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)

2018 Interim Report

CHARACTERISTICS OF THE 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. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the 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.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

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 ADVISER

(As to Cayman Islands Law)
Conyers Dill & Pearman

PRINCIPAL BANKERS

Bank of China Limited (Wuhu branch)
Industrial and Commercial Bank of
China Limited (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 "Management Discussion and Analysis – Outlook" of the Company's annual report for the year ended 31 December 2017 (the "2017 Annual Report") and the business review for the 2018 first quarterly report for the three months ended 31 March 2018 (the "2018 First Quarterly Report") of the Company, the iron and steel industry is still overcasted by overcapacity. Measures adopted to address overcapacity and rising costs 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 strives to enhance major customers' satisfaction through improved quality management, resulting in an increase in sales of pelletising clay for the six months ended 30 June 2018 ("Reporting Period") as compared to the corresponding period in 2017. It was also set out in the paragraph headed "Management Discussion and Analysis – Outlook" of the 2017 Annual Report and the business review for the 2018 First Quarterly Report of the Company that investment prospects of the energy industry continue to be uncertain. Although investment in infrastructure construction increases, prices for oil and gas market continue to fluctuate. The investment sentiment of oil and gas transportation pipelines construction projects, which was directly linked to the Group's drilling mud business, is still weak.

Business Strategies Review with Progress of Implementation

The Group aims to strengthen its market position in the People's Republic of China (the "PRC"). In order to achieve this objective, the Group intends to pursue the following strategies. The following table sets out the Group's business strategies as disclosed in the prospectus of the Company dated 18 December 2015 (the "Prospectus") with the actual progress of implementation as at 30 June 2018.

Business Strategy	Implementation Plan	Progress of Implementation as of 30 June 2018
Broaden customer base and develop product recognition	(i) Collaborating with external institutions in the PRC for the development of new technologies and new bentonite products to cater for high-valued downstream markets other than iron ore pelletising and civil engineering; (ii) attending and participating in industry forums and events to network with other industry professionals and potential customers; and (iii) expanding sales and marketing team to further enhance sales and marketing activities.	(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 a new method of process technology; and it was also working with the external institutions on the techno-economic viability of several other new bentonite products and processing technologies; (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 in the first half of 2018; and (iii) The Group was in the process of recruiting more experienced personnel for sales and marketing.
Development of new production technology and new products	Signing collaboration agreements with two universities and one research institute.	Completed techno-economic viability study of two new products: (a) polyaniline/montmorillonitenano-composite conductive coating materials and (b) titanium dioxide/montmorillonitenano-composite materials and photocatalytic.
Recruitment of more talents	Recruiting more experienced personnel who possess abundant knowledge and rich experience in various aspects of the business, including mine design and construction, mining, processing, sales and marketing and research and development of principal products.	The Group was in the process of recruiting more experienced personnel for processing, sales and marketing, and research and development.

Business Strategy	Implementation Plan	Progress of Implementation as of 30 June 2018
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; Completed the construction of new storage facilities for pelletising clay; Completed the expansion of storage facilities for dried bentonite ore to be processed into drilling mud; Replaced the old forklift truck; Replaced a transformer in the processing plant; and Completed the modification of existing rotary drum dryer.

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 "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 29 December 2015 (the "Listing Date") to 31 December 2017 for the Group to deploy the net proceeds raised from the Placing taking into account the actual placing price of HK$0.32 per share in accordance with the implementation of future plans, and the actual use of net proceeds up to the date of this report:

	Revised timeline as disclosed in the Company's announcement dated 21 March 2016							
	From Listing Date up to 31 December 2015	**For the six months ended 30 June 2016**	**For the six months ended 31 December 2016**	**For the six months ended 30 June 2017**	**For the six months ending 31 December 2017**	**Total net proceeds**	**Approximate percentage of net proceeds**	**Actual use of net proceeds up to the date of this report**
	(HK$ million)	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*	*%*	*(HK$ million)*
Development of production technology for new products	–	–	–	–	7.7	7.7	60.6	–
Improvement of plant and equipment	–	0.4	4.6 *(Note)*	–	–	5.0	39.4	0.4 *(Note)*
Total	–	0.4	4.6	–	7.7	12.7	100.0	0.4

