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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)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2017

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

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

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

This announcement, 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 announcement 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 announcement misleading.

The board (the “Board”) of Directors of the Company is pleased to announce the unaudited condensed consolidated results of the Group for the six months ended 30 June 2017 (the “Reporting Period”), together with the comparative figures for the six months ended 30 June 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

		Three months ended		Six months ended	
		30 June		30 June	
		2017	2016	2017	2016
	<i>Notes</i>	<i>CNY'000</i>	<i>CNY'000</i>	<i>CNY'000</i>	<i>CNY'000</i>
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	3	5,787	6,582	11,459	13,628
Cost of sales		<u>(3,475)</u>	<u>(3,581)</u>	<u>(6,953)</u>	<u>(7,926)</u>
Gross profit		2,312	3,001	4,506	5,702
Other income	4	237	525	326	2,545
Selling and distribution expenses		(813)	(256)	(1,433)	(651)
Administrative and other expenses		(3,116)	(2,053)	(5,295)	(3,781)
Finance costs	5	<u>(92)</u>	<u>(117)</u>	<u>(185)</u>	<u>(293)</u>
(Loss) profit before tax		(1,472)	1,100	(2,081)	3,522
Income tax expense	6	<u>(14)</u>	<u>(331)</u>	<u>(100)</u>	<u>(800)</u>
(Loss) profit and total comprehensive (expense) income for the period attributable to the owners of the Company	7	<u><u>(1,486)</u></u>	<u><u>769</u></u>	<u><u>(2,181)</u></u>	<u><u>2,722</u></u>
(Loss) earnings per share (CNY):					
Basic and diluted	9	<u><u>(0.30) cents</u></u>	<u><u>0.15 cents</u></u>	<u><u>(0.44) cents</u></u>	<u><u>0.54 cents</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

		At 30 June 2017 <i>CNY'000</i> (Unaudited)	At 31 December 2016 <i>CNY'000</i> (Audited)
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	10	12,548	13,034
Prepaid lease payments		2,625	2,663
Intangible asset	11	5,181	5,209
Restricted bank balances		6,929	6,150
Deferred tax assets		561	612
		<u>27,844</u>	<u>27,668</u>
Current assets			
Inventories		2,685	2,887
Trade, bills and other receivables	12	11,822	8,617
Prepaid lease payments		77	77
Bank balances and cash	13	30,148	34,641
		<u>44,732</u>	<u>46,222</u>
Current liabilities			
Trade and other payables	14	4,196	3,162
Income tax payables		63	368
		<u>4,259</u>	<u>3,530</u>
Net current assets		<u>40,473</u>	<u>42,692</u>
		<u><u>68,317</u></u>	<u><u>70,360</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2017

		At 30 June 2017 <i>CNY'000</i> (Unaudited)	At 31 December 2016 <i>CNY'000</i> (Audited)
	<i>Note</i>		
Capital and reserves			
Share capital	15	4,188	4,188
Reserves		<u>56,367</u>	<u>58,548</u>
		<u>60,555</u>	<u>62,736</u>
Non-current liabilities			
Asset retirement obligations		7,139	6,954
Deferred income		<u>623</u>	<u>670</u>
		<u>7,762</u>	<u>7,624</u>
		<u><u>68,317</u></u>	<u><u>70,360</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

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.

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.

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.

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 GEM Listing Rules.

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

The accounting policies 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 2016.

In the current interim period, the Group has applied, for the first time, the following amendments (“new and revised IFRSs”) issued by the IASB which are effective for the Group’s financial year beginning 1 January 2017.

Amendments to IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle: Amendments to IFRS 12
Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

The application of the above new and revised IFRSs in the current 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. OTHER INCOME

	Three months ended		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	CNY’000	CNY’000	CNY’000	CNY’000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Bank interest income	214	227	223	227
Government grants (<i>Note</i>)	–	50	55	2,050
Release of government grant for property, plant and equipment	23	20	47	40
Exchange gain, net	–	177	–	177
Reversal of impairment loss on trade receivables	–	50	–	50
Others	–	1	1	1
	<u>237</u>	<u>525</u>	<u>326</u>	<u>2,545</u>

Note: Included in the amount of government grants recognised during the six months ended 30 June 2016, CNY2,000,000 (Reporting Period: nil) was received from local government authority for the Company’s shares listed on GEM successfully.

