which avoided excessive spillage and therefore wastage of raw materials. The Group also replaced the machines used in input of raw materials with belt conveyors which contributed to reductions in dust emission at the processing plant.

Gas emissions from the Cowper stove are managed through the use of a dust collector and desulfurization facility before it is being discharged. The Group uses a off-site air-drying facilities to reduce the proportion of bentonite products dried by rotary drum driers and increase the proportion of air-drying products, the Group expects to effectively reduce the need for coal energy and electricity, which may contribute to a significant decrease in the Group's carbon emissions and harmful gas emissions.

***Hazardous waste***

We have a maintenance workshop for mining machinery at the processing plant and waste oil is collected in discarded oil drums, which is reused as a lubricant. Our processing operations also uses processing reagents such as sodium carbonate, which are stored in warehouses with no secondary containment. Our independent technical consultant was of the opinion that the hazardous materials management risk was low and can generally be managed if environmental standards and regulatory requirements in the PRC are followed.

For the year ended 31 December 2017, there was no hazardous waste produced.

***Non-hazardous waste***

For the year ended 31 December 2017, the non-hazardous wastes in our production were approximately 33,176.46 tonnes.

For the year ended 31 December 2017, air emissions including nitrogen oxide, sulphur oxides and particulate matter were mainly produced from the company vehicles, which all weigh over 15 tonnes.

| **Type of emissions** | **Amounts of emission for the year ended 31 December 2017** |
|---|---|
| Nitrogen Oxide (NOx) | 381.06Kg |
| Sulphur Oxide (SOx) | 785.91g |
| Particulate Matter (PM) | 27.41Kg |

The main sources of the Group's greenhouse gas emissions were from Scope 1 (direct emission from both the stationery and the mobile combustion sources) and Scope 2 ("energy indirect" emission from the acquired electricity) emissions.

| | **For the year ended 31 December 2017** | |
|---|---|---|
| | Total Greenhouse gases ($CO_2$ and $CO_2$ equivalent) emissions | Intensity (per ton of bentonite) |
| Scope 1 | 180.77 tonnes | 2.14 kg |
| Scope 2 | 3,210.35 tonnes | 41 kg |

During 2017, there were no incidents of any material claims, administrative actions or penalties from the relevant PRC authorities in relation to greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste issues.

## A2. Use of Resources

The Group aims to follow the principle of "Recycling and Reducing", and has set up an "Energy Saving and Waste Reduction Team" which is led by the general manager of the company and the chief of mine of Wuhu Feishang Non-metallic Material Co., Ltd, and communicates the policy to the employees to raise the employees' awareness on resources conservation.

The Group actively promotes a reduction in energy consumption by;

- switching off idle lightings and electrical appliances;
- using variable-frequency equipment in the mine or production areas;
- installing energy saving equipment in the power supply system of the mine; and
- making use of natural sunlight to air dry about 75% of our extracted bentonite ore while the rest uses rotary drum drying.

As regards to the use of resources in office, the Group is committed to mitigating, through enhancing efficiency and implementing environmental initiatives, its indirect, negative impact on the environment from operation. We promote green office management in a number of ways, such as waste reduction, energy saving, and indoor air quality improvement. The Group has provided relevant guidance to all Hong Kong employees so as to raise their awareness on environmental protection. Our staff are encouraged and required to protect the environment and reduce consumption of resources. In addition, the Group will review the implementation of these control measures from time to time and consider improving measures on enhancing efficiency of the use of resources and energy, thereby achieving the objectives of energy saving, emission and pollution reduction and environmental protection.

The Group implemented green office management in Hong Kong office by adopting the following measures:

– Vigorously creating "paperless" office by encouraging the use of electronic documents, double-sided printing and recycling paper to reduce paper printing and consumption;

– Keeping record of stationery and equipment with a registration system to encourage employees to treasure resources;

– Repairing damaged or obsolete electronic devices, or donating them to other organizations as to extend its life span and reduce electronic waste;

– Providing smoke-free workplace as to achieve optimal indoor air quality;

– Partly adopting the use of LED lighting system;

– Purchasing eco-friendly products, such as recyclable papers, pens with changeable parts, recyclable toner cartridges, office electronic appliances with Energy Efficiency Label, and furniture and fixtures that are made with eco-friendly materials;

– Displaying notices at prominent positions near the switches of lighting system, reminding staff to turn off the main switch before leaving offices and/or during weekend/long holidays to conserve power;

– Maintaining the temperature of the air-conditioner at a suitable level, cleaning the air-conditioner and ventilation equipment regularly to conserve power;

– Promoting the use of telephone or video conferencing system for Directors' and employees' communication to decrease the frequency of business trips; and

– Encouraging employees to bring their own utensils for lunch as to reduce waste;

Water requirements for both our mining and processing operations are relatively insignificant. As water is essential to communities, we actively promote water conservation to our employee in our domestic usage of water.

Total electricity consumption for 2017 was 5,060,557 kWh, and the intensity was approximately 62.48 kWh per ton of bentonite produced. Total water consumption for 2017 was 683,273 litres, and the intensity was 8.44 litre per tonne of bentonite produced. As for the packaging materials, total paper used for 2017 was approximately 236.4 tonnes, and the intensity was 2.9185 Kg per ton of bentonite produced. Total plastic used for packaging in 2017 was approximately 91.82 tonnes, and the intensity was 1.13 Kg per ton of bentonite produced.

## A3. Environment and Natural Resources

***Managing significant impact on the environment and natural resources***

It is our policy that we operate our business in accordance with the relevant legal requirements of the PRC to minimize the impact on the environment and natural resources including land, water and waste rock disposal.

***Land rehabilitation***

Under the relevant PRC laws and regulations, we are required to undertake measures to restore a mine site to its original state after completion of mining operations. The rehabilitated land must satisfy rehabilitation standards and be approved by the relevant PRC land authorities. Land rehabilitation generally involves the removal of building structures, equipment and machinery, and other physical remnants of mining; restoration of land features in disturbed areas and dump sites; and contouring, covering and revegetation of disturbed areas.

We have developed a geological environment protection and rehabilitation plan which sets out our proposed site closure and rehabilitation measures, such as (i) greening, whereby selected plants such as pine trees and Boston ivy will be replanted at the mining site; (ii) stockpiling topsoil for reuse in rehabilitation; and (iii) rehabilitation monitoring of the area of geological disaster, land disturbance, water environment, soil and new plants. Our independent technical consultant was of the view that our proposed approach to land rehabilitation is generally in line with the relevant recognized PRC industry practices.

***Water management***

Water requirements for both our mining and processing operations are relatively insignificant. Processing of our current principal products also does not generate significant waste water. Our independent technical consultant also confirmed that no production wastewater was observed at the processing plant during the site visit. We currently have a simple cut-off drain constructed at the mining site and the mine water and collected rainwater are treated in two settling ponds whereby suspended solids in the water are precipitated, after which it is discharged to a nearby brook. This process has ensured that impacts on the water quality of nearby brooks are substantially reduced.

***Waste rock management***

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

***Procurement management***

As for the procurement of supplies, materials and equipment, the procurement manager shall consider the following factors, where appropriate to minimise the impact on the environment:

– minimal use of virgin material in the product;

– replacement of disposables with reusables or recyclables;

– minimal environmental impact from the entire product or service life cycle;

– minimal packaging or elimination of packaging;

– reduced energy/water consumption;

– toxicity reduction or elimination;

– avoiding single-use disposable items; and

– preference given to materials of high recyclability.

## B. EMPLOYMENT AND LABOUR PRACTICES

The Group has a comprehensive personnel management system which is prepared (subject to geographical locations) in accordance with the Employment Ordinance (Chapter 57 of the Laws of Hong Kong), Labor Law of the People's Republic of China (《中華人民共和國勞動法》), Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and other applicable laws, as well as industry practices. The system covers recruitment, rank management, remuneration, training, confidentiality and other areas. At the same time, the Group has provided its staff with employees' induction guidance, together with other documents and information related to the system, setting forth details about its employment policies, employees' benefits and rights, working hours and holidays, staff responsibility, code of conduct and occupational safety and health. We ensure that our employees are clear about their own rights and responsibilities as they will comply with the system and carry out their work legally, in order to safeguard the interest of both parties.

### B1. Employment

***Recruitment and promotion***

We believe that our employees are valuable assets that contribute to the success of our Group. We recruit our employees based on a number of factors such as their industry experience in the bentonite mining industry, their educational background, and capabilities. We have systematic procedure to conduct performance appraisal annually. Employees' seniority and performance are the two foundations for promoting staff members, which reflects an objective and fair process to retain our talents.

***Compensation, benefits and dismissal***

Generally, employees are paid a fixed salary and other allowances based on their respective positions and responsibilities. We have entered into individual employment contracts with our employees that comply with the relevant rules and regulations, covering matters such as wages, employee benefits, employment scope and grounds for termination. Employees are paid promptly, regularly, on time and fairly in respect of work performance. Compensation, benefits or dismissals are based on their merit, qualifications and competence.

Under the relevant PRC laws and regulations, we are required to contribute to a number of employee social welfare schemes in respect of our employees. Such schemes include social insurance contributions (including the basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing provident fund contributions.

***Working hours, rest periods and paid leaves***

It is our policy that working hours must not exceed the legal limit and should be modified where relevant to reflect any particular hazards or risks of the work being done. Employees should be properly compensated for overtime according to the law and within legal working hour limits. There is rest period in each work day. Employees should be granted their stipulated annual leave, sick leave and other types of leave in accordance with the relevant rules and regulations.

***Anti-discrimination, equal opportunity and diversity***

The Group actively promotes a diverse workplace where people from diverse backgrounds are valued and respected. Our policy is non-discriminatory on the basis of race, color, national or ethnic origin, gender, sexual orientation, religion, disability, age, cultural background, social group, marital status, family status or other factors conforming to applicable labor laws.

