THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the Offer, this Composite Document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in Feishang Non-Metal Materials Technology Limited, you should at once hand this Composite Document and the accompanying Form of Acceptance to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

MR. ZHANG QIANG (張強)

FSNMT

Feishang Non-metal Materials Technology Limited
飛尚非金屬材料科技有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8331)

COMPOSITE DOCUMENT RELATING TO MANDATORY UNCONDITIONAL CASH OFFER BY

KINGSTON SECURITIES

FOR AND ON BEHALF OF ZHANG QIANG (張強) FOR ALL THE ISSUED SHARES OF FEISHANG NON-METAL MATERIALS TECHNOLOGY LIMITED (OTHER THAN THOSE ALREADY OWNED BY ZHANG QIANG (張強) AND PARTIES ACTING IN CONCERT WITH HIM)

Financial adviser to Mr. ZHANG Qiang (張強)

KINGSTON CORPORATE FINANCE

Independent Financial Adviser to the Independent Board Committee

INCU

INCU Corporate Finance Limited

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Composite Document.

A letter from KSL is set out on pages 6 to 13 of this Composite Document. A letter from the Board is set out on pages 14 to 18 of this Composite Document. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 19 to 20 of this Composite Document. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee in respect of the Offer is set out on pages 21 to 41 of this Composite Document.

The procedures for acceptance of the Offer and other related information are set out in Appendix I to this Composite Document and in the accompanying Form of Acceptance. Acceptances of the Offer should be received by the Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:00 p.m. on Wednesday, 14 June 2017 or such later time and/or date as the Offeror may determine and announce, with the consent of the Executive, in accordance with the Takeovers Code.

24 May 2017

CONTENTS

The timetable set out below is indicative only and may be subject to change. Further announcement(s) will be made in the event of any changes to the timetable. All references to times and dates contained in this Composite Document are to Hong Kong time and dates.

Event	Time and Date
Despatch date of this Composite Document and the accompanying Form of Acceptance *(Note 1)*	Wednesday, 24 May 2017
Offer opens for acceptance *(Note 1)*	Wednesday, 24 May 2017
Latest time and date for acceptance of the Offer *(Notes 2, 4, 5 and 6)*	4:00 p.m. on Wednesday, 14 June 2017
Closing date *(Note 2)*	Wednesday, 14 June 2017
Announcement of the results of the Offer on the website of the Stock Exchange *(Note 2)*	by 7:00 p.m. on Wednesday, 14 June 2017
Latest date of posting of remittance in respect of valid acceptances received on or before the latest time for acceptance of the Offer *(Notes 3 and 6)*	Friday, 23 June 2017

Notes:

1. The Offer, which is unconditional in all respects, is made on Wednesday, 24 May 2017, the date of this Composite Document, and is capable of acceptance on and from that date until the Closing Date.

2. The latest time for acceptance of the Offer is 4:00 p.m. on the Closing Date unless the Offeror revises or extends the Offer in accordance with the Takeovers Code. The Offeror has the right under the Takeovers Code to extend the Offer until such date as he may determine in accordance with the Takeovers Code (or as permitted by the Executive in accordance with the Takeovers Code). An announcement will be jointly issued by the Company and the Offeror through the website of the Stock Exchange by 7:00 p.m. on the Closing Date stating the results of the Offer and whether the Offer has been revised or extended or has expired. In the event that the Offeror decides to extend the Offer, the announcement will state the next closing date of the Offer or that the Offer will remain open until further notice. In the latter case, at least 14 days' notice by way of an announcement will be given before the Offer is closed to those Independent Shareholders who have not accepted the Offer.

3. Remittances in respect of the cash consideration (after deducting the seller's Hong Kong ad valorem stamp duty in respect of acceptances of the Offer) payable for the Offer Shares tendered under the Offer will be despatched to accepting Independent Shareholders by ordinary post at their own risk as soon as possible, but in any event within seven Business Days following the date of receipt by the Registrar of all the duly completed acceptance of the Offer and the relevant documents of title of the Offer Shares in respect of such acceptance to render the acceptance under the Offer complete and valid.

4. Acceptances of the Offer shall be irrevocable and not capable of being withdrawn, except in the circumstances as set out in the paragraph headed "4. Right of withdrawal" in Appendix I to this Composite Document.