Note:

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

Mine Property Summary

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

Location	Huanghu Bentonite Mine Fanchang county, Wuhu city, Anhui province	
Equity Interest held by the Group	100%	
Date of initial commercial production	Commercial production of pelletising clay in 2004 and drilling mud in 2010	
Permitted mining right area	7.2982 km^2	
Mining method	Open-pit	
Mining depth/elevation limit	From 57 mASL to -23 mASL	
Permitted annual production capacity	230,000 m^3 (equivalent to approximately 400,000 tonnes)	
Validity period of current licence	9 September 2015 to 9 March 2019	
Reserve data (as of 1 July 2015) *(Note 1)*	Dry	Wet
Proved reserve *(metric tonnes)*	1,720,000	2,151,000
Probable reserve *(metric tonnes)*	4,724,000	5,910,000
Total *(metric tonnes)*	6,444,000	8,061,000
Reserve data (as of 30 June 2018) *(Note 2)*	Dry	Wet
Proved reserve *(metric tonnes)*	1,483,000	1,834,000
Probable reserve *(metric tonnes)*	4,724,000	5,910,000
Total *(metric tonnes)*	6,207,000	7,744,000
Average quality of bentonite		
Active montmorillonite	47.0%	
Colloid index	61.1 ml/15g	
Swelling capacity	8.7 ml/g	
Capital expenditure for the six months ended 30 June 2018	CNY562,000	
Output for the six months ended 30 June 2018 *(metric tonnes)*	42,000	

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 30 June 2018 has been substantiated by the Group's internal expert by adjusting those reserves extracted by the Group's mining activities from July 2015 to June 2018 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 30 June 2018.

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

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").

Updates on matters relating to the De-consolidation Subsidiaries

Reference was also made to the announcement dated 29 June 2018 in relation to disposal of the entire issued share capital of Lucky Capital. On 29 June 2018, the Company and the Purchaser entered into the Disposal Agreement, pursuant to which the Company agreed to sell and the Purchaser agreed to purchase the entire issued share capital of Lucky Capital at the Consideration of HK$1 million. Completion of the Disposal took place immediately and members of the Disposal Group have ceased to be subsidiaries of the Company. As a result, the Group recorded a gain on disposal of De-consolidated Subsidiaries of HK$1 million of the period ended 30 June 2018.

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 namely Lituo Enterprise (HK) Limited, Trade Rosy Global Limited and 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 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. 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. 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.

Updates on matters relating to the prepayment to suppliers

As there has been default in refund of the deposits by those suppliers as previously agreed, the Company has been chasing those suppliers for recovery of the deposit paid. In particular, the Company has been in negotiation with Lituo Enterprise (HK) Limited and Trade Rosy Global Limited which requested for time allowance for them to refund the deposits. As these two companies are limited companies and the Company has concern if they are shelf companies with no assets, what the Company is trying to do is to reach an agreement with the relevant responsible persons of these two companies for repayment as soon as possible, hopefully by instalments and with security/personal guarantee given in favour of the Company if possible. If no agreement is reached by 31 August 2018, the Company will have no choice but to institute legal proceedings against these two companies.

As far as Kai Muk Company is concerned, there has been correspondence between both parties' legal counsels. As there is no reasonable ground given by Kai Muk Company, the Company has instituted legal proceedings and served the writ of summons against Kai Muk Company on 30 July 2018 to recover the outstanding deposit.

Further announcement(s) will be made by the Company as and when appropriate to keep the shareholders informed of the material developments in the above matters.

Compliance

As at 30 June 2018, as stated in "Business – Legal proceedings and regulatory compliance – Regulatory non-compliance" of the Prospectus, in relation to the incidents of non-compliance with the applicable laws and regulations including those relating to environmental protection, land rehabilitation, safety, etc., the Group had already taken remedial actions and implemented relevant internal control measures. All these aspects have been in compliance with applicable laws and regulations as at the date of this report. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations, in particular, those which have significant impact on the Group. The compliance committee of the Company (the "Compliance Committee") is not aware of the occurrence of any other material non-compliance incidents during the Reporting Period.