We have complied with the applicable labor laws and regulations in all material aspects during 2017.

## B2. Health and Safety

Safety of our employees is always our Group's central concern and is the core of our mission. One of our approaches is to create a strong culture of safety, by implementing high safety standards and by providing appropriate training and education to our employees. We care about our employees and their families, and therefore strive to protect them and by providing a safe and healthy working environment.

Occupational health and safety is one of our prime responsibilities, we have implemented and enforced certain measures to ensure compliance of the regulatory requirements and our production safety and environmental protection. We have set up a department tailor for occupational health and safety, and a safety production management committee for safety activities. We have our owned safety production and operational manual which specify certain procedures such as our safety production procedures in respect of different posts and departments, our accident prevention procedures and accident reporting procedures. Regular safety drills are carried out to ensure the awareness of safety production measures in case of emergency handling. The roles and responsibilities of each of the supervising staff and workers are clearly defined and each supervising staff is accountable for their respective areas of responsibility. Our mine manager supervises the implementation of regular on-site examination and continuously monitors the safety policies. Our safety supervisor inspects the implementation of safety procedures on daily basis.

The key points of our policies are:

– to provide our employees with appropriate protective gears;

– to promote the general health of employees;

– to reduce work-related injury and illness;

– to ensure information regarding occupational health and safety are made readily available to employees in appropriate language(s); and

– to ensure that employees are aware, through newsletters, training or other effective and frequent means of communication, of our obligations with regards to site safety and their own obligations of ensuring the safety of themselves and other employees.

We hold a valid Safety Production Permit (安全生產許可證) for our Huanghu Bentonite Mine issued by Anhui Province Administration of Work Safety (安徽省安全生產監督管理局).

Our safety department is responsible for monitoring the occupational health and safety of our mining and production operations. We have developed a set of occupational health and safety procedures, which cover various aspects of our mining and processing. To avoid any potential accident or occupational health and safety issues in the course of our operations, we have also implemented certain safety measures, including: (i) regular reviews of health conditions of employees involved in the processing of our bentonite products and safety statistics; and (ii) additional training for our mining and production staff on mining and production safety.

During 2017, the Group has not been subject to any material claim or penalty in relation to health and work safety and has been in compliance with the relevant PRC and Hong Kong laws and regulations in all material aspects.

### B3. Development and Training

The Group attaches high importance to attraction and retention of talents. We, based on our business development principles and needs, invite professionals and those with management expertise to optimize our structure of human resources. We encourage our employees to join internal or external training programs while subsidies are also available, in order to improve their quality, qualifications, skills, professional know-how and work efficiency for long-term growth. We offer adequate promotion opportunities within the Group to develop employees with potential and good working performance into senior roles in the Group. The Group attaches importance to the views of employees and encourages them to discuss their work promotion and career development objectives with the management.

Our mining and production employees receive training through orientation training sessions as well as on-the-job training by our more experienced technical personnel. Moreover, our managers receive additional technical and managerial training, and we offer certain of our employees the opportunity to attend external training sessions.

Training includes:

– periodic safety training for all employees;

– periodic training, examinations and certifications for special skills workers in the mines and processing plants; and

– periodic quality control training for employees in the quality control department.

### B4. Labor Standards

We believe in a no forced labor and child labor policy.

It is our Group's policy not to use forced, coerced, bonded, or indentured, or involuntary prison labor in any form. All work, including overtime work, shall be voluntary. Employees are free to leave employment upon giving reasonable notice. We do not require employees to hand over government-issued identification, passports or work permits as a condition of employment.

It is our policy not to employ any person under the local legal minimum employment age or employ any person in a manner which conflicts with completion of their compulsory schooling or employ any person below the age of 16 years on a full-time basis (unless part of a professional apprenticeship program approved by local laws). Additionally, all young employees must be protected from performing any work that is likely to be hazardous, or likely to interfere with the employees' education, or that may be harmful to the employees' health, or development. It is our Group's policy to adhere to legitimate workplace apprenticeship programs and comply with all laws and regulations governing apprenticeship programs.

The Group has been in compliance with the relevant laws and regulations and has not been assessed any fines or penalties with regards to child labor and forced labor during 2017.

### B5. Supply Chain Management

We all have a responsibility to look after the natural environment both for the present and the future. All stages in our supply chain shall comply with and preferably exceed applicable national and legal environmental requirements.

The Group has formulated supplier assessment systems and conducted regular assessments of the environmental and social performance of suppliers. These systems guarantee the quality of raw material and equipment used in the production of the Group and strengthens the Group's relationship with suppliers. On-site evaluations would be conducted regularly by the Group to assess the performance of social responsibilities of suppliers. For instance, if suppliers violated any labor regulations, including employment of child labor, forced labor, etc., the Group would immediately terminate the cooperation with them.

In selecting our contractors and equipment suppliers, we will take into account various factors, such as (i) quality of services; (ii) contracting costs; (iii) safety management; and (iv) relevant qualifications (if applicable). We require our contractors to maintain a high standard of quality for the services provided, and to comply with and have in place adequate occupational health and safety and environmental protection procedures in accordance with the applicable laws and regulations and safety requirements imposed by the relevant PRC government authorities.

Our production department is responsible for monitoring the performance of our contractors by conducting on-site inspections and supervision while the outsourced services are being carried out by our contractors. Our production department is also responsible for evaluating our contractors on a periodical basis.

The principal materials and supplies required for the production of principal products include coal, sodium carbonate and packaging bags. It is our policy that preference should be given to suppliers which have:

– a policy stating their sustainability values and commitments;

– sustainability certificates or awards;

– sustainability management systems or quality management systems that incorporate environmental and social considerations; and

– full compliance with the Group's Supplier Code of Conduct (the "Code") and all applicable environmental and social regulations and legislation.

We work with our contractors and suppliers to ensure that they also strive to meet the principles of the Code and/or have their own supplier code of conduct.

### B6. Product Responsibility

We believe that the reliability and quality of our products are crucial to the success of our Group. As such, we have established and maintained stringent quality control standards and testing and inspection procedures at each critical step in the production of our drilling mud and pelletizing clay. These standards and procedures are documented in our quality control manual. In addition, we provide training to our employees to ensure effective application of our quality control procedures. We are dedicated to consistently producing high-quality products to meet the requirements of our customers.

We have been accredited with ISO9001:2008 certification, an international certification for quality management systems, for the production of bentonite product, including our drilling mud and pelletizing clay.

As regards to trading business, we have established a sales management system to monitor the sales process. By identifying customers' requirements on our products, we negotiate with them on prices, quantity, quality and delivery schedule prior to entering into sales contracts. Subsequently, we will follow up the delivery process to ensure that our products fulfill the terms under the sales contracts. We will collect customers' feedback through various communication channels before, during and after the delivery processes. Customers' feedback is used as the benchmark to evaluate our quality assurance system and we will take rectification measures when needed.

As for advertising and marketing policies, we are committed to a responsible approach to communication. It is our Group's policy to adhere to internal verification process for information used in advertising and promotion and ensure that our advertising and promotional materials are backed by past performance and relevant data based on customer feedback or laboratory results.

The Group has been in compliance with relevant laws and regulations which had a material impact on our business operation and has not been assessed any fines or penalties with regard to product safety, advertising, labelling and privacy matters relating to our products during 2017.

### B7. Anti-Bribery and Corruption

The Group commits to ethical conduct in doing business. It is our policy that all forms of corruption, extortion, fraud and bribery must be prohibited, including those for our own benefit or for the benefit of our relations, friends or associates.

Each employee is given a copy of the employee handbook in which there is a section about the Group's anti-fraud policy, providing clear definition on the concept of fraud and the scope of fraudulent activities including, but not limited to, accepting bribes and rebates and expenditure for improper purposes such as payment of bribes and rebates.

It is our policy that anti-fraud policies and procedures and related measures shall be communicated in a variety of ways within the Group (through employee handbooks, company rules and regulations, publicity or local area network) to ensure that employees receive access to relevant laws and regulations, receive business ethics training, understand the concepts involved in the code of conduct; and be able to differentiate between illegal and ethically sound behaviors. All employees must be aware of the Group's serious attitude towards fraud prevention and the employees' own responsibility for anti-fraud.

Our Group assesses the risk of fraud and establishes specific control mechanisms to reduce the occurrence of fraud, mainly through the following means:

– Fraud risk assessment is included when the management conducts an enterprise risk assessment at the beginning of each year. Management is required to identify and assess fraud risks at the corporate level, business unit level, and major account level, and to assess the importance and likelihood of fraud, including risk. These assessments also include false financial reports, misappropriation of company assets and unauthorized or inappropriate revenues or expenses, and an assessment of the risk of fraud, including senior management or the board of directors (the "Board");

– 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 and will then report to the Board after properly reviewing relevant procedures. 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 implementation of control measures to reduce the occurrence of fraud opportunities such as integrity and anti-fraud training to new employees as well updated training to existing employees;

– Establishing a channel for real-name or anonymous reporting on fraudulent activities; and

– Requiring our suppliers to disclose to us immediately any situation that may appear as a potential material conflict of interest. They are also expected to disclose if any of our officials or consultants working with the Group has a material interest of any kind in the supplier's business or any kind of economic ties with the supplier.

Employees are expected to observe a high standard of ethical, integrity and professional conduct. The Group has adopted a whistle-blowing policy. The Audit Committee meets regularly with the Company's senior management to consider the effectiveness of internal controls and risk management of the Company. As far as the Group is aware, there were no fraudulent practices brought to the Group's attention during the year.

The Group abides by the Anti-Unfair Competition Law of the PRC, the Interim Provisions on Prohibiting Commercial Briberies, the Anti-Money Laundering Law of the PRC and other laws and regulations that call for integrity and ethical conducts in operating a business.

