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)

2018
First Quarterly Report

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

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

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

The board (the "Board") of directors (the "Directors") of Feishang Non-metal Materials Technology Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months ended 31 March 2018, together with the comparative figures for the three months ended 31 March 2017 as follows:

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

For the three months ended 31 March 2018

		Three months ended 31 March	
		2018	2017
	Notes	***CNY'000***	*CNY'000*
Revenue	*3*	**8,892**	5,672
Cost of sales		**(5,385)**	(3,478)
Gross profit		**3,507**	2,194
Other income		**150**	89
Selling and distribution expenses		**(1,197)**	(620)
Administrative and other expenses		**(2,852)**	(2,179)
Finance costs		**(121)**	(93)
Loss before tax		**(513)**	(609)
Income tax expense	*4*	**(85)**	(86)
Loss and total comprehensive expense for the period attributable to the owners of the Company	*5*	**(598)**	(695)
Loss per share *(CNY)*:			
Basic and diluted	*5*	**(0.11) cents**	(0.14) cents

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2018

	Share capital	Share premium	Other reserve	Share option reserve	Statutory reserve	Safety fund and production maintenance fund	Retained earnings/ (Accumulated loss)	Total
	CNY'000	*CNY'000*	*CNY'000*	*CNY'000*	*CNY'000*	*CNY'000*	*CNY'000*	*CNY'000*
At 1 January 2017	4,188	25,954	23,351	–	3,401	808	5,034	62,736
Loss and total comprehensive expenses for the period	–	–	–	–	–	–	(695)	(695)
Appropriation and utilisation of safety fund and production maintenance fund, net	–	–	–	–	–	37	(37)	–
At 31 March 2017	4,188	25,954	23,351	–	3,401	845	4,302	62,041
At 1 January 2018	4,698	107,932	23,351	37,833	3,556	968	(67,155)	111,183
Loss and total comprehensive expenses for the period	–	–	–	–	–	–	(598)	(598)
Lapsed of share options	–	–	–	(37,833)	–	–	37,833	–
Appropriation and utilisation of safety fund and production maintenance fund, net	–	–	–	–	28	38	(66)	–
At 31 March 2018	4,698	107,932	23,351	–	3,584	1,006	(29,986)	110,585

Notes:

(i) Other reserve

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

(ii) Statutory reserve

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

(iii) Safety fund and production maintenance fund

As stipulated by the State Administration of Work Safety of the PRC, Wuhu Feishang Non-metallic Material Company Limited（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 fund which is based on the production volume for the utilisation of future safety production expense.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 unaudited condensed consolidated financial statements for the three months ended 31 March 2018 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).

2. SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial statements for the three months ended 31 March 2018 are consistent with those used in the annual accounts for the year ended 31 December 2017. The Group has adopted new or revised standards, amendments to standards and interpretations of IFRSs which are effective for accounting periods commencing on or after 1 January 2018. The adoption of such new or revised standards, amendments to standards and interpretations does not have material impact on the consolidated accounts and does not result in substantial changes to the Group's accounting policies.

3. REVENUE

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

	Three months ended 31 March	
	2018	2017
	CNY'000	*CNY'000*
Drilling mud	**2,220**	1,954
Pelletising clay	**6,672**	3,718
	8,892	5,672

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

4. INCOME TAX EXPENSE

	Three months ended 31 March	
	2018	2017
	CNY'000	*CNY'000*
Current tax:		
PRC Enterprise Income Tax ("EIT")	**90**	–
Deferred taxation:		
Current year	**(5)**	86
	85	86

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

(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 periods.

(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.

5. LOSS PER SHARE

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

	Three months ended 31 March	
	2018	2017
	CNY'000	*CNY'000*
Loss		
Loss for the purpose of basic and diluted earnings (loss) per share	**(598)**	(695)

	Three months ended 31 March	
	2018	2017
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share *('000 shares)*	**558,810**	500,000
Basic and diluted loss per share *(CNY)*	**(0.11) cents**	(0.14) cents

The computation of diluted earnings per share for the three months ended 31 March 2018 did not assume the exercise of the Company's share options since their assumed exercise would result in a decrease in loss per share.