During the Reporting Period, approximately CNY55,000 (six months ended 30 June 2016: CNY50,000) was granted in respect of product innovation contributed to the industry, which were immediately recognised as other income for the period as the Group fulfilled the relevant granting criteria.

5. FINANCE COSTS

	Three months ended		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	CNY'000	CNY'000	CNY'000	CNY'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest expenses on secured bank borrowing	–	56	–	118
Unwinding of discount on provision for dismantlement	92	61	185	175
	<u>92</u>	<u>117</u>	<u>185</u>	<u>293</u>

6. INCOME TAX EXPENSE

	Three months ended		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	CNY'000	CNY'000	CNY'000	CNY'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current tax:				
PRC Enterprise Income Tax (“EIT”)	62	306	62	626
Over-provision in prior year	(13)	–	(13)	–
Deferred taxation:				
Current period	(35)	25	51	174
	<u>14</u>	<u>331</u>	<u>100</u>	<u>800</u>

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 Wuhu Feishang Non-metallic Material Co., Ltd. (“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.

7. (LOSS) PROFIT FOR THE PERIOD

	Three months ended		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	<i>CNY'000</i>	<i>CNY'000</i>	<i>CNY'000</i>	<i>CNY'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
(Loss) profit for the period has been arrived at after charging:				
Amortisation of intangible asset	14	9	28	22
Amortisation of prepaid lease payments	19	20	38	39
Amount of inventories recognised as an expenses	3,340	3,517	6,695	7,787
Exchange loss, net	80	–	147	–
Depreciation of property, plant and equipment	235	333	578	669
Loss on disposal/written off of property, plant and equipment (included in administrative and other expenses), net	1	3	1	3
Lease payments paid under operating lease in respect of plant and equipment	145	96	298	233

8. 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 2016: nil).

9. (LOSS) EARNINGS PER SHARE

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

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	CNY'000	CNY'000	CNY'000	CNY'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
(Loss) earnings				
(Loss) earnings for the purpose of basic and diluted (loss) earnings per share	<u>(1,486)</u>	<u>769</u>	<u>(2,181)</u>	<u>2,722</u>
	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
Number of shares				
Weighted average number of ordinary shares for the purpose of basic and diluted (loss) earnings per share ('000 shares)	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>

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

10. PROPERTY, PLANT AND EQUIPMENT

During the Reporting Period, the Group spent approximately CNY94,000 (six months ended 30 June 2016: approximately CNY217,000) on acquisition of property, plant and equipment.

During the Reporting Period, the Group has disposed of certain property, plant and equipment with an aggregate carrying values of nil (six months ended 30 June 2016: approximately CNY8,000) for cash proceeds of approximately CNY1,000 (six months ended 30 June 2016: approximately CNY11,000), resulting in a gain on disposal of approximately CNY1,000 (six months ended 30 June 2016: approximately CNY3,000).

During the Reporting Period, the Group has written-off of certain property, plant and equipment with an aggregate carrying values of approximately CNY2,000 (six months ended 30 June 2016: approximately CNY6,000), resulting in a loss on disposal of approximately CNY2,000 (six months ended 30 June 2016: approximately CNY6,000).

11. INTANGIBLE ASSET

During the six months end 30 June 2016, the Group spent approximately CNY1,415,000 (Reporting Period: nil) in relation to the mining site.

12. TRADE, BILLS AND OTHER RECEIVABLES

	At 30 June 2017 CNY'000 (Unaudited)	At 31 December 2016 CNY'000 (Audited)
Trade receivables	4,084	5,478
Bills receivables	6,500	2,548
Trade deposits paid	35	35
Prepayments	738	228
Other receivables	465	328
	<u>11,822</u>	<u>8,617</u>

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 2017 CNY'000 (Unaudited)	At 31 December 2016 CNY'000 (Audited)
Within 30 days	2,779	3,210
31 to 60 days	586	846
61 to 90 days	719	447
91 to 180 days	–	809
Over 180 days	–	166
Total	<u>4,084</u>	<u>5,478</u>

As at 30 June 2017 and 31 December 2016, all of the bills receivables were aged within 180 days.