### B8. Community Responsibility

Fulfilling social responsibilities is not only the fundamental requirement of the realization of sustainable development of the Group, but also its duty. While developing its business, the Group still devotes itself to community investment and fulfilling its social responsibility by community investment.

The Group strives to minimize potential negative social impacts while promoting opportunities and benefits for host communities. Our community responsibility policies include:

- Continually improving community development and community investment programs through monitoring, measuring and managing our social and economic impacts;
- Developing programs that ensure the sustainable welfare of communities;
- Upholding and promoting the human rights of our employees and contractors, our suppliers, and the communities in which we operate;
- Recognizing and respecting indigenous people's culture, heritage and traditional rights and supporting the identification, recording, management and protection of indigenous cultural heritage;
- Building and maintaining stakeholder relationships with people who are directly affected or interested in our operations; and
- Managing the risk of public health threats amongst employees, contractors and local communities.

elite partners
CERTIFIED PUBLIC ACCOUNTANTS

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

## DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Feishang Non-Metal Materials Technology Limited (the "Company") and its subsidiaries ("the Group") set out on pages 64 to 117, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements and whether the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR DISCLAIMER OF OPINION

### 1. De-consolidation of certain subsidiaries

1.1 All the existing executive and independent non-executive directors of the Company were only appointed on 9 January 2018 and the current board of directors of the Company (the "Current Board") was only formed on 12 February 2018 after all former relevant directors of the Company involving and making decisions on the affairs of the Group (the "Former Board") during the year ended 31 December 2017 had all resigned and been no longer with the Company. Following the complete change in the composition of the board with effect from 12 February 2018, despite various communications with the Former Board in both verbal and written ways to retrieve and obtain relevant documents for the preparation of consolidated financial statements for the year ended 31 December 2017, the Current Board has been unable to access to the supporting documents regarding certain subsidiaries of the Group, namely (1) 朝陽市邦創隆新非金屬材料股份有限公司(ChaoYang BangChuang LongXin Non-metal Materials Company Limited* established in the People's Republic of China (the "PRC") on 20 November 2017 ("BangChuang LongXin")) and 朝陽市邦創泰元非金屬材料股份有限公司 (ChaoYang BangChuang TaiYuan Non-metal Materials Company Limited*) established in the PRC on 11 November 2017 ("BangChuang TaiYuan"), being the non-principal and indirect non-wholly owned subsidiaries of the Company; (2) Lucky Investments Holdings Limited ("Lucky Investments") incorporated in Hong Kong on 18 October 2017, being an indirect wholly owned subsidiary of the Company and holding 51% equity interests in each of BangChuang LongXin and BangChuang TaiYuan; and (3) Lucky Capital Group Limited ("Lucky Capital") incorporated in British Virgin Islands on 20 September 2017, being the direct wholly owned subsidiary of the Company and holding company of Lucky Investments (BangChuang LongXin, BangCHuang TaiYuan, Lucky Investments and Lucky Capital are collectively referred to as the "De-consolidated Subsidiaries"), all of which were incorporated/established by the Former Board towards the year ended 31 December 2017.

Due to the reluctance of the Former Board and the hindrance of the legal representatives, the directors, the management and the personnel of the De-consolidated Subsidiaries assigned by the Former Board, the Current Board considered that the Company was unable to exercise effective control over the De-consolidated Subsidiaries despite various efforts made by the Board to resolve the matters. Accordingly, the Current Board resolved that it was impracticable to consolidate the financial information of the De-consolidated Subsidiaries. Under this circumstance, the financial results, assets and liabilities have been de-consolidated from the Group with effective from 31 December 2017. The De-consolidation had resulted in a loss of approximately CNY5,616,000.

Given these circumstances, we have not been provided with sufficient documentary evidence on the De-consolidated Subsidiaries, accordingly there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the De-consolidation were appropriate.

1.2 As further disclosed in note 1 to the consolidated financial statements, certain transactions have been carried out by the De-consolidated Subsidiaries since the date of incorporation of the respective De-consolidated Subsidiaries. Due to the lack of the supporting documents of the De-consolidated Subsidiaries, we were unable to perform satisfactory audit procedures to assess as to whether (i) those transactions were free from material misstatements; and (ii) any of material related party transactions, contingent liabilities and commitments arising from those transactions should be recorded or disclosed in the consolidated financial statements of the Group for the year ended 31 December 2017.

Any adjustments that might have been found to be necessary in respect of the above would have an effect on the Group's net assets as at 31 December 2017 and the financial performance and cash flows of the Group for the year ended 31 December 2017 and may have resulted in additional information being disclosed in the consolidated financial statements as to the nature of the transactions and any contingent liabilities, commitments, related party transactions and significant non-adjusting subsequent events relating to the De-consolidated Subsidiaries.

**2. Prepayment to suppliers**

During the year ended 31 December 2017, the Group entered into several trading agreements for the purchases of materials (the "Purchases Transactions") for its ordinary business with trade deposits of approximately CNY57,846,000 in total that have been paid to those suppliers. Following the complete change in the composition of the board with effect from 12 February 2018 and having assessed the Purchases Transactions by the Current Board, the Current Board considered that the Purchases Transactions were not be in the best interests of the Company given that facts that all of the Purchases Transactions had been entered into by the Former Board and the Current Board has no knowledge about those suppliers. In this regard, arrangement has been made by the Current Board to terminate all of the Purchases Transactions and obtain full refund of trade deposits from those suppliers. The Current Board has been in negotiation with those suppliers to the Purchases Transactions for the refund. Up to the date of this report, those suppliers to the Purchases Transactions refunded the advance trade deposit of HK$500,000 to the Company.

Given these circumstances, we were unable to carry out confirmation procedures in relation to the deposit paid to those suppliers and there was inadequate documentary evidence available for us to satisfy ourselves to the recoverability of the trade deposits paid by the Company as recorded in prepayment to suppliers of approximately CNY57,846,000.

Any adjustments that might have been found to be necessary in respect of the recoverability of prepayment to suppliers would have an effect on the Group's net position as at 31 December 2017 and the financial performance of the Group for the year ended 31 December 2017.

**3. Inventories**

We were not appointed as auditors of the Company until after 31 December 2017 and thus did not observe the counting of physical inventories at the beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at 31 December 2016 and 2017, which are stated in the consolidated statements of financial position at CNY2,887,000 and CNY2,421,000, respectively. As a result of this matter, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and the elements making up the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows.

## 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 International Financial Reporting Standards, issued by the International Accounting Standard Board 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 responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and to issue an auditor's report. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

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 the Code.

## REPORT ON OTHER MATTERS UNDER SECTIONS 407(2) AND 407(3) OF THE HONG KONG COMPANIES ORDINANCE

In respect alone of the matters described in the Basis for Disclaimer of Opinion's paragraph:

- We were unable to determine whether proper books of account had been kept; and

- We have not obtained all the information or explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of our audit.

**Elite Partners CPA Limited**
*Certified Public Accountants*
Hong Kong 31 May 2018

**Yip Kai Yin**
Practising Certificiate number: P05131

10/F, 8 Observatory Road,
Tsim Sha Tsui, Kowloon
Hong Kong

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

*For the year ended 31 December 2017*

| | Notes | **2017 CNY'000** | 2016 CNY'000 |
|---|---|---|---|
| Revenue | 7 | **28,796** | 26,311 |
| Cost of sales | | **(18,456)** | (14,791) |
| Gross profit | | **10,340** | 11,520 |
| Other income | 9 | **693** | 3,245 |
| Selling and distribution expenses | | **(3,148)** | (1,413) |
| Administrative and other expenses | | **(73,536)** | (8,932) |
| Finance costs | 10 | **(376)** | (521) |
| Loss on deconsolidation of subsidiaries | | **(5,616)** | – |
| (Loss) profit before tax | | **(71,643)** | 3,899 |
| Income tax expense | 11 | **(437)** | (1,099) |
| (Loss) profit and total comprehensive (expense) income for the year | 12 | **(72,080)** | 2,800 |
| Attributable to: | | | |
| Owners of the Company | | **(71,874)** | 2,800 |
| Non-controlling interests | | **(206)** | – |
| | | **(72,080)** | 2,800 |
| (Loss) earnings per share (CNY): | | | |
| Basic | 16 | **(14.21) cents** | 0.56 cents |
| Diluted | 16 | **(14.21) cents** | 0.56 cents |

# Consolidated Statement of Financial Position

*As at 31 December 2017*

| | Notes | 2017<br>CNY'000 | 2016<br>CNY'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 17 | **12,187** | 13,034 |
| Prepaid lease payments | 18 | **2,586** | 2,663 |
| Intangible asset | 19 | **5,142** | 5,209 |
| Restricted bank balances | 23 | **8,043** | 6,150 |
| Deferred tax assets | 20 | **497** | 612 |
| | | **28,455** | 27,668 |
| Current assets | | | |
| Inventories | 21 | **2,421** | 2,887 |
| Trade, bills and other receivables | 22 | **69,042** | 8,617 |
| Prepaid lease payments | 18 | **77** | 77 |
| Bank balances and cash | 23 | **32,206** | 34,641 |
| | | **103,746** | 46,222 |
| Current liabilities | | | |
| Trade and other payables | 24 | **12,944** | 3,162 |
| Income tax payables | | **169** | 368 |
| | | **13,113** | 3,530 |
| Net current assets | | **90,633** | 42,692 |
| | | **119,088** | 70,360 |

# Consolidated Statement of Financial Position

*As at 31 December 2017*

| | Notes | **2017 CNY'000** | 2016 CNY'000 |
|---|---|---|---|
| Capital and reserves | | | |
| Share capital | 27 | **4,698** | 4,188 |
| Reserves | | **106,485** | 58,548 |
| | | **111,183** | 62,736 |
| Non-controlling interests | | **–** | – |
| Total equity | | **111,183** | 62,736 |
| Non-current liabilities | | | |
| Asset retirement obligations | 25 | **7,330** | 6,954 |
| Deferred income | 26 | **575** | 670 |
| | | **7,905** | 7,624 |
| | | **119,088** | 70,360 |