The dilutive loss per share is equal to the basic loss per share as there were no dilutive potential ordinary shares outstanding for the three months ended 31 March 2017.

6. DIVIDEND

No dividend was paid or proposed during the three months ended 31 March 2018, nor has any dividend been proposed for the three months ended 31 March 2018 (2017: nil).

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 "Management Discussion and Analysis – Outlook" of the Company's annual results for the year ended 31 December 2017 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 first quarter of 2018 as compared to the corresponding period in 2017. It was also set out in the paragraph headed "Management Discussion and Analysis – Outlook" of the Company's annual results for the year ended 31 December 2017 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.

De-consolidation of Certain Subsidiaries of the Group

Reference was made to the Company's announcement of annual results for the year ended 31 December 2017 regarding the de-consolidation of certain non-principal 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").

Prepayment to suppliers

Reference was also made to the Company's announcement of annual results for the year ended 31 December 2017 regarding the prepayments made by the Company to certain 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 CNY57.8 million in total that had 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 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 Company but the trading contracts have yet to be performed and there had been concern by the Group over the quality of materials from the suppliers, 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. 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 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. It remains to be seen if those suppliers 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.

FINANCIAL REVIEW

Revenue

The revenue increased by approximately 56.8% from approximately CNY5.7 million for the three months ended 31 March 2017 to approximately CNY8.9 million for the three months ended 31 March 2018. Such increase in revenue was mainly attributable to the increase in sales volume and average selling price of pelletising clay, and increase in sales volume 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. Following the Group's adopted the strategy of "selling more with low margin" for drilling mud since the second half of 2017, which was in line out Group strategy.

Gross Profit and Gross Margin

The overall gross profit increase by approximately 59.8% from approximately CNY2.2 million for the three months ended 31 March 2017 to approximately CNY3.5 million for the three months ended 31 March 2018, while the overall gross profit margin increased from approximately 38.7% for the three months ended 31 March 2017 to approximately 39.4% for the three months ended 31 March 2018. The increase in the overall gross profit was mainly caused by the increase in sales volume and average selling price of pelletising clay, and the increase in sales volume of drilling mud, which is partly offset by the decrease in average selling price of drilling mud. The increase in overall gross profit margin was mainly due to (i) an increase in average selling price of pelletising clay from CNY296.5 per tonne for the three months ended 31 March 2017 to CNY376.0 per tonne for the three months ended 31 March 2018 because of management's marketing efforts; and (ii) an increase in the sales volume and proportion of sales amount of pellesiting clay, which has a higher gross profit margin this year.

Gross profit for the sale of drilling mud decrease by approximately 4.7% from approximately CNY0.82 million for the three months ended 31 March 2017 to approximately CNY0.78 million for the three months ended 31 March 2018, while the gross profit margin for the sale of drilling mud decreased from approximately 42.0% for the three months ended 31 March 2017 to approximately 35.2% for the three months ended 31 March 2018. The decrease in gross profit and 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 2.0%, and (ii) the increase in unit cost of drilling mud by approximately 9.5% from approximately CNY237.3 per tonne for the three months ended 31 March 2017 to approximately CNY259.7 per tonne for the three months ended 31 March 2018 primarily because of the increase in unit transportation costs.

Gross profit for the sale of pelletising clay significantly increased by approximately 107.7% from approximately CNY1.3 million for the three months ended 31 March 2017 to approximately CNY2.7 million for the three months ended 31 March 2018, while the gross profit margin for the sale of pelletising clay also increased from approximately 36.9% for the three months ended 31 March 2017 to approximately 40.8% for the three months ended 31 March 2018. 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 41.5% and the increase in the average selling price by approximately 26.8%.

Other Income

Other income increase by approximately CNY61,000 from approximately CNY89,000 for the three months ended 31 March 2017 to approximately CNY150,000 for the three months ended 31 March 2018. The increase was mainly attributed to a increase in bank interest income.