13. 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 2017 CNY'000 (Unaudited)	At 31 December 2016 CNY'000 (Audited)
Cash at bank and in hand	8,990	12,886
Short-term bank deposits	<u>21,158</u>	<u>21,755</u>
Bank balances and cash shown in the condensed consolidated statement of financial position	30,148	34,641
Less: Bank deposits with a maturity of more than three months	<u>(15,200)</u>	<u>(15,000)</u>
Cash and cash equivalents shown in the condensed consolidated statement of cash flows	<u><u>14,948</u></u>	<u><u>19,641</u></u>

Bank balances and bank deposits carried at prevailing market rates ranging from 0.40% to 2.10% per annum during the Reporting Period (six months ended 30 June 2016: 0.20% to 1.80% per annum).

14. TRADE AND OTHER PAYABLES

	At 30 June 2017 CNY'000 (Unaudited)	At 31 December 2016 CNY'000 (Audited)
Trade payables	1,363	1,254
Other payables and accruals	2,520	1,679
Accrued directors' remunerations	41	57
Advance from customers	<u>272</u>	<u>172</u>
	<u><u>4,196</u></u>	<u><u>3,162</u></u>

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

	At 30 June 2017 CNY'000 (Unaudited)	At 31 December 2016 CNY'000 (Audited)
Within 30 days	1,225	1,042
31 to 60 days	34	64
61 to 90 days	–	26
91 to 180 days	56	57
Over 180 days	48	65
	<u>1,363</u>	<u>1,254</u>
Total	<u><u>1,363</u></u>	<u><u>1,254</u></u>

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.

15. SHARE CAPITAL

	Number of shares	Share capital (Equivalent to) HK\$ CNY'000
Ordinary share of HK\$0.01 each		
<i>Authorised</i>		
At 1 January 2016, 31 December 2016 and 30 June 2017	<u>10,000,000,000</u>	<u>100,000,000</u>
<i>Issued and fully paid</i>		
At 1 January 2016, 31 December 2016 and 30 June 2017	<u>500,000,000</u>	<u>5,000,000</u> <u>4,188</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The gradual recovery of the general economy and further advancement of the supply-side reform policy resulted in improvement in profitability in the iron and steel industry. However, as discussed in the paragraph headed “Chairman’s Statement – Outlook” of the Company’s annual report for the year ended 31 December 2016 and the business review for the 2017 first quarterly report for the three months ended 31 March 2017 (the “2017 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 in the first half of 2017 as compared to the corresponding period in 2016.

It was also set out in the paragraph headed “Chairman’s Statement – Outlook” of the Company’s annual report for the year ended 31 December 2016 and the business review for the 2017 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. It continues to exert pressure on the sales of the Group’s drilling mud business, resulting a drop in the sales of drilling mud of the Group in the first half of 2017 as compared to the corresponding period in 2016.

Business Strategies Review with Progress of Implementation

The Group aims to strengthen its market position in the PRC. In order to achieve this objective, the Group intends to pursue the following strategies. The following table sets out the Group’s business strategies as disclosed in the prospectus of the Company dated 18 December 2015 (the “Prospectus”) with the actual progress of implementation as at 30 June 2017.

