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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)**

**ANNOUNCEMENT OF ANNUAL RESULTS  
FOR THE YEAR ENDED 31 DECEMBER 2017  
AND RESUMPTION OF TRADING**

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

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

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

*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 (the “Directors”) of Feishang Non-metal Materials Technology Limited (the “Company”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2017, together with the comparative figures for the year ended 31 December 2016 as follows:

## **CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

*For the year ended 31 December 2017*

|                                                                     | <i>Notes</i> | <b>2017</b><br><b>CNY'000</b> | 2016<br>CNY'000 |
|---------------------------------------------------------------------|--------------|-------------------------------|-----------------|
| Revenue                                                             | 4            | <b>28,796</b>                 | 26,311          |
| Cost of sales                                                       |              | <b>(18,456)</b>               | (14,791)        |
| Gross profit                                                        |              | <b>10,340</b>                 | 11,520          |
| Other income                                                        |              | <b>693</b>                    | 3,245           |
| Selling and distribution expenses                                   |              | <b>(3,148)</b>                | (1,413)         |
| Administrative and other expenses                                   |              | <b>(73,536)</b>               | (8,932)         |
| Finance costs                                                       | 6            | <b>(376)</b>                  | (521)           |
| Loss on deconsolidation of subsidiaries                             |              | <b>(5,616)</b>                | –               |
| (Loss) profit before tax                                            |              | <b>(71,643)</b>               | 3,899           |
| Income tax expense                                                  | 7            | <b>(437)</b>                  | (1,099)         |
| (Loss) profit and total comprehensive (expense) income for the year | 8            | <b>(72,080)</b>               | 2,800           |
| Attributable to:                                                    |              |                               |                 |
| Owners of the Company                                               |              | <b>(71,874)</b>               | 2,800           |
| Non-controlling interests                                           |              | <b>(206)</b>                  | –               |
|                                                                     |              | <b>(72,080)</b>               | 2,800           |
| (Loss) earnings per share (CNY):                                    |              |                               |                 |
| Basic                                                               | 9            | <b>(14.21) cents</b>          | 0.56 cents      |
| Diluted                                                             | 9            | <b>(14.21) cents</b>          | 0.56 cents      |

# **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*As at 31 December 2017*

|                                    | <i>Notes</i> | <b>2017</b><br><b>CNY'000</b> | 2016<br><i>CNY'000</i> |
|------------------------------------|--------------|-------------------------------|------------------------|
| Non-current assets                 |              |                               |                        |
| Property, plant and equipment      | <i>11</i>    | <b>12,187</b>                 | 13,034                 |
| Prepaid lease payments             | <i>12</i>    | <b>2,586</b>                  | 2,663                  |
| Intangible asset                   |              | <b>5,142</b>                  | 5,209                  |
| Restricted bank balances           |              | <b>8,043</b>                  | 6,150                  |
| Deferred tax assets                |              | <b>497</b>                    | 612                    |
|                                    |              | <b>28,455</b>                 | 27,668                 |
| Current assets                     |              |                               |                        |
| Inventories                        |              | <b>2,421</b>                  | 2,887                  |
| Trade, bills and other receivables | <i>13</i>    | <b>69,042</b>                 | 8,617                  |
| Prepaid lease payments             | <i>12</i>    | <b>77</b>                     | 77                     |
| Bank balances and cash             |              | <b>32,206</b>                 | 34,641                 |
|                                    |              | <b>103,746</b>                | 46,222                 |
| Current liabilities                |              |                               |                        |
| Trade and other payables           | <i>14</i>    | <b>12,944</b>                 | 3,162                  |
| Income tax payables                |              | <b>169</b>                    | 368                    |
|                                    |              | <b>13,113</b>                 | 3,530                  |
| Net current assets                 |              | <b>90,633</b>                 | 42,692                 |
|                                    |              | <b>119,088</b>                | 70,360                 |

|                              | 2017<br><i>CNY'000</i> | 2016<br><i>CNY'000</i> |
|------------------------------|------------------------|------------------------|
| Capital and reserves         |                        |                        |
| Share capital                | <b>4,698</b>           | 4,188                  |
| Reserves                     | <b>106,485</b>         | 58,548                 |
|                              | <b>111,183</b>         | 62,736                 |
| Non-controlling interests    | —                      | —                      |
| Total equity                 | <b>111,183</b>         | 62,736                 |
| Non-current liabilities      |                        |                        |
| Asset retirement obligations | <b>7,330</b>           | 6,954                  |
| Deferred income              | <b>575</b>             | 670                    |
|                              | <b>7,905</b>           | 7,624                  |
|                              | <b>119,088</b>         | 70,360                 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. CORPORATE INFORMATION AND BASIS OF PREPARATION

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

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

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

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

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

The consolidated financial statements are presented in Chinese Yuan ("CNY"), which is also the functional currency of the Company. CNY is the currency of the primary economic environment in which the principal subsidiary of the Company operates (the functional currency of the principal subsidiary).