5. Beneficial owners of Offer Shares who hold their Offer Shares in CCASS directly as an investor participant or indirectly via a broker or custodian participant should note the timing requirements (set out in Appendix I to this Composite Document) for causing instructions to be made to CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures.

6. The latest time and date for acceptance of the Offer and the latest date for posting of remittances for the amounts due under the Offer in respect of valid acceptances will be varied if there is a tropical cyclone warning signal number 8 or above, or a black rainstorm warning, in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the latest date for acceptance of the Offer and the latest date for posting of remittances for the amounts due under the Offer in respect of valid acceptances. Instead the latest time and date for acceptance of the Offer and the latest date for posting of remittances will be rescheduled to 4:00 p.m. on the next following Business Day on which neither of those warnings is in force at any time between 9:00 a.m. and 4:00 p.m.

Save as mentioned above, if the latest time for the acceptance of the Offer and the posting of remittances do not take effect on the date and time as stated above, other dates mentioned above may be affected. The Offeror and the Company will notify the Independent Shareholders by way of announcement(s) on any change to the expected timetable as soon as practicable.

In this Composite Document, unless the context otherwise requires, the following expressions shall have the following meanings:

"acting in concert"	has the meaning ascribed to it under the Takeovers Code
"associate(s)"	has the meaning ascribed to it under the Takeovers Code
"Board"	the board of Directors
"Business Day(s)"	a day on which the Stock Exchange is open for transaction of business
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Closing Date"	Wednesday, 14 June 2017, the closing date of the Offer, which is 21 days after the date on which this Composite Document is posted, or if the Offer is extended, any subsequent closing date of the Offer as extended and announced by the Offeror in accordance with the Takeovers Code
"Company" or "Offeree"	Feishang Non-metal Materials Technology Limited (stock code: 8331), a company incorporated in the Cayman Islands with limited liability and its issued Shares are listed on GEM
"Composite Document"	this composite offer and response document jointly issued by the Offeror and the Company, setting out, amongst others, details of the Offer
"connected person(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Director(s)"	the director(s) of the Company from time to time
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any of its delegate
"Facility"	a loan facility granted by KSL as lender to the Offeror as borrower in accordance with the terms of the Facility Agreement for financing the Offer

"Facility Agreement"	the loan facility agreement entered into between KSL as lender and the Offeror as borrower dated 11 April 2017 in relation to the Facility
"Form of Acceptance"	the form of acceptance and transfer of Shares in respect of the Offer accompanying this Composite Document
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"Group"	the Company and its subsidiaries
"Guarantor"	Mr. LI Feilie
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HKSCC"	the Hong Kong Securities Clearing Company Limited
"Independent Board Committee"	the independent committee of the Board comprising all the independent non-executive Directors, namely Mr. Chan Chiu Hung Alex, Mr. Zheng Shuilin and Mr. Duan Xuechen, established to give recommendation to the Independent Shareholders regarding the terms of the Offer and as to their acceptance
"Independent Financial Adviser" or "INCU"	INCU Corporate Finance Limited, a licensed corporation permitted to carry on Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders for the purpose of advising and recommending the Independent Board Committee and Independent Shareholders regarding the terms of the Offer and as to their acceptance
"Independent Shareholders"	Shareholders other than the Offeror and parties acting in concert with him
"Joint Announcement"	the announcement jointly published by the Company and the Offeror dated 19 April 2017 in relation to, amongst other things, the S&P Agreement and the Offer

"KCF"	Kingston Corporate Finance Limited, a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity under the SFO, being the financial adviser to the Offeror in respect of the Offer
"KSL"	Kingston Securities Limited, a licensed corporation to carry on Type 1 (dealing in securities) regulated activity under the SFO, being the agent making the Offer on behalf of the Offeror
"Last Trading Day"	11 April 2017, being the last trading day of the Shares on the Stock Exchange before the publication of the Joint Announcement
"Latest Practicable Date"	22 May 2017, being the latest practicable date prior to the printing of this Composite Document for ascertaining certain information in this Composite Document
"Offer"	the mandatory unconditional cash offer to be made by KSL for and on behalf of the Offeror for the Offer Shares in accordance with the Takeovers Code
"Offeror" or "Purchaser"	Mr. ZHANG Qiang (張強)
"Offer Period"	the period from 19 April 2017, being the date of the Joint Announcement, to 4:00 p.m. on the Closing Date or such later time and/or date to which the Offeror may decide to extend the Offer in accordance with the Takeovers Code
"Offer Price"	the price of HK$0.70 per Offer Share payable by the Offeror to the Independent Shareholders for each Offer Share accepted under the Offer
"Offer Share(s)"	Share(s) not already owned by the Offeror and parties acting in concert with him
"Overseas Shareholders"	Independent Shareholders whose addresses as shown on the register of members of the Company are outside Hong Kong
"PRC"	the People's Republic of China, which for the purpose of this Composite Document, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