Business Strategy	Implementation Plan	Progress of Implementation as of 30 June 2017
Broaden customer base and develop product recognition	(i) Collaborating with external institutions in the PRC for the development of new technologies and new bentonite products to cater for high-valued downstream markets other than iron ore pelletising and civil engineering; (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 2017; 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.
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 “Listing”) (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 announcement 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 announcement:

Revised timeline as disclosed in the Company’s announcement dated 21 March 2016

	From Listing Date up to 31 December 2015 (HK\$ million)	For the six months ended 30 June 2016 (HK\$ million)	For the six months ended 31 December 2016 (HK\$ million)	For the six months ended 30 June 2017 (HK\$ million)	For the six months ending 31 December 2017 (HK\$ million)	Total net proceeds (HK\$ million)	Approximate percentage of net proceeds %	Actual use of net proceeds up to the date of this announcement (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) (<i>Note 1</i>)	Dry	Wet
Proved reserve (<i>metric tonnes</i>)	1,720,000	2,151,000
Probable reserve (<i>metric tonnes</i>)	4,724,000	5,910,000
Total (<i>metric tonnes</i>)	6,444,000	8,061,000
Reserve data (as of 30 June 2017) (<i>Note 2</i>)	Dry	Wet
Proved reserve (<i>metric tonnes</i>)	1,571,000	1,953,000
Probable reserve (<i>metric tonnes</i>)	4,724,000	5,910,000
Total (<i>metric tonnes</i>)	6,295,000	7,863,000
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 2017	CNY90,000	
Output for the six months ended 30 June 2017 (<i>metric tonnes</i>)	35,000	

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 2017 has been substantiated by the Group's internal expert by adjusting those reserves extracted by the Group's mining activities from July 2015 to June 2017 from the proved reserve as of 1 July 2015. All assumptions and technical parameters set out in the independent technical report contained in the Prospectus have not been materially changed and continued to apply to the reserve data as of 30 June 2017.
- (3) There is no exploration activity carried out by the Group during the Reporting Period.

FINANCIAL REVIEW

Revenue

Breakdown of the Group's Revenue by Products

	Six months ended 30 June			
	2017		2016	
	CNY'000 (unaudited)	%	CNY'000 (unaudited)	%
Drilling mud	4,483	39.1	8,577	62.9
Pelletising clay	6,976	60.9	5,051	37.1
Total revenue	<u>11,459</u>	<u>100.0</u>	<u>13,628</u>	<u>100.0</u>

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

	Six months ended 30 June			
	2017		2016	
	Sales volume	Average selling price	Sales volume	Average selling price
	(tonnes)	(CNY/tonne)	(tonnes)	(CNY/tonne)
Drilling mud	11,459	391.1	19,486	440.2
Pelletising clay	<u>23,185</u>	<u>300.9</u>	<u>18,440</u>	<u>273.9</u>

The revenue decreased by approximately 15.9% from approximately CNY13.6 million for the six months ended 30 June 2016 to approximately CNY11.5 million for the Reporting Period. The decrease in revenue was mainly due to the decrease in sales volume and average selling price of drilling mud, which was partially offset by the increase in sales volume and average selling price of pelletising clay. The drop in sales volume and average selling price of drilling mud was mainly caused by the general economic condition, especially the uncertainty in investment prospects of the energy industry in the PRC. 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.

Cost of Sales

Breakdown of the Group's Cost of Sales

Cost Items	Six months ended 30 June			
	2017		2016	
	CNY'000	%	CNY'000	%
	(unaudited)		(unaudited)	
Extraction costs	296	4.3	252	3.2
Processing costs				
– Air-drying costs	626	9.0	735	9.2
– Consumables, materials and supplies	1,417	20.4	1,710	21.6
– Depreciation and amortisation	474	6.8	576	7.3
– Staff costs	1,388	20.0	1,488	18.8
– Transportation costs	993	14.3	1,039	13.1
– Utility costs	1,353	19.5	1,493	18.8
– Others	149	2.1	62	0.8
Sales tax and surcharges	<u>257</u>	<u>3.6</u>	<u>571</u>	<u>7.2</u>
Total cost	<u>6,953</u>	<u>100.0</u>	<u>7,926</u>	<u>100.0</u>

Breakdown of the Group's Cost of Sales by Products

	Six months ended 30 June					
	2017			2016		
	<i>CNY/tonne</i>	<i>CNY'000</i> (unaudited)	<i>%</i>	<i>CNY/tonne</i>	<i>CNY'000</i> (unaudited)	<i>%</i>
Drilling mud	226.0	2,589	37.2	220.8	4,302	54.3
Pelletising clay	188.2	4,364	62.8	196.5	3,624	45.7
		<u>6,953</u>	<u>100.0</u>		<u>7,926</u>	<u>100.0</u>