Risk Management and Internal Control

The Board has overall responsibility for the effective risk management and internal control systems of the Group and is committed to the maintenance of good corporate governance, practices and procedures of the Group. The Board believes that all the major risk factors relevant to the Group have already been listed in "Risk factors" of the Prospectus. As at 30 June 2018 and the date of this report, save as disclosed otherwise, the business environment and regulatory environment in which the Group operates have not witnessed any material change, and internal operations and management and financial operations have been running smoothly, and thereby no other major risk factors need to be disclosed separately. In accordance with the revised Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 15 to the GEM Listing Rules, the Group continuously improves the risk management and internal control systems and updates a number of policies. The Board believes that these measures will strengthen the risk management and internal control systems of the Group.

FINANCIAL REVIEW

Revenue

Breakdown of the Group's Revenue by Products

	Six months ended 30 June			
	2018		2017	
	CNY'000	***%***	*CNY'000*	*%*
	(unaudited)		(unaudited)	
Drilling mud	**6,500**	**30.6**	4,483	39.1
Pelletising clay	**14,715**	**69.4**	6,976	60.9
Total revenue	**21,215**	**100.0**	11,459	100.0

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

	Six months ended 30 June			
	2018		2017	
	Sales volume *(tonnes)*	**Average selling price *(CNY/tonne)***	Sales volume *(tonnes)*	Average selling price *(CNY/tonne)*
Drilling mud	**16,038**	**405.3**	11,459	391.1
Pelletising clay	**39,984**	**368.0**	23,185	300.9

The revenue increased by approximately 85.1% from approximately CNY11.46 million for the six months ended 30 June 2017 to approximately CNY21.22 million for the Reporting Period. The increase in revenue was mainly contributed by the increase in sales volume and average selling price both drilling mud and pelletising clay. 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. Since the Group's adopted the strategy of "selling more with low margin" for drilling mud from the second half of 2017, the sales volume of drilling mud managed to record an increase for the six months ended 30 June 2018, compared to the six months ended 30 June 2017's.

Cost of Sales

Breakdown of the Group's Cost of Sales

	Six months ended 30 June			
Cost Items	**2018**		2017	
	CNY'000 **(unaudited)**	***%***	*CNY'000* (unaudited)	*%*
Extraction costs	**384**	**2.8**	296	4.3
Processing costs				
– Air-drying costs	**970**	**7.0**	626	9.0
– Consumables, materials and supplies	**3,310**	**24.0**	1,417	20.4
– Depreciation and amortisation	**790**	**5.7**	474	6.8
– Staff costs	**2,775**	**20.1**	1,388	20.0
– Transportation costs	**2,154**	**15.6**	993	14.3
– Utility costs	**2,282**	**16.6**	1,353	19.5
– Others	**737**	**5.4**	149	2.1
Sales tax and surcharges	**390**	**2.8**	257	3.6
Total cost	**13,792**	**100.0**	6,953	100.0

Breakdown of the Group's Cost of Sales by Products

	Six months ended 30 June					
	2018			2017		
	CNY/tonne	***CNY'000***	***%***	*CNY/tonne*	*CNY'000*	*%*
		(unaudited)			(unaudited)	
Drilling mud	**273.9**	**4,393**	**31.9**	226.0	2,589	37.2
Pelletising clay	**235.1**	**9,399**	**68.1**	188.2	4,364	62.8
		13,792	**100.0**		6,953	100.0

The total cost of sales increased by approximately 98.4% from approximately CNY7.0 million for the six months ended 30 June 2017 to approximately CNY13.8 million for the Reporting Period. The increase in total cost of sales was mainly caused by (i) the significant increase in sales volume of drilling mud and pelletising clay; and (ii) the increase in unit processing cost of both drilling mud and pelletising clay. The increase in unit processing costs was mainly attributed to (i) the increase in unit transportation costs because of the rise in oil price; (ii) the increase in unit staff costs due to the rise of wage and welfare and in the headcount of production staff; and (iii) the increase in unit costs of consumables of materials 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 corresponding period in 2017's.

Cost of sales for drilling mud increased by approximately 69.7% from approximately CNY2.6 million for the six months ended 30 June 2017 to approximately CNY4.4 million for the Reporting Period. The increase in cost of sales for drilling mud was mainly due to (i) the increase in sales volume by approximately 40.0%; (ii) the increase in unit cost of transportation costs, unit staff costs and consumptions of materials. The reasons for the increase in unit transportation costs, unit staff costs and consumptions of materials had been discussed above.