The consolidated financial statements on pages 64 to 117 were approved and authorised for issue by the board of directors on 31 May 2018 and are signed on its behalf by:

**SU Chun Xiang**
*Director*

**KO Yat Fei**
*Director*

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2017*

| | Share Capital CNY'000 | Share premium CNY'000 | Share options reserve 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 (Accumulated Loss) CNY'000 | Total CNY'000 | Non-controlling interests CNY'000 | Total CNY'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2017 | 4,188 | 25,954 | – | 23,351 | 3,401 | 808 | 5,034 | 62,736 | – | 62,736 |
| Loss and total comprehensive expense for the year | – | – | – | – | – | – | (71,874) | (71,874) | (206) | (72,080) |
| Appropriation to statutory reserve | – | – | – | – | 155 | – | (155) | – | – | – |
| Appropriation and utilisation of safety fund and production maintenance fund, net | – | – | – | – | – | 162 | (162) | – | – | – |
| Establishment of subsidiaries | – | – | – | – | – | – | – | – | 9,800 | 9,800 |
| Deconsolidation of subsidiaries | – | – | – | – | – | – | – | – | (9,594) | (9,594) |
| Recognition of equity-settled share based payments *(Note 28)* | – | – | 46,064 | – | – | – | – | 46,064 | – | 46,064 |
| Placing of new shares *(Note 27)* | 347 | 49,945 | – | – | – | – | – | 50,292 | – | 50,292 |
| Subscription of new shares *(Note 27)* | 87 | 12,486 | – | – | – | – | – | 12,573 | – | 12,573 |
| Transaction costs attribute to the issue of new shares *(Note 27)* | – | (1,137) | – | – | – | – | – | (1,137) | – | (1,137) |
| Issue of shares upon exercise of share options *(Note 27)* | 76 | 20,684 | (8,231) | – | – | – | – | 12,529 | – | 12,529 |
| At 31 December 2017 | 4,698 | 107,932 | 37,833 | 23,351 | 3,556 | 970 | (67,157) | 111,183 | – | 111,183 |

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2017*

| | **Share Capital** CNY'000 | **Share premium** CNY'000 | **Share options reserve** 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 | **Non-controlling interests** CNY'000 | **Total** CNY'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2016 | 4,188 | 25,954 | – | 23,351 | 2,830 | 652 | 2,961 | 59,936 | – | 59,936 |
| Profit and total comprehensive income for the year | – | – | – | – | – | – | 2,800 | 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 | – | 62,736 |

Notes:

**(i) Other reserve**

It represented (a) the capital contribution from the previous controlling shareholder, Mr, Li Feilie ("Mr. Li") of Feishang International Holdings Limited ("Feishang International") during the fiscal year of 2002 to 2003; and (b) 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 2017*

| | 2017<br>CNY'000 | 2016<br>CNY'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| (Loss) profit before tax | **(71,643)** | 3,899 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **1,157** | 1,252 |
| Amortisation of intangible asset | **67** | 57 |
| Amortisation of prepaid lease payments | **77** | 77 |
| Government grants | **(93)** | (2,133) |
| Net loss on disposal/written off of property, plant and equipment | **5** | 5 |
| Finance costs | **376** | 521 |
| Bank interest income | **(503)** | (463) |
| Release of government grant for property, plant and equipment | **(95)** | (95) |
| Reversal of impairment loss of trade receivables | **–** | (50) |
| Equity-settled share-based payments | **46,064** | – |
| Loss on deconsolidation of subsidiaries | **5,616** | – |
| Operating cash flows before movements in working capital | **(18,972)** | 3,070 |
| Increase in inventories | **(909)** | (634) |
| (Increase) decrease in trade, bills and other receivables | **(68,218)** | 7,794 |
| Increase (decrease) in trade and other payables | **11,168** | (4,381) |
| Cash (used in) generated from operations | **(76,931)** | 5,849 |
| Income tax paid | **(484)** | (954) |
| NET CASH (USED IN) FROM OPERATING ACTIVITIES | **(77,415)** | 4,895 |
| INVESTING ACTIVITIES | | |
| Increase in bank deposits with a maturity of more than three months | **(945)** | (15,000) |
| Placement of restricted bank balances | **(1,893)** | (3,947) |
| Deposit made on acquisition of property, plant and equipment | **(5,000)** | – |
| Payment to acquire mining right | **–** | (1,416) |
| Purchases of property, plant and equipment | **(2,695)** | (392) |
| Proceeds from disposal of property, plant and equipment | **2** | 11 |
| Bank interest income received | **503** | 463 |
| Withdrawal of pledged bank deposit | **–** | 15,000 |
| Net cash outflows on deconsolidation of subsidiaries | **(87)** | – |
| NET CASH USED IN INVESTING ACTIVITIES | **(10,115)** | (5,281) |

# Consolidated Statement of Cash Flows

*For the year ended 31 December 2017*

| | Notes | 2017<br>CNY'000 | 2016<br>CNY'000 |
|---|---|---|---|
| FINANCING ACTIVITIES | | | |
| Government grant received | | **93** | 2,433 |
| Interests paid on bank loan | | **–** | (180) |
| Repayment of bank loan | | **–** | (14,323) |
| Proceeds from placing of shares | | **62,865** | – |
| Share issue expenses | | **(1,137)** | – |
| Exercise of share options | | **12,529** | – |
| Capital contribution from non-controlling interests | | **9,800** | – |
| NET CASH FROM (USED IN) FINANCING ACTIVITIES | | **84,150** | (12,070) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | **(3,380)** | (12,456) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | | **19,641** | 32,097 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 23 | **16,261** | 19,641 |

### 1. CORPORATE INFORMATION AND BASIS OF PREPARATION

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

The Company is an investment holding company, the principal activities of its subsidiary is mainly engaged in bentonite mining, production and sales of drilling mud and pelletising clay.

During the year ended 31 December 2016, the immediate holding company and ultimate holding company of the Company were Feishang Group limited and Laitan Investments Limited respectively, both of which were incorporated in the British Virgin Islands (the "BVI").

Upon completion of the general offer on 20 April 2017, the ultimate controlling shareholder has become Mr. Zhang Qiang. Details of the general offer are set out in the Company's announcement dated 20 April 2017.

Upon close of the mandatory unconditional cash offer (the "Offer") made by Kingston Securities Limited for and on behalf of Mr. ZHANG Qiang (張強) on 14 June 2017, the ultimate controlling shareholder of the Company is Mr. ZHANG Qiang, details of which are set out in the Company's announcement dated 14 June 2017. As at the date hereof Mr. ZHANG Qiang held approximately 49.21% interest in the Company and continued to be the single largest shareholder of the Company. Pursuant of the composite document of the Company dated 24 May 2017 Mr. ZHANG Qiang, the controlling shareholder of the Company, intended to maintain the Company's existing principal activities upon the completion of the Offer and will assist the Company in reviewing its business and operations and seek for new investment opportunities.

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).

## 1. CORPORATE INFORMATION AND BASIS OF PREPARATION *(Continued)*

### De-consolidation of certain subsidiaries of the Group

All the existing executive and independent non-executive directors of the Company were only appointed on 9 January 2018 and the current Board was only formed on 12 February 2018 (the "Current Board") after all former relevant directors of the Company participating and marking decisions on the affairs of the Group (the "Former Board") during the year ended 31 December 2017 have all resigned and been no longer with the Company. Following the complete change in the composition of the Board with effect from 12 February 2018, despite various communications with the Former Board both in verbal and written ways to retrieve and obtain relevant documents for the preparation of consolidated financial statements for the year ended 31 December 2017, the Board has been unable to access to the supporting documents of the books and records regarding certain subsidiaries of the Group, namely (1) 朝陽市邦創隆新非金屬材料股份有限公司(ChaoYang BangChuang LongXin Non-metal Materials Company Limited*) established in the PRC on 20 November 2017 ("BangChuang LongXin")) and 朝陽市邦創泰元非金屬材料股份有限公司 (ChaoYang BangChuang TaiYuan Non-metal Materials Company Limited*) established in PRC on 11 November 2017 ("BangChuang TaiYuan"), being the non-principal and indirect non-wholly owned subsidiaries of the Company; (2) Lucky Investments Holdings Limited 邦創投資控股有限公司 incorporated in Hong Kong on 18 October 2017 ("Lucky Investments"), being an indirect wholly owned subsidiary of the Company and holding 51% equity interests in each of BangChuang LongXin and BangChuang TaiYuan; and (3) Lucky Capital Group Limited incorporated in British Virgin Islands on 20 September 2017 ("Lucky Capital"), being the direct wholly owned subsidiary of the Company and holding company of Lucky Investments (BangChuang LongXin, BangCHuang TaiYuan, Lucky Investments and Lucky Capital are collectively referred to as the "De-consolidated Subsidiaries"), all of which were incorporated by the Former Board during the last quarter of the year ended 31 December 2017.

Due to the reluctance of the Former Board and the hindrance of the legal representatives, the directors, the management and the personnel of the De-consolidated Subsidiaries assigned by the Former Board, the Board considered that the Company was unable to exercise effective control over the De-consolidated Subsidiaries despite various efforts made by the Board to resolve the matter. Accordingly, the Board resolved that it was impracticable to consolidate the financial information of the De-consolidated Subsidiaries. Under this circumstances, the financial results, assets and liabilities have been de-consolidated from the Group with effective from 31 December 2017 ("De-consolidation"). The De-consolidation had resulted in a loss of approximately CNY5,616,000.

For the preparation of the consolidated financial statements for the year ended 31 December 2017, the Group had consolidated the financial results, assets and liabilities of the De-consolidated Subsidiaries from the date of incorporation of the respective De-consolidated Subsidiaries up to 31 December 2017 based on an unaudited management information received.