## De-consolidation of certain subsidiaries of the Group

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

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

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

The following is the financial information of the Deconsolidated Subsidiaries:

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

*Notes:*

- (i) Deposits paid represented the deposits paid for acquisition of 5-stories commercial property located in Chaoyang City, Jianping County, Liaoning Province, the PRC, with the land use rights relating thereto at a cash consideration of CNY12,020,000. Details of the acquisition are set out in the Company's announcements dated 5 December 2017.
- (ii) On 28 November 2017, Lucky Investments, being one of the De-consolidated Subsidiaries, has entered into a raw material purchase contract with a supplier, of which a trade deposit in an amount of HK\$7,000,000 (equivalent to CNY 5,846,000) has been paid by the Company. To the best of knowledge and belief of the Board, such carrying values of the amounts of CNY 5,846,000 due from the investments in the De-consolidated Subsidiaries were not recoverable and, accordingly, an impairment loss of approximately CNY5,846,000 had been recognised in the profit or loss.

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

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

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

In the current year, the Group has applied the following new and revised International Accounting Standards (“IASs”), IFRSs, amendments and interpretations (hereinafter collectively referred to as “new and revised IFRSs”) issued by the International Accounting Standards Board (“IASB”).

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

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

### New and revised IFRSs issued but not yet effective

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

|                                  |                                                                                                    |
|----------------------------------|----------------------------------------------------------------------------------------------------|
| IFRS 9 (2014)                    | Financial Instruments <sup>1</sup>                                                                 |
| IFRS 15                          | Revenue from Contracts with Customers <sup>1</sup>                                                 |
| IFRS 16                          | Leases <sup>2</sup>                                                                                |
| IFRS 17                          | Insurance Contracts <sup>3</sup>                                                                   |
| IFRIC Interpretation 22          | Foreign Currency Transactions and Advance Consideration <sup>1</sup>                               |
| IFRIC Interpretation 23          | Uncertainty Over Income Tax Treatments <sup>2</sup>                                                |
| Amendments to IAS 28             | Long-term Interests in Associate and Joint Venture <sup>2</sup>                                    |
| Amendments to IAS 40             | Transfers of Investment Property <sup>1</sup>                                                      |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup> |
| Amendments to IFRS 2             | Classification and Measurement of Share-based Payment Transactions <sup>1</sup>                    |
| Amendments to IFRS 4             | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts <sup>1</sup>                 |
| Amendments to IFRS 9             | Prepayment features with negative compensation <sup>2</sup>                                        |
| Amendments to IFRSs              | Annual Improvements to IFRSs 2014 – 2016 Cycle <sup>1</sup>                                        |
| Amendments to IFRSs              | Annual Improvements to IFRSs 2015 – 2017 Cycle <sup>2</sup>                                        |

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2021.

<sup>4</sup> Effective date not yet been determined.



### 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

### 4. REVENUE

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

### 5. SEGMENT INFORMATION

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

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

#### Information about geographical areas

As all of the Group’s revenue is derived from the customers based in the PRC (country of domicile) and all of the Group’s non-current assets are located in the PRC, no geographical information is presented.

#### Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group is as follows:

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

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

#### Information from major products

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

|                     | 2017<br>CNY’000 | 2016<br>CNY’000 |
|---------------------|-----------------|-----------------|
| Drilling mud        | 10,185          | 14,729          |
| Pelletising clay    | 16,926          | 11,582          |
| Ballasts and others | 1,685           | —               |
|                     | 28,796          | 26,311          |