"Registrar"	Tricor Investor Services Limited, the Hong Kong branch share registrar of the Company, located at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong
"Relevant Period"	the period from 19 October 2016, being six months immediately prior to 19 April 2017 (being the date of the Joint Announcement) up to and including the Latest Practicable Date
"Sale Shares"	the 275,000,000 Shares acquired by the Offeror from the Vendor pursuant to the terms of the S&P Agreement
"S&P Agreement"	the sale and purchase agreement dated 11 April 2017 entered into between the Offeror (as purchaser), the Vendor and the Guarantor in relation to the sale and purchase of the Sale Shares
"S&P Completion"	completion of the S&P Agreement in accordance with its terms, which took place on 20 April 2017
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	the ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	the holder(s) of Shares
"Share Charges"	means the two share charges entered into between KSL as chargee and the Offeror as chargor dated 11 April 2017 whereby the Offeror has charged to KSL the Shares owned and to be owned by the Offeror as security for the Facility
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Vendor"	Feishang Group Limited, a company incorporated in the British Virgin Islands with limited liability which is wholly and beneficially owned by Mr. LI Feilie

"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB" or "CNY"	Renminbi, the lawful currency of the PRC
"%"	per cent

* *The English transliteration of the Chinese name(s) in this composite document, where indicated, is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese name(s).*

KINGSTON SECURITIES

Suite 2801, 28th Floor, One International Finance Centre
1 Harbour View Street, Central, Hong Kong

24 May 2017

To the Independent Shareholders

Dear Sir or Madam,

MANDATORY UNCONDITIONAL CASH OFFER BY KINGSTON SECURITIES LIMITED FOR AND ON BEHALF OF ZHANG QIANG (張強) FOR ALL THE ISSUED SHARES OF FEISHANG NON-METAL MATERIALS TECHNOLOGY LIMITED (OTHER THAN THOSE ALREADY OWNED BY ZHANG QIANG (張強) AND PARTIES ACTING IN CONCERT WITH HIM)

1. INTRODUCTION

Reference is made to the Joint Announcement. On 11 April 2017, the Offeror (as purchaser), the Vendor and the Guarantor entered into the S&P Agreement pursuant to which the Vendor has unconditionally agreed to sell and the Offeror has unconditionally agreed to acquire a total of 275,000,000 Sale Shares at a total cash consideration of HK$192,500,000 (equivalent to HK$0.70 per Sale Share). The Guarantor has agreed to act as the guarantor for the Vendor to guarantee the due and punctual performance of the Vendor of its obligations under the S&P Agreement. The Sale Shares, being an aggregate of 275,000,000 Shares, represented 55% of the entire issued share capital of the Company as at the date of the Joint Announcement and as at the Latest Practicable Date. The S&P Completion took place on 20 April 2017.

It was further announced that pursuant to Rule 26.1 of the Takeovers Code, the Offeror (as purchaser) will therefore be required to make a mandatory unconditional cash offer for all the issued Shares (other than those already owned by the Offeror and the parties acting in concert with him). As at the Latest Practicable Date, there is no special deal (as defined under Rule 25 of the Takeovers Code) between the Offeror and parties acting in concert with him on one hand and the Vendor and parties acting in concert with it on the other hand.

As at the Latest Practicable Date, the Offeror held 275,000,000 Shares, representing 55% of the entire issued share capital of the Company.

This letter forms part of this Composite Document which set out, amongst other things, the details of the Offer, information on the Offeror and the intention of the Offeror regarding the Group. Further details of terms and procedures of acceptance of the Offer is set out in Appendix I to this Composite Document and the accompanying Form of Acceptance.

The Independent Shareholders are strongly advised to consider carefully the information contained in the "Letter from the Board", the "Letter from the Independent Board Committee" and the "Letter from the Independent Financial Adviser" as set out in this Composite Document and to consult their professional advisers before reaching a decision as to whether or not to accept the Offer.