* The English name is for identification purpose only.

## 1. CORPORATE INFORMATION AND BASIS OF PREPARATION *(Continued)*

### De-consolidation of certain subsidiaries of the Group *(Continued)*

The following is the financial information of the Deconsolidated Subsidiaries:

| | CNY'000 |
|---|---|
| Property, plant and equipment | 2,378 |
| Deposits paid for acquisition of property, plant and equipment (Note (i)) | 5,000 |
| Inventories | 1,375 |
| Trade, bills and other receivables (Note (ii)) | 7,793 |
| Bank balances and cash | 87 |
| Trade and other payables | (1,386) |
| Income tax payables | (37) |
| Net assets of the Deconsolidated Subsidiaries | 15,210 |
| Less: Non-controlling interests | (9,594) |
| Loss on Deconsolidation | (5,616) |

Notes:

(i) Deposits paid represented the deposits paid for acquisition of 5-stories commercial property located in Chaoyang City, Jianping County, Liaoning Province, the PRC, with the land use rights relating thereto at a cash consideration of CNY12,020,000. Details of the acquisition are set out in the Company's announcements dated 5 December 2017.

(ii) On 28 November 2017, Lucky Investments, being one of the De-consolidated Subsidiaries, has entered into a raw material purchase contract with a supplier, of which a trade deposit in an amount of HK$7,000,000 (equivalent to CNY 5,846,000) has been paid by the Company. To the best of knowledge and belief of the Board, such carrying values of the amounts of CNY 5,846,000 due from the investments in the De-consolidated Subsidiaries were not recoverable and, accordingly, an impairment loss of approximately CNY5,846,000 had been recognised in the profit or loss.

Transactions had been carried out by the De-consolidated Subsidiaries since the date of incorporation of the respective De-consolidated Subsidiaries for the year ended 31 December 2017 are as follow:

| | CNY'000 |
|---|---|
| Revenue | 1,680 |
| Cost of sales | (1,390) |
| Gross profit | 290 |
| Administrative and other expenses | (689) |
| Loss before tax | (399) |
| Income tax expenses | (37) |
| Loss for the year | (436) |

## 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 2014 – 2016 Cycle |
| Amendments to IAS 7 | Disclosure Initiative |
| Amendments to IAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |

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[1] |
| IFRS 15 | Revenue from Contracts with Customers[1] |
| IFRS 16 | Leases[2] |
| IFRS 17 | Insurance Contracts[3] |
| IFRIC Interpretation 22 | Foreign Currency Transactions and Advance Consideration[1] |
| IFRIC Interpretation 23 | Uncertainty Over Income Tax Treatments[2] |
| Amendments to IAS 28 | Long-term Interests in Associate and Joint Venture[2] |
| Amendments to IAS 40 | Transfers of Investment Property[1] |
| 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[1] |
| Amendments to IFRS 4 | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1] |
| Amendments to IFRS 9 | Prepayment features with negative compensation[2] |
| Amendments to IFRSs | Annual Improvements to IFRSs 2014 – 2016 Cycle[1] |
| Amendments to IFRSs | Annual Improvements to IFRSs 2015 – 2017 Cycle[2] |

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after 1 January 2021.
4 Effective date not yet been determined.

## 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 (the "GEM Listing Rules") 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.

***Research and development expenditure***

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 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.

### 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 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.

## 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

***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.

***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 2017, the carrying amounts of property, plant and equipment were approximately CNY12,187,000 (2016: CNY13,034,000).

***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 2017, the carrying amounts of dismantlement asset were approximately CNY3,359,000 (2016: CNY3,403,000) while the carrying amounts of intangible asset were approximately CNY5,142,000 (2016: CNY5,209,000).

***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 2017, the carrying amounts of property, plant and equipment were approximately CNY12,187,000 (2016: CNY13,034,000), no impairment loss was recognised for the years ended 31 December 2017 and 2016.

***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 2017, the carrying amounts of trade receivables were approximately CNY3,381,000 (2016: CNY5,478,000) (net of allowance for doubtful debts of nil (2016: nil)). The carrying amounts of other receivables were approximately CNY268,000 (2016: CNY328,000), no impairment loss on other receivables was recognised for the years ended 31 December 2017 and 2016.

***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 2017, the carrying amounts of inventories were approximately CNY2,421,000 (2016: CNY2,887,000), no allowance for inventories was recognised for the years ended 31 December 2017 and 2016.

## 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 2017, the carrying amounts of asset retirement obligations were approximately CNY7,330,000 (2016: CNY6,954,000).

***Income taxes***

As at 31 December 2017, the Group has recognised deferred tax assets of approximately CNY497,000 (2016: CNY612,000). 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 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

| | **2017**<br>**CNY'000** | 2016<br>CNY'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalents) | **50,983** | 49,145 |
| **Financial liabilities** | | |
| Financial liabilities at amortised cost | **12,585** | 2,895 |

## 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:

| | **2017** | 2016 |
|---|---|---|
| | **CNY'000** | CNY'000 |
| Assets | **3,624** | 7,416 |
| Liabilities | **(8,976)** | (833) |
| | **(5,352)** | 6,583 |

Sensitivity analysis

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

The following table details the Group' sensitivity to a 5% (2016: 5%) increase and decrease in CNY against HK$ for the year ended 31 December 2017. 5% (2016: 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% (2016: 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 (2016: negative) number below indicates a decrease (2016: decrease) in loss after tax (2016: profit after tax) for the year where CNY strengthen 5% (2016: 5%) against HK$. For a 5% (2016: 5%) weakening of CNY against HK$, there would be an equal and opposite impact on the loss after tax (2016: profit after tax) for the year and the balance below would be positive (2016: positive).

| | **2017** | 2016 |
|---|---|---|
| | **CNY'000** | CNY'000 |
| Post-tax profit or loss | **(200)** | (303) |

*(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.

## 6. FINANCIAL INSTRUMENTS *(Continued)*

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

***Credit risk***

As at 31 December 2017, 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 one customer (2016: 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 2017 and 2016.

The Group has concentration of credit risk as 49% (2016: 37%) and 96% (2016: 95%) of the total trade receivables was due from the Group's largest trade receivable and the five largest trade receivables respectively as at 31 December 2017.

***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. The remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows and the earliest date that the Group can be required to pay, are within one year or on demand (2016: within one year or on demand).

## 6. FINANCIAL INSTRUMENTS *(Continued)*

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

The directors of the Company 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), 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 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:

| | **2017** | 2016 |
|---|---|---|
| | **CNY'000** | CNY'000 |
| Customer A | **8,583** | 6,890 |
| Customer B | **5,278** | 6,822 |
| Customer C | **4,492** | 6,124 |
| Customer D | **3,278** | N/A* |

* The corresponding revenue did not contribute over 10% of the total sales of the Group.

## 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:

| | **2017** **CNY'000** | 2016 CNY'000 |
|---|---|---|
| Drilling mud | **10,185** | 14,729 |
| Pelletising clay | **16,926** | 11,582 |
| Ballasts and others | **1,685** | – |
| | **28,796** | 26,311 |

## 9. OTHER INCOME

| | **2017** **CNY'000** | 2016 CNY'000 |
|---|---|---|
| Bank interest income | **503** | 463 |
| Government grants (Note) | **93** | 2,133 |
| Release of government grant for property, plant and equipment (Note 27) | **95** | 95 |
| Net exchange gain | **–** | 500 |
| Reversal of impairment loss on trade receivables | **–** | 50 |
| Gain on disposal of property, plant and equipment | **–** | 3 |
| Others | **2** | 1 |
| | **693** | 3,245 |

Note:

Included in the amount of government grants recognised during the year ended 31 December 2016, CNY2,000,000 (2017: nil) was received from local government authority for the Company's shares listed on GEM successfully . Also, an amount at approximately CNY25,000 (2016: CNY133,000) was granted during the year ended 31 December 2017 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

| | 2017<br>CNY'000 | 2016<br>CNY'000 |
|---|---|---|
| Interest expenses on secured bank borrowing | – | 165 |
| Unwinding of discount on provision for dismantlement | 376 | 356 |
| | 376 | 521 |

## 11. INCOME TAX EXPENSE

| | 2017<br>CNY'000 | 2016<br>CNY'000 |
|---|---|---|
| Current tax: | | |
| PRC Enterprise Income Tax ("EIT") | 335 | 1,029 |
| Over-provision in previous year | (13) | (40) |
| | 322 | 989 |
| Deferred taxation: | | |
| Current year | 115 | 110 |
| | 437 | 1,099 |

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 British Virgin Islands.

(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 2017, 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 CNY3,069,700 (2016: CNY2,914,500). 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:

| | **2017** **CNY'000** | 2016 CNY'000 |
|---|---|---|
| (Loss) profit before tax | **(71,643)** | 3,899 |
| Tax at the tax rate of 25% | **(17,911)** | 975 |
| Preferential income tax rates applicable to a subsidiary | **(260)** | (751) |
| Tax effect of expenses not deductible for tax purpose | **18,624** | 916 |
| Tax effect of income not taxable for tax purpose | **(3)** | (1) |
| Over-provision in previous year | **(13)** | (40) |
| Income tax expense | **437** | 1,099 |

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

## 12. (LOSS) PROFIT FOR THE YEAR

| | **2017** **CNY'000** | 2016 CNY'000 |
|---|---|---|
| (Loss) profit for the year has been arrived at after charging: | | |
| Directors' and chief executive's emoluments | **12,906** | 814 |
| Salaries, wages, allowances and other benefits | **3,149** | 2,615 |
| Contributions to retirement benefits scheme (excluding directors' and chief executive's emoluments) (Note a) | **1,006** | 619 |
| | **17,061** | 4,048 |
| Staff costs included in inventories | **410** | 716 |
| Total staff costs | **17,471** | 4,764 |
| Equity-settled share-based payment | | |
| – Directors | **12,192** | – |
| – Consultants | **33,872** | – |
| | **46,064** | – |
| Auditor's remuneration | **477** | 617 |
| Amortisation of intangible asset | **67** | 57 |
| Amortisation of prepaid lease payments | **77** | 77 |
| Amount of inventories recognised as an expense | **17,870** | 14,386 |
| Exchange loss, net | **2,637** | – |
| Depreciation of property, plant and equipment | **1,157** | 1,252 |
| Loss on disposal/written off of property, plant and equipment | **5** | 5 |
| Research and development cost (Note b) | **1,485** | 1,799 |
| Lease payments paid under operating lease in respect of plant and equipment | **1,972** | 1,869 |

Notes:

(a) Contributions to retirement benefits scheme of Feishang Material mainly comprised cost of approximately CNY957,000 (2016: CNY1,019,000) offset by the reversal of provision for prior years of approximately CNY43,000 (2016: CNY349,000). The Group reversed the provision for retirement benefits costs after considering respective relevant local rules and regulations.