Cost of sales for pelletising clay increased by approximately 115.4% from approximately CNY4.4 million for the six months ended 30 June 2017 to approximately CNY9.4 million for the Reporting Period. The increase in cost of sales for pelletising clay was mainly due to (i) an increase in sales volume by approximately 72.5%, (ii) an increase in unit cost of transportation costs, unit staff costs and consumptions of materials. The reasons for the increase in unit transportation costs, unit staff costs and consumptions of materials had been discussed above.

Gross Profit and Gross Margin

The overall gross profit increased by approximately 64.7% from approximately CNY4.5 million for the six months ended 30 June 2017 to approximately CNY7.4 million for the Reporting Period, while the overall gross profit margin decreased from approximately 39.3% for the six months ended 30 June 2017 to approximately 35.0% for the Reporting Period. The increase in the overall gross profit was mainly caused by the increase in sales volume and average selling price of drilling mud and pelletising clay, which is partly offset by the increase in per unit cost of sales of drilling mud and pelletising clay. The decrease in overall gross profit margin was mainly due to an increase in unit processing cost of drilling mud from CNY226.0 per tonne for the six months ended 30 June 2017 to CNY273.9 per tonne for the Reporting Period, while its unit price only recorded a relatively slight increase from CNY391.1 per tonne for the six months ended 30 June 2017 to CNY405.3 per tonne for the Reporting Period.

Gross profit for the sale of drilling mud increased by approximately 11.2% from approximately CNY1.9 million for the six months ended 30 June 2017 to approximately CNY2.1 million for the Reporting Period, while the gross profit margin for the sale of drilling mud dropped from approximately 42.2% for the six months ended 30 June 2017 to approximately 32.4% for the Reporting Period. The increase in gross profit for the sale of drilling mud was mainly due to the increase of sales volume by approximately 40.0%. The drop in gross profit margin was attributed to the increase in unit cost of drilling mud by approximately 21.2% from approximately CNY226.0 per tonne for the six months ended 30 June 2017 to approximately CNY273.9 per tonne for the Reporting Period primarily because of the increase in unit transportation costs, unit staff costs and consumptions of materials

Gross profit for the sale of pelletising clay significantly increased by approximately 103.5% from approximately CNY2.6 million for the six months ended 30 June 2017 to approximately CNY5.3 million for the Reporting Period, while the gross profit margin for the sale of pelletising clay slightly decreased from approximately 37.4% for the six months ended 30 June 2017 to approximately 36.1% for the Reporting Period. 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 72.5% and the increase in the average selling price by approximately 22.3%, which was partially offset by the increase in per unit cost of sales by approximately 24.9%.

Other Income

Other income increase by approximately CNY42,000 from approximately CNY326,000 for the six months ended 30 June 2017 to approximately CNY368,000 for the Reporting Period. The increase was mainly attributed to a increase in bank interest income.

Selling and Distribution Expenses

The selling and distribution expenses increased by approximately 78.3% from approximately CNY1.4 million for the six months ended 30 June 2017 to approximately CNY2.6 million for the Reporting Period. This was primarily due to the increase in transportation cost arising from the increase in sales volume of drilling mud and 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 27.1% from approximately CNY5.3 million for the six months ended 30 June 2017 to approximately CNY6.8 million for the Reporting Period. The increase was mainly due to the increase staff cost because of the raise in headcount and bonus of administrative departments.

Finance Costs

The finance costs increased by approximately 145.4% from approximately CNY185,000 for the six months ended 30 June 2017 to approximately CNY454,000 for the Reporting Period. This was due to the increase in interest expense of the short terms loan during the Reporting Period.