2. THE OFFER

A. The Offer

Principal terms of the Offer

KSL is making the Offer for and on behalf of the Offeror in compliance with the Takeovers Code on the following basis:

For each Offer Share . . . . HK$0.70 in cash

The Offer Price of HK$0.70 per Offer Share is the same as the price per Sale Share payable by the Purchaser (the Offeror) under the S&P Agreement.

As at the Latest Practicable Date, the Offeror held 275,000,000 Shares, representing 55% of the entire issued share capital of the Company. Save for the aforesaid, the Offeror and the parties acting in concert with him do not have any other interests in the share capital or voting rights of the Company.

Comparison of value

The Offer Price of HK$0.70 per Offer Share represents:

(i) a discount of approximately 44.44% to the closing price of HK$1.26 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 55.41% to the closing price of HK$1.57 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(iii) a discount of approximately 45.48% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day of HK$1.284 per Share; and

(iv) a premium of approximately 396.45% over the audited consolidated net asset value of the Company of approximately RMB0.125 per Share (equivalent to approximately HK$0.141 per Share) as at 31 December 2016.

The Offer is unconditional in all respects.

Highest and lowest Share prices

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK$1.83 per Share (on 11 May 2017) and HK$0.66 per Share (on 3 November 2016) respectively.

B. Total consideration of the Offer

On the basis of the Offer Price of HK$0.70 per Offer Share and 500,000,000 Shares in issue as at the Latest Practicable Date, the entire issued share capital of the Company is valued at HK$350,000,000.

On the basis of 500,000,000 Shares in issue, of which the Offeror holds 275,000,000 Shares as at the Latest Practicable Date, 225,000,000 Shares will be subject to the Offer and the Offer based on the Offer Price is valued at HK$157,500,000.

C. Financial resources available for the Offer

The maximum cash consideration payable under the Offer, other than the Shares already held by the Offeror and the parties acting in concert with him, is HK$157,500,000. The Offeror intends to finance the total consideration payable under the Offer through the Facility provided by KSL.

KCF, being the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror to satisfy the total consideration in respect of full acceptances of the Offer.

The Offeror has entered into the Facility Agreement under which the Offeror is required to and has entered into, amongst others, the Share Charges in favour of KSL. The Offeror confirms that the payment of interest on, repayment of or security for any liability (contingent or otherwise) in relation to the Facility, will not be dependent on the business of the Company.

D. Effect of accepting the Offer

By accepting the Offer, the Independent Shareholders will sell their Shares to the Offeror free from all liens, claims, encumbrances and all third party rights and with all rights attached thereto as at the date of this Composite Document or subsequently becoming attached to them, including the right to receive all dividends and distributions recommended, declared, paid or made, if any, on or after the date of this Composite Document.

Acceptance of the Offer by any Independent Shareholder will constitute a warranty by such person that all Offer Shares sold by such person under the Offer are free from all liens, charges, options, claims, equities, adverse interests, third-party rights or encumbrances whatsoever and together with all rights accruing or attaching thereto, including, without limitation, the right to receive dividends and distributions recommended, declared, made or paid, if any, on or after the date on which the Offer is made.

Acceptance of the Offer will be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code.

E. Stamp duty

Seller's Hong Kong ad valorem stamp duty payable by the Shareholders who accept the Offer and calculated at a rate of 0.1% of (i) the market value of the Shares; or (ii) the consideration payable by the Offeror in respect of the relevant acceptances of the Offer, whichever is higher, will be deducted from the amount payable by the Offeror to such person on acceptance of the Offer.

F. Settlement

Settlement of the considerations for the Offer Shares will be made in cash as soon as possible but in any event within seven Business Days of the date on which the relevant documents of title are received by or on behalf of the Offeror (or its agent) to render each such acceptance complete and valid.

G. Tax Implications

None of the Company, the Offeror and parties acting in concert with him, KCF, KSL, the Registrar or any of their respective ultimate beneficial owners, directors, officers, professional advisers, agents or associates or any other person involved in the Offer is in a position to advise the Independent Shareholders on their individual tax implications. The Independent Shareholders are recommended to consult their own professional advisers as to the taxation implications of accepting or rejecting the Offer. None of the Company, the Offeror and parties acting in concert with him, KCF, KSL, the Registrar or any of their respective ultimate beneficial owners, directors, officers, professional advisers, agents or associates or any other person involved in the Offer accepts any responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offer.