(b) Staff cost of approximately CNY315,000 (2016: CNY304,000) are included in the research and development cost for the year ended 31 December 2017.

## 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 subsidiaries undertaking: | Fees | Salaries, allowances and other benefits | Contributions to retirement benefits scheme | Share option expenses | Total |
|---|---|---|---|---|---|
| | CNY'000 | CNY'000 | CNY'000 | CNY'000 | CNY'000 |
| **Year ended 31 December 2017** | | | | | |
| *Executive directors* | | | | | |
| Mr. Deng Li (note i) | – | 108 | – | 4,064 | 4,172 |
| Mr. Zhang Yongmin (note ii) | – | 81 | – | 4,064 | 4,145 |
| Mr. Tsai Nam Lun (note iii) | – | 9 | – | 4,064 | 4,073 |
| Mr. Su Chunxiang (note iv) | – | – | – | – | – |
| Mr. Xu Chengyin (notes v, vi) | – | 30 | 3 | – | 33 |
| Mr. Zhang Pingwu (notes v, vi) | – | 30 | 12 | – | 42 |
| Mr. Chen Gongbao (notes v, vii) | – | 115 | 8 | – | 123 |
| *Independent non-executive directors* | | | | | |
| Mr. Chan Chiu Hung, Alex (note viii) | 100 | – | – | – | 100 |
| Mr. Zheng Shuilin (note ix) | 97 | – | – | – | 97 |
| Mr. Duan Xuechen (note ix) | 97 | – | – | – | 97 |
| Ms. Chan Shuk Kwan, Winnie (note x) | 8 | – | – | – | 8 |
| Ms. Cheuk Tat Yee (note xi) | 8 | – | – | – | 8 |
| Ms. Yin Yi (note x) | 8 | – | – | – | 8 |
| Mr. Ko Yat Fei (note xii) | – | – | – | – | – |
| Mr. Chow Chi Hang, Tony (note xii) | – | – | – | – | – |
| Ms. Shao Yu (note xii) | – | – | – | – | – |
| Total | 318 | 373 | 23 | 12,192 | 12,906 |
| **Year ended 31 December 2016** | | | | | |
| *Executive directors* | | | | | |
| Mr. Xu Chengyin (note v) | – | 85 | 28 | – | 113 |
| Mr. Zhang Pingwu (note v) | – | 80 | 23 | – | 103 |
| Mr. Chen Gongbao (note v) | – | 236 | 53 | – | 289 |
| *Independent non-executive directors* | | | | | |
| Mr. Chan Chiu Hung, Alex | 103 | – | – | – | 103 |
| Mr. Zheng Shuilin | 103 | – | – | – | 103 |
| Mr. Duan Xuechen | 103 | – | – | – | 103 |
| Total | 309 | 401 | 104 | – | 814 |

## 13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

Notes:

(i) Appointed on 13 March 2017 and resigned on 9 February 2018

(ii) Appointed on 23 March 2017 and resigned on 9 February 2018

(iii) Appointed on 5 December 2017 and resigned on 9 February 2018

(iv) Appointed on 9 January 2018

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

(vi) Retired on 30 June 2017

(vii) Resigned on 7 July 2017

(viii) Resigned on 18 December 2017

(ix) Resigned on 6 December 2017

(x) Appointed on 5 December 2017 and resigned on 9 January 2018

(xi) Appointed on 5 December 2017 and resigned on 12 February 2018

(xii) Appointed on 9 January 2018

Mr. Xu Chengyin was appointed as the chief executive of the Company on 15 July 2015 and retired on 30 June 2017. The emoluments disclosed above include those for services rendered by theirself as the chief executive.

## 14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, five (2016: 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 (2017: nil) highest paid individuals for the year ended 31 December 2016 were as follows:

| | **2017**<br>**CNY'000** | 2016<br>CNY'000 |
|---|---|---|
| Salaries, allowances, and other benefits | **–** | 146 |
| Contributions to retirement benefits scheme | **–** | 47 |
| | **–** | 193 |

## 14. EMPLOYEES' EMOLUMENTS *(Continued)*

Their emoluments were within the following bands:

| | **2017 Number of individuals** | 2016 Number of individuals |
|---|---|---|
| Nil to HK$1,000,000 (equivalent to approximately CNY833,000 (2016: CNY896,000)) | **–** | 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 2017 and 2016.

## 15. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2017, nor has any dividend been proposed since the end of the reporting period (2016: nil).

## 16. (LOSS) EARNINGS PER SHARE

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

| | **2017 CNY'000** | 2016 CNY'000 |
|---|---|---|
| **(Loss) earnings** | | |
| (Loss) earnings for the purpose of basic and diluted (loss) earnings per share | **(71,874)** | 2,800 |

| | **2017** | 2016 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic and diluted (loss) earnings per share ('000 shares) | **505,653** | 500,000 |
| **Basic and diluted (loss) earnings per share (CNY)** | **(14.21) cents** | 0.56 cents |

The computation of diluted loss per share has considered and does not assume the exercise of the Company's share options for the years ended 31 December 2017 since their assumed exercise would result in a decrease in loss per share.

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

## 17. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvement | Buildings | Machinery and equipment | Dismantlement asset | Motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | CNY'000 | CNY'000 | CNY'000 | CNY'000 | CNY'000 | CNY'000 | CNY'000 |
| **COST** | | | | | | | |
| At 1 January 2016 | – | 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 |
| Additions | 2,037 | 275 | 383 | – | – | – | 2,695 |
| Disposal/written off | – | – | (97) | – | (161) | – | (258) |
| Deconsolidation of subsidiaries | (2,037) | – | (352) | – | – | – | (2,389) |
| At 31 December 2017 | – | 10,904 | 14,531 | 3,706 | 501 | – | 29,642 |
| **ACCUMULATED DEPRECIATION** | | | | | | | |
| At 1 January 2016 | – | 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 |
| Charge for the year | – | 490 | 552 | 44 | 71 | – | 1,157 |
| Eliminated on disposal/written off | – | – | (90) | – | (161) | – | (251) |
| Deconsolidation of subsidiaries | – | – | (11) | – | – | – | (11) |
| At 31 December 2017 | – | 4,794 | 12,034 | 347 | 280 | – | 17,455 |
| **CARRYING VALUES** | | | | | | | |
| At 31 December 2017 | – | 6,110 | 2,497 | 3,359 | 221 | – | 12,187 |
| At 31 December 2016 | – | 6,325 | 3,014 | 3,403 | 292 | – | 13,034 |

## 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:

| | **2017**<br>**CNY'000** | 2016<br>CNY'000 |
|---|---|---|
| Current assets | **77** | 77 |
| Non-current assets | **2,586** | 2,663 |
| | **2,663** | 2,740 |

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<br>CNY'000 |
|---|---|
| **COST** | |
| At 1 January 2016 | 4,250 |
| Additions | 1,416 |
| At 31 December 2016 and at 31 December 2017 | 5,666 |
| **AMORTISATION** | |
| At 1 January 2016 | 400 |
| Charge for the year | 57 |
| At 31 December 2016 | 457 |
| Charge for the year | 67 |
| At 31 December 2017 | 524 |
| **CARRYING VALUES** | |
| At 31 December 2017 | 5,142 |
| At 31 December 2016 | 5,209 |

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:

| | **2017**<br>**CNY'000** | 2016<br>CNY'000 |
|---|---|---|
| Deferred tax assets | **497** | 612 |

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**<br>CNY'000 | **Temporary difference on asset retirement obligations**<br>CNY'000 | **Accelerated tax depreciation**<br>CNY'000 | **Total**<br>CNY'000 |
|---|---|---|---|---|
| At 1 January 2016 | 589 | 990 | (857) | 722 |
| Credit (charge) to profit or loss | (114) | 53 | (49) | (110) |
| At 31 December 2016 | 475 | 1,043 | (906) | 612 |
| Credit (charge) to profit or loss | (136) | 56 | (35) | (115) |
| At 31 December 2017 | 339 | 1,099 | (941) | 497 |

## 21. INVENTORIES

| | **2017**<br>**CNY'000** | 2016<br>CNY'000 |
|---|---|---|
| Materials and supplies | **1,491** | 1,809 |
| Work-in-progress | **771** | 797 |
| Finished goods | **159** | 281 |
| | **2,421** | 2,887 |

## 22. TRADE, BILLS AND OTHER RECEIVABLES

| | 2017<br>CNY'000 | 2016<br>CNY'000 |
|---|---|---|
| Trade receivables | **3,381** | 5,478 |
| Less: allowance for impairment of trade receivables | **–** | – |
| | **3,381** | 5,478 |
| Bills receivables | **7,085** | 2,548 |
| Prepayments (Note) | **58,308** | 263 |
| Other receivables | **268** | 328 |
| | **69,042** | 8,617 |

Note: As at 31 December 2017, included in prepayments was an amount of approximately CNY57,846,000 (2016: nil) which represented trade deposits paid to suppliers for purchases of materials.