Income Tax Expense

The Group had an income tax expense of approximately CNY204,000 for the Reporting Period as compared to approximately CNY100,000 for the six months ended 30 June 2017. The increase was mainly due to a rise 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 six months ended 30 June 2018 was approximately CNY1.3 million, a decrease of approximately CNY0.9 million from the loss and total comprehensive expense of approximately CNY2.2 million for the six months ended 30 June 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 30 June 2018, the Group did not have any significant contingent liabilities.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the Reporting Period (six months ended 30 June 2017: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2018, the Group employed 108 full time employees (as at 30 June 2017: 79) for its principal activities. Employees' costs (including Directors' emoluments) amounted to CNY3.2 million for the Reporting Period (six months ended 30 June 2017: CNY2.3 million). The Group recognises the importance of retaining high calibre and competent staff and continues to provide remuneration packages to employees with reference to the performance of the Group, the performance of individuals and prevailing market rates. 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 share option scheme adopted by the Company.

EVENT AFTER THE REPORTING PERIOD

Reference was made to the announcement dated 30 July 2018 in relation to the provision of financial guarantee service. Wuhu Feishang Non-metal Material Co., Limited*（蕪湖飛尚非金屬材料有限公司）, a wholly-owned subsidiary of the Company established in the PRC ("Feishang Material") entered into the Back-to-back Guarantee Agreement, pursuant to which Feishang Material has agreed to provide financial guarantee to the Borrower by means of pledging its deposit in the sum of RMB20 million for procuring the Borrower to obtain the loan of RMB18 million provided by the lending bank. In return, Feishang Material shall receive a guarantee fee of 6% of the amount of deposit pledged by Feishang Material. The Board considers that the Group has surplus cash in excess of its working capital needs. The provision of Guarantee in favour of the Borrower will better utilize the Group's surplus cash with reasonable return.

As save as above, there is no material event undertaken by the Company or the Group subsequent to 30 June 2018 and up to the date of this report.

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 control policies, it is expected that the iron and steel industry will be confronted with major challenges, imposing great pressure on the demand for pelletising clay. Although the Group strives to maintain sales volume of pelletising clay by means of, among others, improved product quality and "selling more with lower margin" strategy, 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 enhancing the Group's overall competitiveness to cope with the unfavorable business environment.

By dint of the weak investment sentiment in infrastructure construction in energy industry, coupled with impact from the new series of real estate market control policies, the sales of the Group's drilling mud will be adversely affected seriously. The Group aims to maintain sales volume of drilling mud by means of improved product quality and adhering to the "selling more with lower margin" strategy, 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.

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 Reporting Period 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.

APPRECIATION

The Board would like to take this opportunity to express its appreciation to the staff and management team of the Group for their hard work and dedication during the Reporting Period. The Board would also like to express its sincere gratitude to all the shareholders of the Company for their continuous support.

By Order of the Board

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

Hong Kong, 6 August 2018

* *for identification purpose only*

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

As at 30 June 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 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 30 June 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 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 30 June 2018, none of the Directors and chief executives of the Company had any interests or short positions 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 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. Throughout the Reporting Period, the Company has complied with the code provisions as set out in the CG Code, save and except for code provision A.2.1, as set out below.

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.

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 Reporting Period.

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

INTEREST IN COMPETING BUSINESS

Throughout the Reporting Period, 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.

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

There was no purchase, sale or redemption of the Company's listed Shares by the Company or any of its subsidiaries during the Reporting Period.

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 the Cayman Islands.

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) Proposed change of Company name

Pursuant to a special resolution passed at the annual general meeting of the Company held on 16 July 2018, the Shareholders have approved 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 Company will update in relation to the change of Company name in due course.