## 6. FINANCE COSTS

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

## 7. INCOME TAX EXPENSE

|                                   | 2017<br><i>CNY'000</i> | 2016<br><i>CNY'000</i> |
|-----------------------------------|------------------------|------------------------|
| Current tax:                      |                        |                        |
| PRC Enterprise Income Tax (“EIT”) | 335                    | 1,029                  |
| Over-provision in previous year   | <u>(13)</u>            | <u>(40)</u>            |
|                                   | 322                    | 989                    |
| Deferred taxation:                |                        |                        |
| Current year                      | <u>115</u>             | <u>110</u>             |
|                                   | <u><u>437</u></u>      | <u><u>1,099</u></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 British Virgin Islands.
- (b) No provision for Hong Kong Profits Tax has been made for both years as the Group did not have any assessable profits subject to Hong Kong Profits Tax.
- (c) Under the Law of the PRC on EIT (the “EIT Law”) and implementation regulation of the EIT Law, the tax rate of the subsidiary established in the PRC other than Feishang Material is 25% for both years.
- (d) On 2 July 2014, Feishang Material was recognised as a High Technology Enterprise and subject to PRC income tax at 15% in accordance with the EIT Law effective from 1 January 2015.
- (e) As at 31 December 2017, the aggregate amount of temporary differences associated with the PRC subsidiary’s undistributed retained earnings for which deferred tax liabilities have not been recognised were approximately CNY3,069,700 (2016: CNY2,914,500). No deferred tax liabilities have been recognised in respect of these temporary differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such temporary differences will not be reversed in the foreseeable future.

## 8. (LOSS) PROFIT FOR THE YEAR

|                                                                                                                 | 2017<br>CNY'000 | 2016<br>CNY'000 |
|-----------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| (Loss) profit for the year has been arrived at after charging:                                                  |                 |                 |
| Directors' and chief executive's emoluments                                                                     | 12,906          | 814             |
| Salaries, wages, allowances and other benefits                                                                  | 3,149           | 2,615           |
| Contributions to retirement benefits scheme<br>(excluding directors' and chief executive's emoluments) (Note a) | 1,006           | 619             |
|                                                                                                                 | <u>17,061</u>   | <u>4,048</u>    |
| Staff costs included in inventories                                                                             | <u>410</u>      | <u>716</u>      |
| Total staff costs                                                                                               | <u>17,471</u>   | <u>4,764</u>    |
| Equity-settled share-based payment                                                                              |                 |                 |
| – Directors                                                                                                     | 12,192          | –               |
| – Consultants                                                                                                   | 33,872          | –               |
|                                                                                                                 | <u>46,064</u>   | <u>–</u>        |
| Auditor's remuneration                                                                                          | 477             | 617             |
| Amortisation of intangible asset                                                                                | 67              | 57              |
| Amortisation of prepaid lease payments                                                                          | 77              | 77              |
| Amount of inventories recognised as an expense                                                                  | 17,870          | 14,386          |
| Exchange loss, net                                                                                              | 2,637           | –               |
| Depreciation of property, plant and equipment                                                                   | 1,157           | 1,252           |
| Loss on disposal/written off of property, plant and equipment                                                   | 5               | 8               |
| Research and development cost (Note b)                                                                          | 1,485           | 1,799           |
| Lease payments paid under operating lease in respect of<br>plant and equipment                                  | <u>1,972</u>    | <u>1,869</u>    |

Notes:

- (a) Contributions to retirement benefits scheme of Feishang Material mainly comprised cost of approximately CNY957,000 (2016: CNY1,019,000) offset by the reversal of provision for prior years of approximately CNY43,000 (2016: CNY349,000). The Group reversed the provision for retirement benefits costs after considering respective relevant local rules and regulations.
- (b) Staff cost of approximately CNY315,000 (2016: CNY304,000) are included in the research and development cost for the year ended 31 December 2017.

## 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:

|                                                                                                                         | 2017<br>CNY'000      | 2016<br>CNY'000   |
|-------------------------------------------------------------------------------------------------------------------------|----------------------|-------------------|
| <b>(Loss) earnings</b>                                                                                                  |                      |                   |
| (Loss) earnings for the purpose of basic and diluted earnings (loss) per share                                          | <u>(71,874)</u>      | <u>2,800</u>      |
|                                                                                                                         | 2017                 | 2016              |
| <b>Number of shares</b>                                                                                                 |                      |                   |
| Weighted average number of ordinary shares for the purpose of basic and diluted earnings (loss) per share ('000 shares) | <u>505,653</u>       | <u>500,000</u>    |
| <b>Basic and diluted (loss) earnings per share (CNY)</b>                                                                | <u>(14.21) cents</u> | <u>0.56 cents</u> |