The total cost of sales decreased by approximately 12.3% from approximately CNY7.9 million for the six months ended 30 June 2016 to approximately CNY7.0 million for the Reporting Period. The decrease in total cost of sales was mainly due to (i) the significant decrease in sales volume of drilling mud; and (ii) the decrease in sales tax and surcharges because of the reduction in the resource tax and the cessation of resources compensation fee payment since 1 July 2016, which was partly offset by the increase in sales volume of pelletising clay.

Cost of sales for drilling mud decreased by approximately 39.8% from approximately CNY4.3 million for the six months ended 30 June 2016 to approximately CNY2.6 million for the Reporting Period. The decrease in cost of sales for drilling mud was mainly due to a decrease in sales volume of drilling mud by approximately 41.2%.

Cost of sales for pelletising clay increased by approximately 20.4% from approximately CNY3.6 million for the six months ended 30 June 2016 to approximately CNY4.4 million for the Reporting Period. The increase in cost of sales for pelletising clay was mainly due to the increase in sales volume of pelletising clay by approximately 25.7%, which was partly offset the reduction in the resource tax and the cessation of resources compensation fee payment since 1 July 2016.

Gross Profit

The gross profit decreased by approximately 21.0% from approximately CNY5.7 million for the six months ended 30 June 2016 to approximately CNY4.5 million for the Reporting Period. The decrease in the gross profit was mainly caused by the decrease in sales volume and average selling price of drilling mud which had higher gross profit than that of pelletising clay, which was partially offset by the increase in sales volume and average selling price of pelletising clay.

Other Income

The drop in other income from approximately CNY2.5 million for the six months ended 30 June 2016 to approximately CNY0.3 million for the Reporting Period was mainly due to the Group's receipt of a one-off monetary award in the sum of CNY2.0 million from Fanchang County People's Government* (繁昌縣人民政府) in the first quarter of 2016 for the successful listing of the Company's shares (the "Shares") on GEM on 29 December 2015 (the "Listing Date"). The other income for the Reporting Period mainly comprised bank interest income.

Selling and Distribution Expenses

The selling and distribution expenses increased by approximately 120.1% from approximately CNY0.7 million for the six months ended 30 June 2016 to approximately CNY1.4 million for the Reporting Period. 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 40.0% from approximately CNY3.8 million for the six months ended 30 June 2016 to approximately CNY5.3 million for the Reporting Period. The increase was mainly due to the increase in professional fees and research and development expenses.

Finance Costs

The finance costs decreased by approximately 36.9% from approximately CNY293,000 for the six months ended 30 June 2016 to approximately CNY185,000 for the Reporting Period. This was due to the decrease in interest expense of bank loan which was drawn down in December 2015 and repaid in December 2016.

Income Tax Expense

The Group had an income tax expense of approximately CNY0.1 million for the Reporting Period as compared to approximately CNY0.8 million for the six months ended 30 June 2016. The decrease was mainly due to a decline in the profit before tax in Feishang Material, the indirect wholly-owned subsidiary of the Company.

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

The loss and total comprehensive expense attributable to the owners of the Company for the Reporting Period was approximately CNY2.2 million, a decrease of approximately CNY4.9 million from the profit and total comprehensive income of approximately CNY2.7 million for the six months ended 30 June 2016. This was mainly caused by (i) the lack of one-off monetary award from Fanchang County People's Government* (繁昌縣人民政府) recognised in the first quarter of 2016 amounting to CNY2.0 million in 2017; (ii) the decrease of approximately CNY1.2 million in gross profit mainly due to the decrease in sales volume and average selling price of drilling mud; and (iii) the increase of approximately CNY1.5 million in administrative and other expenses mainly due to the increase in professional fees and research and development expenses. The effect was partially offset by the decrease of approximately CNY0.7 million in income tax expense mainly due to the decrease in profit before tax.