The Group offers revolving credit to its customer amounted approximately CNY900,000 (2016: two customers amounted CNY988,000) as at 31 December 2017. 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 customer annually upon renewal of the relevant sales agreements and upon special request from the customers. The Group held charges on such customer's buildings and motor vehicles as collaterals over the balance of approximately CNY900,000 (2016: CNY988,000) as at 31 December 2017. 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 CNY2,481,000 (2016: CNY4,490,000) as at 31 December 2017, 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.

| | 2017<br>CNY'000 | 2016<br>CNY'000 |
|---|---|---|
| Within 30 days | **2,944** | 3,210 |
| 31 to 60 days | **357** | 846 |
| 61 to 90 days | **77** | 447 |
| 91 to 180 days | **–** | 809 |
| More than 180 days | **3** | 166 |
| Total | **3,381** | 5,478 |

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

As at 31 December 2017 and 2016, all of the bills receivables were aged within 180 days. The movement in the allowance for impairment of trade receivables is set out below:

| | **2017** **CNY'000** | 2016 CNY'000 |
|---|---|---|
| At the beginning of the year | **–** | 50 |
| Reversal on impairment of trade receivables | **–** | (50) |
| At the end of the year | **–** | – |

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:

| | **2017** **CNY'000** | 2016 CNY'000 |
|---|---|---|
| Past due but not impaired: | | |
| Within 30 days | **966** | 448 |
| 31 to 60 days | **77** | 314 |
| 61 to 90 days | **–** | 358 |
| More than 90 days | **3** | 828 |
| Total | **1,046** | 1,948 |

Included in the Group's trade receivables are debtors with aggregate carrying amount of approximately CNY1,046,000 (2016: CNY1,948,000) as at 31 December 2017 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 2017 was 12 days (2016: 109 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 0.10% to 2.10% per annum (2016: 0.40% to 2.18% per annum) during the year ended 31 December 2017.

### Bank balances and cash

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

| | **2017** **CNY'000** | 2016 CNY'000 |
|---|---|---|
| Cash at bank and in hand | **10,994** | 12,886 |
| Short-term bank deposits | **21,212** | 21,755 |
| Bank balances and cash shown in the consolidated statement of financial position | **32,206** | 34,641 |
| Less: Bank deposits with a maturity of more than three months | **(15,945)** | (15,000) |
| Cash and cash equivalents shown in the consolidated statement of cash flows (Note) | **16,261** | 19,641 |

Bank balances and bank deposits carried at prevailing market rates ranging from 0.10% to 2.10% per annum during the year ended 31 December 2017 (2016: 0.20% to 1.80% per annum).

## 24. TRADE AND OTHER PAYABLES

| | **2017** **CNY'000** | 2016 CNY'000 |
|---|---|---|
| Trade payables | **1,896** | 1,254 |
| Other payables and accruals | **9,988** | 1,679 |
| Accrued directors' remunerations | **54** | 57 |
| Advance from customers | **1,006** | 172 |
| | **12,944** | 3,162 |

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

| | **2017** **CNY'000** | 2016 CNY'000 |
|---|---|---|
| Within 30 days | **1,682** | 1,042 |
| 31 to 60 days | **119** | 64 |
| 61 to 90 days | **22** | 26 |
| 91 to 365 days | **28** | 57 |
| Over 1 year | **45** | 65 |
| Total | **1,896** | 1,254 |

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. 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:

| | **2017 CNY'000** | 2016 CNY'000 |
|---|---|---|
| At the beginning of the year | **6,954** | 6,598 |
| Unwinding of discount (Note 10) | **376** | 356 |
| At the end of the year | **7,330** | 6,954 |

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 2017 (2016: 5.40% per annum).

## 26. DEFERRED INCOME

| | **2017 CNY'000** | 2016 CNY'000 |
|---|---|---|
| Analysed as: | | |
| Current liabilities (included in other payables) | **95** | 95 |
| Non-current liabilities | **575** | 670 |
| | **670** | 765 |

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 2017, government grants released to the consolidated statement of profit or loss and other comprehensive income amounted to CNY80,000 (2016: 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 (2016: CNY15,000).

## 27. SHARE CAPITAL

| | Number of shares | | Share capital | | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | | 2016 | |
| | | | | (Equivalent to) | | (Equivalent to) |
| | '000 | '000 | HK$'000 | CNY'000 | HK$'000 | CNY'000 |
| Ordinary share of HK$0.01 each | | | | | | |
| Authorised | | | | | | |
| At the end of the financial year | 10,000,000 | 10,000,000 | 100,000 | | 100,000 | |
| Issued and fully paid | | | | | | |
| At the beginning of the financial year | 500,000 | 500,000 | 5,000 | 4,188 | 5,000 | 4,188 |
| Placing of new shares (Note a) | 40,000 | – | 400 | 347 | – | – |
| Subscription of new shares (Note b) | 10,000 | – | 100 | 87 | – | – |
| Issue of shares upon exercise of share options (Note c) | 8,810 | – | 88 | 76 | – | – |
| At the end of the financial year | 558,810 | 500,000 | 5,588 | 4,698 | 5,000 | 4,188 |

Notes:

(a) On 31 October 2017, the Company entered into a private placing agreement with a placing agent for the placing of an aggregate 40,000,000 new ordinary shares of the Company at a placing price of HK$1.45 per share. The gross proceeds raised amounted to HK$58,000,000 (before transaction costs of approximately HK$1,312,000) and resulted in the net increase in share capital and share premium of HK$400,000 and HK$56,288,000 respectively (equivalent to CNY347,000 and CNY48,808,000 respectively). The placing was completed on 24 November 2017. Details of the placing are set out in the Company's announcements dated 31 October 2017 and 24 November 2017 respectively.

(b) On 31 October 2017, the Company entered into a subscription agreement with Mr. Cheong Weixiong for the placing and subscription of 10,000,000 new ordinary shares of the Company at a subscription price of HK$1.45 per share. The gross proceeds raised amounted to HK$14,500,000 and resulted in the net increase in share capital and share premium of approximately HK$100,000 and HK$14,400,000 respectively. (equivalent to CNY87,000 and CNY12,486,000 respectively). The subscription was completed on 24 November 2017. Details of the subscription are set out in the Company's announcement dated 31 October 2017 and 24 November 2017 respectively.

(c) During the year ended 31 December 2017, 8,810,000 share options had been exercised by holders at an exercise price of HK$1.64 per option to subscribe for 8,810,000 ordinary shares of the Company at a total consideration of approximately HK$14,448,000 in which the consideration was credited to share capital of approximately HK$88,000 and share premium of approximately HK$14,360,000 (equivalent to CNY76,000 and CNY12,453,000 respectively). The share options reserve has been decreased by approximately HK$9,493,000 (equivalent to CNY8,232,000) and was transferred to share premium account.

## 28. 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.

As at 31 December 2017, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 41,190,000 (2016: no share options have been granted and outstanding), representing 7.37% (2016: nil) of the share of the Company in issue at that date.

Details of the share options are as follows:

| Date of grant | Vesting period | Exercise period | Exercise price | Closing price of the share immediately before the date of grant |
|---|---|---|---|---|
| 6 December 2017 | N/A | 10 year from the date of grant | HK$1.64 | HK$1.64 |

## 28. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

### Equity-settled share option scheme of the Company *(Continued)*

The following table discloses movements of the Company's share options held by the directors of the Company employees of the Company and other individuals during the year:

| | Date of grant | Exercise price per option | Exercise period | Number of share options: Balance as at 1 January 2016, 31 December 2016 and 1 January 2017 | Granted during the year | Exercised during the year | Expired/ lapsed/ cancelled during the year | Balance as at 31 December 2017 |
|---|---|---|---|---|---|---|---|---|
| | | HK$ | | | | | | |
| *Directors and chief executives* | | | | | | | | |
| DENG Li (Note 1) | 6 December 2017 | 1.64 | 10 years from the date of grant | – | 5,000,000 | (1,800,000) | – | 3,200,000 |
| ZHANG Yongmin (Note 2) | 6 December 2017 | 1.64 | 10 years from the date of grant | – | 5,000,000 | (50,000) | – | 4,950,000 |
| TSAI Nam Lun (Note 3) | 6 December 2017 | 1.64 | 10 years from the date of grant | – | 5,000,000 | (50,000) | – | 4,950,000 |
| Individuals in aggregate | | 1.64 | 10 years from the date of grant | – | 35,000,000 | (6,910,000) | – | 28,090,000 |
| | | | | – | 50,000,000 | (8,810,000) | – | 41,190,000 |
| Exercisable at the end of the year | | | | | | | | 41,190,000 |
| | | | | HK$ | HK$ | HK$ | HK$ | HK$ |
| Weighted average exercise price | | | | – | 1.64 | 1.64 | – | 1.64 |

Notes:

1. Mr. DENG Li resigned as executive Director on 9 February 2018.

2. Mr. ZHANG Yongmin resigned as executive Director on 9 February 2018.

3. Mr. TSAI Nam Lun resigned as executive Director on 9 February 2018.

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$1.64 (2016: nil) and the weighted average share price at the dates immediately before the exercise in HK$1.64 (2016: nil).

During the year ended 31 December 2017, options were granted on 6 December 2017 (2016: nil). The estimated fair value of the options granted on the date is approximately HK$1.06 (equivalent to CNY0.92) (2016: nil).

## 28. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

**Equity-settled share option scheme of the Company** *(Continued)*

The fair value was calculated using the Binomial model. The inputs into the model were as follows:

| | 2017 | 2016 |
|---|---|---|
| Weighted average share price | **HK$1.64** | N/A |
| Exercise price | **HK$1.64** | N/A |
| Expected volatility | **59.12%** | N/A |
| Expected life | **10 years** | N/A |
| Risk-free rate | **1.815%** | N/A |
| Expected dividend yield | **nil** | N/A |

Expected volatility was determined by using the historical volatility of the Company's share price over the previous ten year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expenses of approximately CNY46,064,000 for the year ended 31 December 2017 (2016: nil) in relation to share option granted by the Company.