Selling and Distribution Expenses

The selling and distribution expenses increased by approximately 93.1% from approximately CNY0.6 million for the three months ended 31 March 2017 to approximately CNY1.2 million for the three months ended 31 March 2018. 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.

Administrative and Other Expenses

The administrative and other expenses increased by approximately 30.9% from approximately CNY2.2 million for the three months ended 31 March 2017 to approximately CNY2.9 million for the three months ended 31 March 2018. The increased was mainly due to the increase in professional fees and other operating expenses during the period.

Finance Costs

The finance costs increased by approximately 30.1% from approximately CNY93,000 for the three months ended 31 March 2017 to approximately CNY121,000 for the three months ended 31 March 2018. This was due to the increased in interest expense of other short terms loan during the period.

Income Tax Expense

The Group had an income tax expense of approximately CNY85,000 for the three months ended 31 March 2018 as compared to approximately CNY86,000 for the three months ended 31 March 2017. 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.

Loss and Total Comprehensive Expense for the Period

Due to the combined effect of the aforesaid factors, the loss and total comprehensive expense attributable to the owners of the Company for the three months ended 31 March 2018 was approximately CNY0.6 million, a decrease of approximately CNY0.1 million from the profit and total comprehensive income of approximately CNY0.7 million for the three months ended 31 March 2017.

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 March 2018 and 2017, the Group did not have any significant contingent liabilities.

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 March 2018, 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 the 2017 annual results, the Group had no other new implementation plans or financing plans.

DIVIDEND

In order to retain resources for the Group's business development, the Board does not recommend the payment of a dividend for the three months ended 31 March 2018 (three months ended 31 March 2017: Nil).

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 for the three months ended 31 March 2018.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

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

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

As at 31 March 2018, 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**	**Percentage of the issued shares** *(%)*
Mr. ZHANG Qiang	Long position	Beneficial owner	275,000,000	49.21

Save as disclosed above, as at 31 March 2018, 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 March 2018, 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 Rules 5.48 to 5.67 of the GEM Listing Rules.

CORPORATE GOVERNANCE CODE

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 three months ended 31 March 2018, the Company has complied with the code provisions as set out in the CG Code, save and except for code provision A.2.1, as set out below.

Chairman and Chief Executive

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.

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 has made specific enquiry to all Directors, and all Directors have confirmed that they have fully complied with the required standard of dealings set out in the Code of Conduct throughout the three months ended 31 March 2018.

INTEREST IN COMPETING BUSINESS

Throughout the three months ended 31 March 2018, none of the Directors and controlling shareholders of the Company or their respective close associates (as defined in the GEM Listing Rules) had any interest in a business that competes or may compete with the business of the Group and any other conflicts of interests which such person had or may have with the Group.

PRE-EMPTIVE RIGHTS

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

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

There was no purchase, sale or redemption of the Shares by the Company or any of its subsidiaries throughout the three months ended 31 March 2018.

OTHER INFORMATION

(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 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

As stated in the section headed "BUSINESS REVIEW" of this report, 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.

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 any audit issue raised 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 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 period and up to date of this 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 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.

AUDIT COMMITTEE

The Company has an audit committee ("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 (chairman of the Audit Committee), 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 unaudited condensed consolidated financial statements of the Company for the three months ended 31 March 2018 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such statements complied with applicable IFRSs and that adequate disclosure has been made in respect thereof.

MATERIAL ACQUISITION AND DISPOSAL

No material acquisitions or disposals of subsidiaries and associated companies have been made by the Company during the three months ended 31 March 2018.

PUBLIC FLOAT

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

BOARD OF DIRECTORS

As at the date of this report, the executive Director is Mr. SU Chun Xiang; and the independent non-executive Directors are Mr. KO Yat Fei, Mr. CHOW Chi Hang Tony and Ms. SHAO Yu.

By Order of the Board
Feishang Non-metal Materials Technology Limited
SU Chun Xiang
Executive Director

Hong Kong, 31 May 2018

* *The English name is for identification purposes only*