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

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

## 10. DIVIDEND

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

## 11. PROPERTY, PLANT AND EQUIPMENT

|                                    | Leasehold<br>improvement<br><i>CNY'000</i> | Buildings<br><i>CNY'000</i> | Machinery<br>and<br>equipment<br><i>CNY'000</i> | Dismantlement<br>asset<br><i>CNY'000</i> | Motor<br>vehicles<br><i>CNY'000</i> | Construction<br>in progress<br><i>CNY'000</i> | Total<br><i>CNY'000</i> |
|------------------------------------|--------------------------------------------|-----------------------------|-------------------------------------------------|------------------------------------------|-------------------------------------|-----------------------------------------------|-------------------------|
| <b>COST</b>                        |                                            |                             |                                                 |                                          |                                     |                                               |                         |
| At 1 January 2016                  | –                                          | 10,417                      | 14,617                                          | 3,706                                    | 662                                 | –                                             | 29,402                  |
| Additions                          | –                                          | 75                          | 47                                              | –                                        | 80                                  | 190                                           | 392                     |
| Transfer                           | –                                          | 137                         | 53                                              | –                                        | –                                   | (190)                                         | –                       |
| Disposal/written off               | –                                          | –                           | (120)                                           | –                                        | (80)                                | –                                             | (200)                   |
| At 31 December 2016                | –                                          | 10,629                      | 14,597                                          | 3,706                                    | 662                                 | –                                             | 29,594                  |
| Additions                          | 2,037                                      | 275                         | 383                                             | –                                        | –                                   | –                                             | 2,695                   |
| Disposal/written off               | –                                          | –                           | (97)                                            | –                                        | (161)                               | –                                             | (258)                   |
| Deconsolidation of subsidiaries    | (2,037)                                    | –                           | (352)                                           | –                                        | –                                   | –                                             | (2,389)                 |
| At 31 December 2017                | –                                          | 10,904                      | 14,531                                          | 3,706                                    | 501                                 | –                                             | 29,642                  |
| <b>ACCUMULATED DEPRECIATION</b>    |                                            |                             |                                                 |                                          |                                     |                                               |                         |
| At 1 January 2016                  | –                                          | 3,825                       | 11,046                                          | 261                                      | 360                                 | –                                             | 15,492                  |
| Charge for the year                | –                                          | 479                         | 648                                             | 42                                       | 83                                  | –                                             | 1,252                   |
| Eliminated on disposal/written off | –                                          | –                           | (111)                                           | –                                        | (73)                                | –                                             | (184)                   |
| At 31 December 2016                | –                                          | 4,304                       | 11,583                                          | 303                                      | 370                                 | –                                             | 16,560                  |
| Charge for the year                | –                                          | 490                         | 552                                             | 44                                       | 71                                  | –                                             | 1,157                   |
| Eliminated on disposal/written off | –                                          | –                           | (90)                                            | –                                        | (161)                               | –                                             | (251)                   |
| Deconsolidation of subsidiaries    | –                                          | –                           | (11)                                            | –                                        | –                                   | –                                             | (11)                    |
| At 31 December 2017                | –                                          | 4,794                       | 12,034                                          | 347                                      | 280                                 | –                                             | 17,455                  |
| <b>CARRYING VALUES</b>             |                                            |                             |                                                 |                                          |                                     |                                               |                         |
| At 31 December 2017                | –                                          | 6,110                       | 2,497                                           | 3,359                                    | 221                                 | –                                             | 12,187                  |
| At 31 December 2016                | –                                          | 6,325                       | 3,014                                           | 3,403                                    | 292                                 | –                                             | 13,034                  |

The above items of property, plant and equipment other than the dismantlement asset, are depreciated on a straight-line method over their estimated useful lives as follows:

|                         |          |
|-------------------------|----------|
| Buildings               | 20 years |
| Machinery and equipment | 10 years |
| Motor vehicles          | 5 years  |

The dismantlement asset is depreciated on a units-of-production basis over the total proved and probable reserves in the mine.

## 12. PREPAID LEASE PAYMENTS

The carrying amount of prepaid lease payments of the Group analysed for reporting purposes as:

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

The prepayments for land use right are held under medium-term lease in the PRC and are amortised over the useful lives of 37 years on a straight-line basis.