DISCLOSURE OF CHANGE OF DIRECTORS' INFORMATION

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

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.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		Three months ended 30 June		Six months ended 30 June	
		2018	2017	**2018**	2017
	Notes	***CNY'000***	*CNY'000*	***CNY'000***	*CNY'000*
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Revenue	*3*	**12,323**	5,787	**21,215**	11,459
Cost of sales		**(8,407)**	(3,475)	**(13,792)**	(6,953)
Gross profit		**3,916**	2,312	**7,423**	4,506
Other income	*5*	**218**	237	**368**	326
Gain on disposal of de-consolidated subsidiaries		**874**	–	**874**	–
Selling and distribution expenses		**(1,358)**	(813)	**(2,555)**	(1,433)
Administrative and other expenses		**(3,928)**	(3,116)	**(6,780)**	(5,295)
Finance costs	*6*	**(333)**	(92)	**(454)**	(185)
Loss before tax		**(611)**	(1,472)	**(1,124)**	(2,081)
Income tax expense	*7*	**(119)**	(14)	**(204)**	(100)
Loss and total comprehensive expense for the period attributable to the owners of the Company	*8*	**(730)**	(1,486)	**(1,328)**	(2,181)
Loss per share (CNY):					
Basic and diluted	*10*	**(0.13) cents**	(0.30) cents	**(0.24) cents**	(0.44) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	**At 30 June 2018 CNY'000 (Unaudited)**	At 31 December 2017 CNY'000 (Audited)
Non-current assets			
Property, plant and equipment	*11*	**12,170**	12,187
Prepaid lease payments		**2,547**	2,586
Intangible asset	*12*	**5,107**	5,142
Restricted bank balances		**12,065**	8,043
Deferred tax assets		**544**	497
		32,433	28,455
Current assets			
Inventories		**1,944**	2,421
Trade, bills and other receivables	*13*	**68,033**	69,042
Prepaid lease payments		**77**	77
Bank balances and cash	*14*	**34,300**	32,206
		104,354	103,746
Current liabilities			
Trade and other payables	*15*	**16,098**	12,944
Income tax payables		**249**	169
Short-term loan		**2,533**	–
		18,880	13,113
Net current assets		**85,474**	90,633
		117,907	119,088

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

As at 30 June 2018

	Notes	At 30 June 2018 CNY'000 (Unaudited)	At 31 December 2017 CNY'000 (Audited)
Capital and reserves			
Share capital	16	**4,698**	4,698
Reserves		**105,157**	106,485
		109,855	111,183
Non-current liabilities			
Asset retirement obligations		**7,525**	7,330
Deferred income		**527**	575
		8,052	7,905
		117,907	119,088

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Share Capital	Share premium	Other reserve	Share option reserve	Statutory reserve	Safety fund and production maintenance fund	Retained earnings	Total
	CNY'000	*CNY'000*	*CNY'000 (Note i)*	*CNY'000*	*CNY'000 (Note ii)*	*CNY'000 (Note iii)*	*CNY'000*	*CNY'000*
At 1 January 2017 (Audited)	4,188	25,954	23,351	–	3,401	808	5,034	62,736
Loss and total comprehensive expense for the period	–	–	–	–	–	–	(2,181)	(2,181)
Appropriation to statutory reserve	–	–	–	–	35	–	(35)	–
Appropriation and utilisation of safety fund and production maintenance fund, net	–	–	–	–	–	70	(70)	–
At 30 June 2017 (Unaudited)	4,188	25,954	23,351	–	3,436	878	2,748	60,555
At 1 January 2018 (Audited)	4,698	107,932	23,351	37,833	3,556	970	(67,157)	111,183
Loss and total comprehensive expense for the period	–	–	–	–	–	–	(1,328)	(1,328)
Lapsed of share options	–	–	–	(37,833)	–	–	37,833	–
Appropriation and utilisation of safety fund and production maintenance fund, net	–	–	–	–	142	45	(187)	–
At 30 June 2018 (Unaudited)	4,698	107,932	23,351	–	3,698	1,015	(30,839)	109,855

Notes:

(I) OTHER RESERVE

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

(II) STATUTORY RESERVE

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

(III) SAFETY FUND AND PRODUCTION MAINTENANCE FUND

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
	Note	***CNY'000***	*CNY'000*
		(Unaudited)	(Unaudited)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		**3,903**	(3,884)
NET CASH USED IN INVESTING ACTIVITIES		**(4,568)**	(864)
NET CASH GENERATED FROM FINANCING ACTIVITIES		**2,533**	55
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,868**	(4,693)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**16,261**	19,641
CASH AND CASH EQUIVALENTS AT 30 JUNE	*14*	**18,129**	14,948

1. GENERAL INFORMATION AND BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 15 July 2015 and its shares were listed on 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 while the principal 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 (張強). 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 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 condensed consolidated interim 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).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements of the Group for the Reporting Period have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB"). In addition, the condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure provisions of Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

The condensed consolidated interim financial statements have been prepared on the historical cost basis.

The accounting policies and methods of computation used in the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017.

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statement.