H. Overseas Shareholders

The making of the Offer to the Overseas Shareholders may be prohibited or affected by the laws of the relevant jurisdictions in which they are resident. Overseas Shareholders should obtain appropriate legal advice regarding the implications of the Offer in the relevant jurisdictions or keep themselves informed about and observe any applicable legal or regulatory requirements. It is the responsibility of Overseas Shareholders who wish to accept the Offer to satisfy themselves as to the full observance of the laws and regulations of all relevant jurisdictions in connection with the acceptance of the Offer (including but not limited to the obtaining of any governmental, exchange control or other consents and any registration or filing which may be required and the compliance with all other necessary formalities, regulatory and/or legal requirements and the payment of any transfer or other taxes) due by the accepting Shareholders.

Acceptance of the Offer by any Overseas Shareholder will be deemed to constitute a representation and warranty by such person to the Offeror that such person is permitted under all applicable laws and regulations to receive and accept the Offer, and any revision thereof, and such acceptance shall be valid and binding in accordance with all applicable laws and regulations. Any such person is recommended to seek professional advice on deciding whether or not to accept the Offer.

3. INFORMATION OF THE OFFEROR

The Offeror is a private investor with extensive experience in accounting, finance and investment fund management. The Offeror obtained a degree of master of management studies in accounting and a degree of bachelor of management studies in accounting from Central University of Finance and Economics in the PRC in 2003 and 2000 respectively. He is currently the general manager of 山丘資產管理(北京)有限公司 (Shan Qiu Assets Management (Beijing) Company Limited*) ("**Shan Qiu Assets Management**"), a company established under the laws of the PRC in December 2014 which is principally engaged in management of securities investment funds in the PRC. As advised by the Offeror, Shan Qiu Assets Management was registered as a 基金登記管理人 (Registered Manager of Funds*) by Asset Management Association of China (中國證券投資基金業協會) in April 2015. Since April 2015, Shan Qiu Assets Management issued and managed approximately 13 fund products, and their size of issue was approximately RMB240 million.

4. INFORMATION ON THE GROUP

Your attention is drawn to the section headed "Information on the Group" in the "Letter from the Board" on page 16 of this Composite Document.

5. INTENTION OF THE OFFEROR IN RELATION TO THE GROUP

The intention of the Offeror is that the Company's existing principal activities will be maintained, while upon completion of the Offer, the Offeror will assist the Company in reviewing its business and operations and seek for new investment opportunities.

The Offeror has no intention to introduce major changes to the business of the Group, including any redeployment of fixed assets other than those in its ordinary course of business as at the Latest Practicable Date. As at the Latest Practicable Date, the Offeror has no concrete plan and has not entered into any arrangement, agreement, understanding or negotiation to (i) inject new business/assets into the Company; and (ii) dispose/downsize the existing business of the Company. The Offeror may make some changes to the composition of the Board by nominating new Directors so as to facilitate the business operation and management of the Group. The Offeror has no plan to terminate the employment of any senior management personnel of the Group in the short term. Instead, the Offeror is inclined to work together with the senior management of the Company and to leverage on their expertise and experience to further promote the growth of the Group. The Offeror will, depending on the business operations and development of the Group in the future, constantly review the staff structure of the Group so as to meet the needs of the Group from time to time. However, the Offeror reserves the right to make any changes that he deems necessary or appropriate to the Group's businesses and operations to increase the value of the Group. As at the Latest Practicable Date, the Offeror had not entered into any agreements, arrangements, understandings or discussions in this regard.

6. MAINTAINING THE LISTING STATUS OF THE COMPANY

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25%, of the Shares are held by the public or if the Stock Exchange believes that:-

(i) a false market exists or may exist in the trading of the Shares; or

(ii) there are insufficient Shares in public hands to maintain an orderly market;

it will consider exercising its discretion to suspend dealings in the Shares.

The Offeror intends the Company to remain listed on GEM. The Offeror and the existing Directors have jointly and severally undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists for the Shares. In the event any new directors ("**New Directors**") are appointed to the Board before the end of the Offer Period, the Offeror and the New Directors will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

7. COMPULSORY ACQUISITION

The Offeror does not intend to avail himself of any powers of compulsory acquisition of any Shares outstanding after the close of the Offer.