## 13. TRADE, BILLS AND OTHER RECEIVABLES

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

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

The Group offers revolving credit to its customer amounted approximately CNY900,000 (2016: two customers amounted CNY988,000) as at 31 December 2017. This revolving credit provides for a predetermined credit limit that may be outstanding at any one time based on their background, credit history, length of business relationship and historical transaction amounts. The Group generally evaluates the credit limits granted to the customer annually upon renewal of the relevant sales agreements and upon special request from the customers. The Group held charges on such customer's buildings and motor vehicles as collaterals over the balance of approximately CNY900,000 (2016: CNY988,000) as at 31 December 2017. Such collateral is not transferable and rentable and can be realised by the Group at first priority upon the liquidation or deregistration of such customer. For the remaining balances of approximately CNY2,481,000 (2016: CNY4,490,000) as at 31 December 2017, the Group does not hold any collateral over these amounts.

The Group allows credit period ranging from 5 days upon receipt of invoice to three months from the receipt of goods by or invoices to its trade customers. The following is an ageing analysis of trade receivables, net of allowance for impairment of trade receivables, presented based on the invoice date, which approximates the respective revenue recognition dates, at the end of the reporting period.

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

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

|                                             | <b>2017</b><br><b>CNY'000</b> | 2016<br><i>CNY'000</i> |
|---------------------------------------------|-------------------------------|------------------------|
| At the beginning of the year                | –                             | 50                     |
| Reversal on impairment of trade receivables | –                             | (50)                   |
|                                             | <hr/>                         | <hr/>                  |
| At the end of the year                      | –                             | –                      |
|                                             | <hr/> <hr/>                   | <hr/> <hr/>            |

The Group's neither past due nor impaired trade receivables mainly represented sales made to creditworthy customers for whom there was no recent history of default.

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

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

Included in the Group's trade receivables are debtors with aggregate carrying amount of approximately CNY1,046,000 (2016: CNY1,948,000) as at 31 December 2017 which were past due as at the end of the reporting period for which the Group has not provided for impairment loss as these balances were either subsequently settled or there has not been a significant change in credit quality and the amounts are still considered recoverable. The average age of these receivables as at 31 December 2017 was 12 days (2016: 109 days).

#### 14. TRADE AND OTHER PAYABLES

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

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

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

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



*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.

#### **EXTRACT FROM INDEPENDENT AUDITOR'S REPORT**

The following is an extract of the report from the independent auditors, Elite Partners CPA Limited, on the Group's annual audited financial statements for the year ended 31 December 2017.

#### **Disclaimer Of Opinion**

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

## ***Basis for Disclaimer of Opinion***

### ***1. De-consolidation of certain subsidiaries***

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

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

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

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

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

## 2. *Prepayment to suppliers*

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

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

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

## 3. *Inventories*

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

## **Report on Other Matters under Sections 407(2) and 407(3) of the Hong Kong Companies Ordinance**

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

- We were unable to determine whether proper books of account had been kept; and
- We have not obtained all the information or explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of our audit.”

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

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

### Key Performance

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

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

### Business Strategies Review with Progress of Implementation

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

| Business Strategy                                         | Implementation Plan                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Progress of Implementation as of 31 December 2017                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-----------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Broaden customer base and develop product recognition     | <p>(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;</p> <p>(ii) attending and participating in industry forums and events to network with other industry professionals and potential customers; and</p> <p>(iii) expanding sales and marketing team to further enhance sales and marketing activities.</p> | <p>(i) The Group has completed techno-economic viability study of two new bentonite products as mentioned below. The external institutions are currently conducting laboratory-scale testing of the two products. In addition, the internal research and development team was working on the multifunctional pelletising clay; and it was also working with the external institutions on the techno-economic viability of several other new bentonite products and processing technologies;</p> <p>(ii) The management team had attended and participated in an industry seminar and established contacts with several industry experts and potential customers to explore cooperation opportunities and there were one new drilling mud customer and five new pelletising clay customers starting their purchases with the Group in 2017; and</p> <p>(iii) The Group was in the process of recruiting more experienced personnel for sales and marketing.</p> |
| 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.                                                                                                                                                                                                                                                                       | <p>Completed the feeding system for one pelletizing clay production line;</p> <p>Completed the construction of new storage facilities for pelletising clay;</p> <p>Completed the expansion of storage facilities for dried bentonite ore to be processed into drilling mud;</p> <p>Replaced the old forklift truck;</p> <p>Replaced a transformer in the processing plant; and</p> <p>Completed the modification of existing rotary drum dryer.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |