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014-2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

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

3. REVENUE

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

4. SEGMENT INFORMATION

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

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

5. OTHER INCOME

	Three months ended 30 June		**Six months ended 30 June**	
	2018	2017	**2018**	2017
	CNY'000	*CNY'000*	***CNY'000***	*CNY'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Bank interest income	**133**	214	**283**	223
Government grants *(Note)*	**–**	–	**–**	55
Release of government grant for property, plant and equipment	**27**	23	**48**	47
Exchange gain, net	**–**	–	**16**	–
Others	**58**	–	**21**	1
	218	237	**368**	326

Note:

The Group did not recognise any government grants during the Reporting Period (six months ended 30 June 2017: CNY55,000).

6. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2018	2017	**2018**	2017
	CNY'000	*CNY'000*	***CNY'000***	*CNY'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Interest expenses on short term loan	**237**	–	**259**	–
Unwinding of discount on provision for dismantlement	**96**	92	**195**	185
	333	92	**454**	185

7. INCOME TAX EXPENSE

	Three months ended 30 June		Six months ended 30 June	
	2018	2017	**2018**	2017
	CNY'000	*CNY'000*	***CNY'000***	*CNY'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Current tax:				
PRC Enterprise Income Tax ("EIT")	**201**	62	**251**	62
Over-provision	**–**	(13)	**–**	(13)
Deferred taxation:				
Current period	**(82)**	(35)	**(47)**	51
	119	14	**204**	100

Notes:

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

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

(c) Under the Law of the PRC on EIT ("EIT Law") and implementation regulation of the EIT Law, the tax rate of the subsidiaries established in the PRC other than Feishang Material is 25% for both periods.

(d) Feishang Material was recognised as a High Technology Enterprise and subject to EIT at 15% in accordance with the EIT Law for both periods.

8. LOSS FOR THE PERIOD

	Three months ended 30 June		Six months ended 30 June	
	2018	2017	**2018**	2017
	CNY'000	*CNY'000*	***CNY'000***	*CNY'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Loss for the period has been arrived at after charging:				
Amortisation of intangible asset	**18**	14	**35**	28
Amortisation of prepaid lease payments	**20**	19	**39**	38
Amount of inventories recognised as an expenses	**7,799**	3,340	**13,402**	6,696
Exchange loss/(gain), net	**317**	80	**(34)**	147
Depreciation of property, plant and equipment	**287**	235	**620**	578
Loss on disposal/written off of property, plant and equipment (included in administrative and other expenses), net	**4**	1	**4**	1
Lease payments paid under operating lease in respect of plant and equipment	**432**	145	**572**	298

9. DIVIDEND

No dividend was paid, declared or proposed during the Reporting Period, nor has any dividend been proposed since the end of the Reporting Period (six months ended 30 June 2017: nil).

10. 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 30 June		Six months ended 30 June	
	2018	2017	**2018**	2017
	CNY'000	*CNY'000*	***CNY'000***	*CNY'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Loss				
Loss for the purpose of basic and diluted loss per share	**(730)**	(1,486)	**(1,328)**	(2,181)

	Three months ended 30 June		Six months ended 30 June	
	2018	2017	**2018**	2017
	CNY'000	*CNY'000*	***CNY'000***	*CNY'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
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	**558,810**	500,000

Note:

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

11. PROPERTY, PLANT AND EQUIPMENT

During the Reporting Period, the Group spent approximately CNY562,000 (six months ended 30 June 2017: approximately CNY94,000) on acquisition of property, plant and equipment.

During the Reporting Period, the Group has certain property, plant and equipment with an aggregate carrying values of CNY4,000 (six months ended 30 June 2017: nil) for no cash proceeds (six months ended 30 June 2017: approximately CNY1,000), resulting in a loss on disposal of approximately CNY4,000 (six months ended 30 June 2017: gain of approximately CNY1,000).

During the Reporting Period, the Group has written-off of certain property, plant and equipment with an aggregate carrying values of approximately nil (six months ended 30 June 2017: approximately CNY2,000), resulting in a loss on disposal of approximately CNYnil (six months ended 30 June 2017: approximately CNY2,000).

12. INTANGIBLE ASSET

During the six months end 30 June 2018, the Group did not spend any expenditure (2017: nil) in relation to the mining site.