FINANCIAL RESOURCES REVIEW

Liquidity, Financial Resources and Capital Structure

As of 31 December 2016 and 30 June 2017, the Group had net current assets of approximately CNY42.7 million and approximately CNY40.5 million, respectively.

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

As at 30 June 2017, the Group had cash and cash equivalents of approximately CNY30.1 million which was mainly dominated in CNY.

As at 30 June 2017, the Group did not have any bank loans, hedge, or pledge of assets.

Capital Commitments and Financing Needs

As at 30 June 2017, apart from the implementation plans, capital needs and financing plans as stated in the section headed "Future Plans and Use of Proceeds" (adjusted as disclosed in the Company's announcement dated 21 March 2016) and "Financial Information" of the Prospectus, the Group had no other new implementation plans or financing plans.

Gearing Ratio

During 2016, the Group fully repaid the interest-bearing borrowing which was drawn down in December 2015. Therefore the gearing ratio as at 31 December 2016 and 30 June 2017 is nil.

Significant Investments/Material Acquisitions and Disposals

Save as disclosed under the sections headed “Business Strategies Review with Progress of Implementation” and “Use of Listing Proceeds” above, the Group did not make any significant investment or have any material acquisitions and disposals during the Reporting Period.

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 2017, the Group did not have any loan capital or debt securities issued or agreed to be issued, outstanding bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits, finance leases or hire purchase commitments or guarantees or material contingent liabilities.

SUBSEQUENT EVENT

There is no material event undertaken by the Company or the Group subsequent to 30 June 2017 and up to the date of this announcement.

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.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the Reporting Period (six months ended 30 June 2016: Nil).

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

As at 30 June 2017, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director or chief executive is taken or deemed to have under such provisions of the SFO) or which were required to be entered into the register required to be kept by the Company under section 352 of the SFO or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Rules 5.48 to 5.67 of the GEM Listing Rules (the "Required Standard of Dealings"), are set out below:

(I) The Company

Name of Director	Long/short position	Capacity	Number of Shares	Percentage of the issued Shares (%)
Mr. DENG Li	Long position	Beneficial Owner	3,120,000	0.62

Save as disclosed above, as at 30 June 2017, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are 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 are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the Required Standard of Dealings.

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

As at 30 June 2017, so far as was known to the Directors, the following persons/entities (other than the Directors or chief executives of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of substantial shareholder	Long/short position	Capacity	Number of	Percentage of
			Shares	the issued Shares (%)
Mr. ZHANG Qiang	Long position	Beneficial owner	275,000,000	55.00

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

Save as disclosed above, as at 30 June 2017, the Directors were not aware of any other persons/entities (other than the Directors and chief executives of the Company) who had interests or short positions in the Shares or underlying Shares 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' RIGHTS TO ACQUIRE SHARES OR DEBENTURES OF THE COMPANY AND OTHER CORPORATION

Other than the share option as disclosed under the heading of “Share Option Scheme of the Company” below, at no time during the Reporting Period was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

SHARE OPTION SCHEME OF THE COMPANY

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

The Board may, during the Scheme Period, at its absolute discretion, offer to an Eligible Participant an option to subscribe, at the subscription price prescribed under the Share Option Scheme, such number of Shares as the Board may determine. No further options may be granted after the expiry of the Scheme Period. The options may be exercised by an Eligible Participant, in whole or in part, at any time during the period commencing from the date on which an option certificate is issued to an Eligible Participant upon the grant of any option to him (“Date of Grant”) and ending on such date as the Board may determine, but in any event not exceeding 10 years from the Date of Grant. The minimum period for which a share option must be held before it can be exercised would be determined by the Board.