## FINANCIAL REVIEW

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

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

### Revenue

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

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

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

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

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

## Cost of Sales

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

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

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

| Cost Items          | 2017                               |                                |              | 2016                               |                                |              |
|---------------------|------------------------------------|--------------------------------|--------------|------------------------------------|--------------------------------|--------------|
|                     | Average cost of sales<br>CNY/tonne | Total cost of sales<br>CNY'000 | %            | Average cost of sales<br>CNY/tonne | Total cost of sales<br>CNY'000 | %            |
| Drilling mud        | 234.0                              | 6,465                          | 35.0         | 208.0                              | 6,976                          | 47.2         |
| Pelletising clay    | 185.1                              | 10,596                         | 57.4         | 183.2                              | 7,815                          | 52.8         |
| Ballasts and others | N/A                                | 1,395                          | 7.6          | –                                  | –                              | –            |
|                     |                                    | <u>18,456</u>                  | <u>100.0</u> |                                    | <u>14,791</u>                  | <u>100.0</u> |



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

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

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

## **Gross Profit and Gross Margin**

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

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



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

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

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

### **Other Income**

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

### **Selling and Distribution Expenses**

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

## **Administrative and Other Expenses**

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

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

## **Finance Costs**

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

## **Loss on de-consolidation of subsidiaries**

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

The De-consolidation had resulted in a loss of approximately CNY5,616,000 as recorded in the consolidated financial statements for the year ended 31 December 2017, including impairment losses on the amounts due from the investments in the De-consolidated Subsidiaries of approximately CNY5,846,000. To the best of knowledge and belief of the Board, the carrying values of the amounts due from the investments in the De-consolidated Subsidiaries were not recoverable and, accordingly, an impairment loss of approximately CNY\$5,846,000 had been recognised in the profit or loss.

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

## **Income Tax Expense**

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

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

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

## **FINANCIAL RESOURCES REVIEW**

### **Liquidity, Financial Resources and Capital Structure**

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

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

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

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

### **Gearing Ratio**

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

### **Currency Exposure and Management**

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

### **Contingent Liabilities**

As at 31 December 2017, the Group did not have any loan capital or debt securities issued or agreed to be issued, outstanding bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits, finance leases or hire purchase commitments or guarantees or material contingent liabilities.

## **OUTLOOK**

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

## **CAPITAL COMMITMENTS AND FINANCING NEEDS**

As at 31 December 2017, apart from the implementation plans, capital needs and financing plans as stated in the section headed "Future Plans and Use of Proceeds" (adjusted as disclosed in the Company's announcement dated 21 March 2016) and "Financial Information" of the Prospectus and in the section headed "Fund Raising Activities" in this announcement, the Group had no other new implementation plans or financing plans.

## **FINAL DIVIDEND**

In order to retain resources for the Group's business development, the Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

## **EMPLOYEES AND REMUNERATION POLICIES**

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

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

## **FUND RAISING ACTIVITIES**

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

### **Placing and Subscription of Shares**

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

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

## **Prepayment to suppliers**

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

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

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SHARES**

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

## **SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS**

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



## **CORPORATE GOVERNANCE CODE**

The Company has adopted the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the “CG Code”) as contained in Appendix 15 to the GEM Listing Rules as its own code of corporate governance. During the year, the Company has complied with the code provisions as set out in the CG Code, save and except for code provision A.2.1, as set out below.

### **Chairman and Chief Executive**

Code provision A.2.1 of the CG Code stipulates that the roles of the chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

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

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

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

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

## **EVENTS AFTER THE REPORTING PERIOD**

### **(a) Cancellation of Share Options**

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

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

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

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

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

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

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



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

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

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

**MATERIAL LITIGATIONS**

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

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

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

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

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

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

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

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

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

- (1) All further proceedings in the Legal Proceeding between the Plaintiff and the Defendants (collectively, “Parties”) be permanently stayed upon the terms set out in the Schedule of Settlement Agreement annexed hereto except for the purpose of enforcing those terms.
- (2) Leave to the Plaintiff to withdraw the Summons.
- (3) The injunction order granted by the Honourable Mr. Justice Louis Chan pursuant to the 18 December Order and continued as amended by paragraph 7 of the 29 December Order be discharged.
- (4) There be no order as to costs as between the Parties.

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

## **REVIEW OF ANNUAL RESULTS**

The Group's Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed the auditing, internal controls and financial reporting matters including the review of the Group's audited results for the year ended 31 December 2017.