13. TRADE, BILLS AND OTHER RECEIVABLES

	At 30 June 2018	At 31 December 2017
	CNY'000	*CNY'000*
	(Unaudited)	(Audited)
Trade receivables	**6,718**	3,381
Bills receivables	**3,794**	7,085
Prepayments *(Note)*	**57,478**	58,308
Other receivables	**43**	268
	68,033	69,042

Note: As at 30 June 2018, included in prepayments was an amount of approximately CNY57,430,000 (31 December 2017: CNY57,846,000) which represented trade deposits paid to suppliers for purchases of materials.

13. TRADE, BILLS AND OTHER RECEIVABLES (Cont'd)

The Group offers revolving credit to two of its customer amounted approximately CNY1,300,000 (31 December 2017: one customer amounted CNY900,000) as at 30 June 2018. 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 as collaterals over the balance of approximately CNY1,001,000 (31 December 2017: CNY900,000) as at 30 June 2018. 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 CNY5,717,000 (31 December 2017: CNY2,481,000) as at 30 June 2018, 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.

	At 30 June 2018	At 31 December 2017
	CNY'000	*CNY'000*
	(Unaudited)	(Audited)
Within 30 days	**5,155**	2,944
31 to 60 days	**1,488**	357
61 to 90 days	**75**	77
91 to 180 days	**–**	–
Over 180 days	**–**	3
Total	**6,718**	3,381

As at 30 June 2018 and 31 December 2017, all of the bills receivables were aged within 180 days.

14. BANK BALANCES AND CASH

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

	At 30 June 2018	At 31 December 2017
	CNY'000	*CNY'000*
	(Unaudited)	(Audited)
Cash at bank and in hand	**15,287**	10,994
Short-term bank deposits	**19,013**	21,212
Bank balances and cash shown in the condensed consolidated statement of financial position	**34,300**	32,206
Less: Bank deposits with a maturity of more than three months	**(16,171)**	(15,945)
Cash and cash equivalents shown in the condensed consolidated statement of cash flows	**18,129**	16,261

Bank balances and bank deposits carried at prevailing market rates ranging from 0.10% to 1.89% per annum during the Reporting Period (six months ended 30 June 2017: 0.40% to 2.10% per annum).

15. TRADE AND OTHER PAYABLES

	At 30 June 2018 *CNY'000* **(Unaudited)**	At 31 December 2017 *CNY'000* (Audited)
Trade payables	**4,340**	1,896
Other payables and accruals	**10,953**	9,988
Accrued directors' remunerations	**194**	54
Advance from customers	**611**	1,006
	16,098	12,944

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

	At 30 June 2018 *CNY'000* **(Unaudited)**	At 31 December 2017 *CNY'000* (Audited)
Within 30 days	**3,180**	1,682
31 to 60 days	**843**	119
61 to 90 days	**240**	22
91 to 180 days	**20**	28
Over 180 days	**57**	45
Total	**4,340**	1,896

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.

16. SHARE CAPITAL

	Number of shares	Share capital	
			(Equivalent to)
		HK$	*CNY'000*
Ordinary share of HK$0.01 each			
Authorised			
At 1 January 2017, 31 December 2017 and 30 June 2018	**10,000,000,000**	100,000,000	
Issued and fully paid			
At 1 January 2017	**500,000,000**	5,000,000	4,188
Placing of new shares (Note a)	**40,000,000**	400,000	347
Subscription of new shares (Note b)	**10,000,000**	100,000	87
Issue of shares upon exercise of share options (Note c)	**8,810,000**	88,100	76
At 31 December 2017 and 30 June 2018	**558,810,000**	5,588,100	4,698

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.

17. 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.

No share options have been granted since the adoption of the Scheme and during the Reporting Period (six months ended 30 June 2017: nil).

18. RELATED PARTY TRANSACTIONS

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

Compensation to key management personnel

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

	Three months ended 30 June		Six months ended 30 June	
	2018	2017	**2018**	2017
	CNY'000	*CNY'000*	***CNY'000***	*CNY'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Short-term benefits	**198**	245	**437**	447
Post-employment benefits	**25**	42	**51**	82
	223	287	**488**	529

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