## 29. 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 2017, 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 CNY1,029,000 (2016: CNY723,000).

## 30. CONTINGENT LIABILITIES

As at 31 December 2017, 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.

## 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:

| | **2017** **CNY'000** | 2016 CNY'000 |
|---|---|---|
| Short-term benefits | **691** | 856 |
| Post-employment benefits | **23** | 180 |
| Share option expense | **12,192** | – |
| | **12,906** | 1,036 |

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

**(b)** During the years ended 31 December 2016 and before the completion of the general offer taken place on 20 April 2017, 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, had direct equity interests, provides part of its property to the Group for administrative purpose at nil consideration.

Upon the completion of the general offer on 20 April 2017, Mr. Li was no longer the controlling shareholder nor related party of the Company. During the year ended 31 December 2017, Wuhu Feishang Development Limited continued to provide part of its property to the Group for administrative purpose at nil consideration.

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

| | Note | 2017 CNY'000 | 2016 CNY'000 |
|---|---|---|---|
| Non-current asset | | | |
| Investment in a subsidiary | | **47,192** | 47,192 |
| Current assets | | | |
| Other receivables and prepayments | | **58,221** | 207 |
| Amount due from a subsidiary | | **3,795** | 4,081 |
| Bank balances | | **181** | 3,452 |
| | | **62,197** | 7,740 |
| Current liabilities | | | |
| Other payables | | **8,976** | 837 |
| | | **8,976** | 837 |
| Net current assets | | **53,221** | 6,903 |
| | | **100,413** | 54,095 |
| Capital and reserves | | | |
| Share capital | | **4,698** | 4,188 |
| Reserves | (a) | **95,715** | 49,907 |
| | | **100,413** | 54,095 |

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

Note:

(a) Movements in reserves

| | Share premium<br>CNY'000 | Share options reserve<br>CNY'000 | Other reserve<br>CNY'000<br>(Note) | Accumulated losses<br>CNY'000 | Total<br>CNY'000 |
|---|---|---|---|---|---|
| At 1 January 2016 | 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 |
| Loss and total comprehensive expense for the year | – | – | – | (74,003) | (74,003) |
| Recognition of equity-settled share based payments | – | 46,064 | – | – | |
| Placing of new shares | 49,945 | – | – | – | 49,945 |
| Subscription of new shares | 12,486 | – | – | – | 12,486 |
| Transaction costs attribute to the issue of new shares | (1,137) | – | – | – | (1,137) |
| Issue of share upon exercise of share options | 20,684 | (8,231) | – | – | 12,453 |
| At 31 December 2017 | 107,932 | 37,833 | 44,051 | (94,101) | 95,715 |

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 2017 and 2016 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 | | |
| | | | **2017** | 2016 | **2017** | 2016 | |
| Feishang International | BVI | United States Dollar 1 | **100%** | 100% | – | – | Investment holding |
| Feishang Material | The PRC | HK$35,000,000 | **–** | – | **100%** | 100% | Bentonite mining, production and sales of drilling mud and pelletising clay |
| Shenzhen Zhuorui Business Management Consultant Company Limited* (深圳市卓瑞企業管理咨詢有限公司) | The PRC | CNY1,000,000 | **–** | – | **100%** | 100% | Provision of business management consultation service for the group companies. |

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

* The English name is for identification purpose only.

## 34. EVENT AFTER THE REPORTING PERIOD

### (a) Cancellation of Share Options

Reference is made to the announcement of the Company dated 6 December 2017 in relation to, among other things, the grant of an aggregate of 50,000,000 share options by the former board of directors of the Company under the share option scheme of the Company adopted on 12 December 2015, each entitling the holder thereof to subscribe for one ordinary share of HK$0.01 in the capital of the Company, to ten participants who are former directors and consultants of the Company.

As announced by the Board in the Company's announcement dated 28 March 2018, out of the 50,000,000 share options granted, 8,810,000 share options have been exercised, 13,100,000 share options have been lapsed and 28,090,000 share options remain outstanding and held by the consultants. Having assessed by the Board, the Board considered that the continuing engagement with the consultants was not necessary and therefore the Company had entered into the termination agreement with each of them respectively to cease their services immediately and, as agreed thereof, all the outstanding share options held by them had also been cancelled. As at the date of this annual report, no share option is outstanding.

### (b) Termination of subscription of new shares under general mandate

Reference is made to the announcement of the Company dated 5 December 2017 in relation to the subscription of new shares of nominal value of HK0.01 each in the share capital of the Company under general mandate granted the former board of directors of the Company at the annual general meeting of the Company held on 30 June 2017. On 12 January 2018 (after the trading hours), the Company and Mr. Zhuang Shibin as the subscriber have mutually agreed to terminate the subscription agreement and accordingly the subscription thereunder shall not proceed as set out therein.

## 34. EVENT AFTER THE REPORTING PERIOD *(Continued)*

### (c) Possible Disposal of the De-consolidated Subsidiaries

With reference to the note 1 to the consolidated financial statements, the Board considered that the Company was unable to exercise effective control over the De-consolidated Subsidiaries, being the non-principal subsidiaries of the Group newly formed by the Former Board during the last quarter of the year ended 31 December 2017, despite various efforts made by the Board to resolve the matter. Accordingly, the Board resolved that it was impracticable to consolidate the financial information of the De-consolidated Subsidiaries. Under this circumstances, the financial results, assets and liabilities have been de-consolidated from the Group with effective from 31 December 2017 ("De-consolidation").

As the De-consolidated Subsidiaries are not principal and operating subsidiaries of the Group and with an aim to resolving the matters arising from or in connection with the non-effective control over the De-consolidated Subsidiaries, the Board is in negotiations with relevant party(ies) in relation to the possible disposal of the De-consolidated Subsidiaries (the "Possible Disposal"). The Current Board has consulted the legal advisers both in Hong Kong and the PRC and has been advised that it is legally feasible to regain effective control over the De-consolidated Subsidiaries through legal means and procedures. However, in view of the scale, size and operation of the De-consolidated Subsidiaries, which are not principal operating subsidiaries of the Company, the Current Board has, after assessing all the benefits and costs involved, formed its view that disposing the De-consolidated Subsidiaries would be the best option and in the interests of the Company and its shareholders to cast away the De-consolidated Subsidiaries to solve the audit issue and avoid further costs and time to be spent on regaining effective control over the De-consolidated Subsidiaries, which is not justified. As at the date of this annual report, there is no any agreement or terms (including consideration) reached and agreed between the parties in relation to the Possible Disposal.

It is expected that the Possible Disposal would not constitute any notifiable transaction or connected transaction of the Company pursuant to Chapter 19 and Chapter 20 of the GEM Listing Rules. In the event that there is any notifiable transaction or connected transaction triggered from the Possible Disposal, further announcement(s) will be made by the Company as and when appropriate pursuant to the GEM Listing Rules.

### (d) Proposed change of Company name

Reference is made to the announcement of the Company dated 23 May 2018 in relation to the proposed change of Company name. The Board proposed to change the English name of the Company from "Feishang Non-metal Materials Technology Limited" to "HangKan Group Limited" and to change the dual foreign name in Chinese of the Company from "飛尚非金屬材料科技有限公司" to "恒勤集團有限公司" (the "Change of Company Name"). The Change of Company Name is subject to the approval by passing a special resolution by the shareholders at the annual general meeting and from the Registrar of Companies in the Cayman Islands.

# Financial Summary

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2017** | 2016 | 2015 | 2014 | 2013 |
| | **CNY'000** | CNY'000 | CNY'000 | CNY'000 | CNY'000 |
| **Revenue and Profit** | | | | | |
| Revenue | **28,796** | 26,311 | 28,823 | 30,447 | 29,987 |
| Cost of sales | **(18,456)** | (14,791) | (15,463) | (17,686) | (18,749) |
| Gross profit | **10,340** | 11,520 | 13,360 | 12,761 | 11,238 |
| Other income | **693** | 3,245 | 1,229 | 1,100 | 698 |
| Selling and distribution expenses | **(3,148)** | (1,413) | (1,314) | (1,057) | (1,847) |
| Administrative and other expenses | **(73,536)** | (8,932) | (21,956) | (2,911) | (2,940) |
| Finance costs | **(376)** | (521) | (358) | (317) | (296) |
| Loss on deconsolidation of subsidiaries | **(5,616)** | – | – | – | – |
| (Loss) profit before tax | **(71,643)** | 3,899 | (9,039) | 9,576 | 6,853 |
| Income tax expense | **(437)** | (1,099) | (1,835) | (2,551) | (1,792) |
| (Loss) profit and total comprehensive (expense) income for the year | **(72,080)** | 2,800 | (10,874) | 7,025 | 5,061 |
| (Loss) earnings per share (CNY) | | | | | |
| Basic and diluted | **(14.21) cents** | 0.56 cents | (2.89) cents | 1.87 cents | 1.35 cents |

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2017** | 2016 | 2015 | 2014 | 2013 |
| | **CNY'000** | CNY'000 | CNY'000 | CNY'000 | CNY'000 |
| **Assets and Liabilities** | | | | | |
| Current assets | **103,746** | 46,222 | 65,788 | 35,159 | 32,450 |
| Non-current assets | **28,455** | 27,668 | 23,425 | 18,895 | 19,022 |
| Current liabilities | **(13,113)** | (3,530) | (22,199) | (4,564) | (9,559) |
| Non-current liabilities | **(7,905)** | (7,624) | (7,078) | (5,681) | (5,129) |
| Total equity | **111,183** | 62,736 | 59,936 | 43,809 | 36,784 |