## **REVIEW OF PRELIMINARY RESULTS ANNOUNCEMENT BY INDEPENDENT AUDITOR**

The figures in respect of the Group's results for the year ended 31 December 2017 as set out in the preliminary results announcement have been agreed by the Company's independent auditor, Elite Partners CPA Limited ("Elite Partners") to the amounts set out in the Group's consolidated financial statements. The work performed by Elite Partners in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by Elite Partners on this preliminary results announcement.

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

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

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

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

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

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

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

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

**(C) Disclaimer on inventories:**

Given that the auditor was appointed in March 2018, i.e. after the year end of 31 December 2017, they are unable to attend the stock count as at 31 December 2016 and 2017. However, stock counts were carried out by the former auditor, SHINEWING (HK) CPA Limited (“SHINEWING”), at the end of June and December 2017 respectively in accordance with the normal policy of the Group and there has been no issue whatsoever raised by SHINEWING before on the inventories of the Group. It had been the intention of the Current Board to ask for SHINEWING to release the working papers on inventories count as at 31 December 2017 to the auditors as supporting. However, when the Current Board was subsequently informed that such working papers belong to SHINEWING as part of its properties and cannot be released to the auditor, there is insufficient time for the Current Board to arrange an ad hoc stock count, other than the routine stock count scheduled on 30 June 2018, for

audit purpose. Notwithstanding that physical inventories count had been carried out by SHINEWING, without physical inventories count by the current auditor itself, the auditor cannot perform any roll back procedure and there is no alternative audit procedure for the auditors to obtain sufficient appropriate audit evidence regarding the quantities of inventories as at 31 December 2016 and 31 December 2017. As no stock count is carried out by the auditor, the management considers that it is reasonable for the auditor highlight this fact in its audit opinion.

The stock count by the auditor is a technical one. As mentioned above, the Group has policy to carry out stock count twice a year: at the end of June and December. 2017 was no exception as stock count was taken by SHINEWING at the end of December 2017. It has been planned that the next stock counts will take place on or about 30 June 2018 and 31 December 2018 respectively.

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

- a. The De-consolidated Subsidiaries are all non-principal operating subsidiaries of the Group. Based on the financial information of the De-consolidated Subsidiaries available to the Current Board (which is disclosed in the Results Announcement), the revenue for the period from their incorporation/establishment up to 31 December 2017 is just about CNY1,680,000 (as compared to CNY28,796,000 for the Group) with loss of just CNY436,000 (as compared to CNY72,80,000 for the Group). The net assets of the De-consolidated Subsidiaries as at 31 December 2017 were just about CNY15,210,000 (as compared to CNY111,183,000 for the Group). As such, the exclusion of the results of the De-consolidated Subsidiaries, if they could be consolidated, would not materially affect the financial position of the Group for the year ended 31 December 2017 as disclosed in the Results Announcement.
- b. The signing of the termination agreements by the relevant suppliers has signified that they confirmed the amount of deposits received from the Group and that they agreed to refund the deposits to the Group. While it remains to be seen if they would honor their agreements to refund all the deposits to the Group by the end of June 2018, the prepayments figure, which is included in Trade, Bills and other Receivables, in the Consolidated Statement of Financial Position is supported by the signed termination agreement.
- c. The stock count was taken by SHINEWING before and there has been no audit issue raised by SHINEWING on the inventory figure as at 31 December 2017. The value of the inventory has been stated at the lower of costs or net realizable value in accordance with the accounting policy of the Group.
- d. Other than the Disclaimer, there is no other audit issue on the principal subsidiaries of the Company of which the results are disclosed in the Results Announcement.

The Current Board considers that in substance, all the matters which gave rise to the Disclaimer arise due to change of all management of the Company which took place in January 2018, i.e. after the year end of 2017 and before the original release of the Results Announcement by the end of March 2018, which is an one-off exceptional event.

### **Measures taken by the Existing Management**

As explained above, the audit qualifications are principally due to the lack of certain accounting supporting documents, caused solely by a colluded action of non-cooperative Former Board and the legal representatives, the directors, the management and the personnel assigned by the Former Board. The management do not consider this implicates a material deficiency in the Group's internal control. The Current Board still considers that the Company keeps proper books and records. The unavailability of the supporting documents of the De-consolidated Subsidiaries is due to the reluctance of the Former Board and the hindrance of the legal representatives, directors and management of the De-consolidated Subsidiaries to provide such documents, and not due to no proper books and records being kept. Nevertheless, in order to mitigate the risk of occurrence of similar incident in future, the Company has taken steps to strengthen the internal control measures as described below:

As disclosed in note 1 to THE CONSOLIDATED FINANCIAL STATEMENTS in this announcement, the principal place business of the Company and its principal and operating subsidiary is situated in in PRC. Currently, the book-keeping function for the Company and its subsidiaries is mainly relied on the accounting team of Group in PRC.