The total number of Shares in respect of which options may be granted under the Share Option Scheme and under any other schemes of the Group (if any) must not in aggregate exceed 10% of the total number of Shares in issue on the Listing Date (“Scheme Mandate Limit”), unless approved by the Company’s shareholders. The Company may seek the approval of its shareholders in general meeting to renew the Scheme Mandate Limit, and such total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 10% of the Shares in issue as at the date of approval of the refreshed Scheme Mandate Limit. The number of Shares in respect of which options may be granted to any Eligible Participant in any 12-month period is not permitted to exceed 1% of the Shares in issue as at the date of grant of the options, unless approved by the Company’s shareholders. In addition, the number of Shares in respect of which options may be granted to any Eligible Participant (who is a substantial shareholder or an independent non-executive Director of the Company, or any of their respective associates (within the meaning as ascribed under the GEM Listing Rules)) in any 12-month period is not permitted to exceed 0.1% of the total number of Shares in issue and an aggregate of HK\$5,000,000, based on the closing price of the Shares at the date of each grant, unless approved by the Company’s shareholders.

The subscription price for the Shares to be issued pursuant to the Share Option Scheme shall be a price determined by the Board at its sole discretion and notified to the Eligible Participants (subject to any adjustments made pursuant to the terms and conditions of the Share Option Scheme) and shall be the higher of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the offer date; (ii) the average closing prices of the Shares as stated in the Stock Exchange’s daily quotations sheets for the five trading days immediately preceding the offer date; and (iii) the nominal value of a Share.

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

As at 30 June 2017, no options had been granted pursuant to the Share Option Scheme. As at the date of this announcement, the Company had 50,000,000 Shares available for issue under the Share Option Scheme (representing 10% of the existing issued share capital of the Company).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2017, the Group employed 79 full time employees (as at 30 June 2016: 86) for its principal activities. Employees’ costs (including Directors’ emoluments) amounted to CNY2.3 million for the Reporting Period (six months ended 30 June 2016: 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.

FOREIGN EXCHANGE EXPOSURE

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

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.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintain a high standard of corporate governance. Maintaining a good and solid framework of corporate governance will ensure the Company to run its business in the best interests of the shareholders. Throughout the Reporting Period under review, the Company has complied with the code provisions of the Corporate Governance Code (the "Code") set out in Appendix 15 of the GEM Listing Rules, with the exception of deviation set out below.

Under Code Provision A.2.1, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. During the Reporting Period under review, the Company has not appointed a chairman, and the roles and functions of a chairman have been performed by all the executive Directors collectively.

AUDIT COMMITTEE

The Company has an audit committee (the “Audit Committee”) which was established in accordance with the requirements of the GEM Listing Rules for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The Audit Committee comprises three independent non-executive Directors. The members of the Audit Committee are Mr. CHAN Chiu Hung Alex (chairman), Mr. DUAN Xuechen and Mr. ZHENG Shuilin. 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 Audit Committee has reviewed the Group’s unaudited condensed consolidated financial statements for the Reporting Period.

The interim condensed consolidated financial statements of the Group for the Reporting Period have not been audited, but have been reviewed by the Company’s auditors, SHINEWING (HK) CPA Limited, in accordance with Hong Kong Standards on Review Engagements 2410 issued by the Hong Kong Institute of Certified Public Accountants.

REQUIRED STANDARD OF DEALINGS FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Required Standard of Dealings as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Required Standard of Dealings throughout the 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.

PUBLIC FLOAT

As at the date of this announcement, 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.

CHANGE OF COMPLIANCE ADVISER

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

INTEREST OF COMPLIANCE ADVISER

The Company has received confirmation from its compliance adviser, Zhaobangji International Capital Limited (the "Compliance Adviser"), that as at 30 June 2017, except for the compliance adviser's agreement entered into between the Company and the Compliance Adviser dated 28 February 2017, neither the Compliance Adviser nor its directors, employees or close associates (as defined in the GEM Listing Rules) had any interests in relation to the Company or any member of the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

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
ZHANG Yongmin
Executive Director

Hong Kong, 14 August 2017

As at the date of this announcement, the executive Directors are Mr. DENG Li and Mr. ZHANG Yongmin; and the independent non-executive Directors are Mr. CHAN Chiu Hung Alex, Mr. ZHENG Shuilin and Mr. DUAN Xuechen.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least seven days from the day of its publication. This announcement will also be published on the Company's website at www.fsnmmaterials.com.

* *The English name is for identification purpose only*