The management considers that it would still be appropriate to maintain the accounting records and perform the book-keeping function of the principal and operating subsidiary of the Company in PRC by the local onsite accounting team. Given the voluminous supporting document involved, it would be impractical to transport all the accounting records to Hong Kong for bookkeeping purpose, which is not time and cost efficient and exposes the Company to the risk of loss of supporting documents in transit. In addition, as stated hereinabove, the matters which gave rise to the disclaimer of opinion of our auditor, Elite Partners CPA Limited, for the year ended 31 December 2017 are mainly due to the lack of books and records, together with the supporting documents, of the De-consolidated Subsidiaries, which are not the principal and operating subsidiaries of the Company. The management believes the lack of books and records was an isolated event and it is not justified to relocate all the book-keeping and financial reporting functions of the Company's principal PRC subsidiary to Hong Kong solely because of such one-off incident.



However, after the complete change in the composition of the Board with effect from 12 February 2018, the Company (a) has appointed a qualified accountant as the financial controller (the “Financial Controller”) in Hong Kong to oversee the financial matters of the Group; (b) has appointed a head of the accounting team in its principal subsidiary to assist the Financial Controller stationed in Hong Kong to oversee the financial reporting function of all of its PRC subsidiaries and (c) considered to engage an external independent professional accounting firm (the “Accounting Firm”) to perform the book-keeping function for the Company and its subsidiaries instead of relying solely on the accounting team of the Group in the PRC. Details of the Group’s new procedures implemented on financial reporting and book-keeping are described below:

- (1) The Financial Controller in Hong Kong will collect all supporting documents for transactions of the Company and its non-PRC subsidiaries;
- (2) Monthly management accounts as well as copies of supporting documents for material transactions of the Company’s principal subsidiary will be sent to and collected by the head of the accounting team in Company’s principal subsidiary, who will pass all of them to the Financial Controller after his review;
- (3) The Financial Controller will pass all of (i) the supporting documents for transactions of the Company and its non-PRC subsidiaries collected by himself and (ii) the monthly management accounts as well as copies of supporting documents for material transactions of the Company’s principal subsidiary received from the head of the accounting team to the Accounting Firm for book-keeping and preparation of vouchers, ledgers and management accounts of the Company and its subsidiaries on a monthly basis;
- (4) After preparing the accounting vouchers, ledgers and management accounts of the Company and its subsidiaries, the Accounting Firm will send the accounting vouchers, ledgers and management accounts to the Financial Controller for review and back up; and
- (5) The head of the accounting team in Company’s principal subsidiary shall pay visits to the offices of the operating subsidiaries from time to time to supervise the work of the onsite accounting teams.

The Board considers the above new procedures of the Group implemented on financial reporting and book-keeping can assist the existing management of the Company to review the books and records of the Company and its subsidiaries more closely and to maintain back-up copies of supporting documents for material transactions of the Group.

Based on the proposed action plan by the Company to address and resolve the Disclaimer in relation to each item of the Disclaimer and the new measures taken as mentioned above, the Company has reasons to expect that the Disclaimer will all be removed in the next annual results announcement.

## INTEREST OF COMPLIANCE ADVISER

The Company has received confirmation from its compliance adviser, Zhaobangji International Capital Limited (the “Compliance Adviser”), that as at 31 December 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.

## RESUMPTION OF TRADING

Trading in the Shares on the Stock Exchange has been suspended from 9:00 a.m. on 26 March 2018 pending the publication of the 2017 Annual Results. As the 2017 Annual Results have been published, the Company has made an application to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 1 June 2018.

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

Hong Kong, 31 May 2018

*As at the date of this announcement, the Board comprises (i) one executive Director, namely Mr. SU Chun Xiang; and (ii) three independent non-executive Directors, namely Mr. KO Yat Fei, Mr. CHOW Chi Hang Tony and Ms. SHAO Yu.*

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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.*

*This announcement will remain on the “Latest Company Announcements” page of the GEM website at [www.hkgem.com](http://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](http://www.fsnmmaterials.com).*

\* For identification purposes only