8. GENERAL

To ensure equality of treatment to all Independent Shareholders, registered Independent Shareholders who hold any Offer Share as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for the beneficial owners of the Offer Shares whose investments are registered in the names of nominees to accept the Offer, it is essential that they provide instructions to their nominees of their intentions with regard to the Offer. The attention of Independent Shareholders with registered addresses outside Hong Kong is also drawn to the paragraph headed "6. Overseas Shareholders" in Appendix I to this Composite Document.

To accept the Offer, Independent Shareholders should complete and sign the accompanying Form of Acceptance in accordance with the instructions printed thereon. The Form(s) of Acceptance forms part of the terms of the Offer. The duly completed Form(s) of Acceptance together with the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) must be sent by post or by hand to the Registrar at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong in an envelope marked "Feishang Non-metal Materials Technology Limited – Offer" to be received by the Registrar no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and the Offeror may announce with the consent of the Executive in accordance with the Takeovers Code.

No acknowledgement of receipt of any Form(s) of Acceptance, share certificate(s) and/or transfer receipt(s), and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

All documents and remittances sent to the Independent Shareholders by ordinary post will be sent to them at their own risk. Such documents and remittances will be sent to the Independent Shareholders at their respective addresses as they appear in the register of members of the Company, or in the case of joint Independent Shareholders, to the Independent Shareholder whose name appears first in the register of members of the Company. None of the Offeror, KCF, KSL, the Registrar or any of their respective directors or professional advisers or any other parties involved in the Offer will be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof.

9. ADDITIONAL INFORMATION

Your attention is drawn to the additional information regarding the Offer set out in the Appendices to this Composite Document and the accompanying Form of Acceptance, which form part of this Composite Document.

In considering what action to take in connection with the Offer, you should consider your own tax or financial position and if you are in any doubt, you should consult your professional advisers.

Yours faithfully,
For and on behalf of
Kingston Securities Limited
Chu, Nicholas Yuk-yui
Director

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)

Executive Directors:
Mr. XU Chengyin *(Chairman and Chief Executive Officer)*
Mr. ZHANG Pingwu
Mr. CHEN Gongbao
Mr. DENG Li
Mr. ZHANG Yongmin

Independent non-executive Directors:
Mr. CHAN Chiu Hung Alex
Mr. ZHENG Shuilin
Mr. DUAN Xuechen

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

Head office and principal place of business in Hong Kong:
Room 2204, Shun Tak Centre
200 Connaught Road Central
Sheung Wan
Hong Kong

24 May 2017

To the Independent Shareholders

Dear Sir/Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY
KINGSTON SECURITIES LIMITED
FOR AND ON BEHALF OF
ZHANG QIANG (張強) FOR ALL THE ISSUED SHARES OF
FEISHANG NON-METAL MATERIALS TECHNOLOGY LIMITED
(OTHER THAN THOSE ALREADY OWNED BY ZHANG QIANG (張強)
AND PARTIES ACTING IN CONCERT WITH HIM)**

INTRODUCTION

Reference is made to the Joint Announcement.

On 11 April 2017 (after trading hours of the Stock Exchange), the Purchaser, the Vendor and the Guarantor entered into the S&P Agreement pursuant to which the Vendor has unconditionally agreed to sell and the Purchaser has unconditionally agreed to acquire a total of 275,000,000 Sale Shares at a total cash consideration of HK$192,500,000 (equivalent to HK$0.70 per Sale Share). The Guarantor has agreed to act as the guarantor for the Vendor to guarantee the due and punctual performance of the Vendor of its obligations under the S&P Agreement. Save as the consideration paid by the Offeror to the Vendor under the S&P Agreement, there is no other consideration, compensation or benefits in whatever form provided by the Offeror or parties acting in concert with him to the Vendor or parties acting in concert with it.

The Sale Shares, being an aggregate of 275,000,000 Shares, represent 55% of the entire issued share capital of the Company as at the Latest Practicable Date.

The S&P Completion took place on 20 April 2017.

Immediately after the S&P Completion and as at the Latest Practicable Date, the Offeror and parties acting in concert with him beneficially owned 275,000,000 Shares, representing 55% of the total number of issued Shares.

In accordance with Rule 26.1 of the Takeovers Code, the Offeror is required to make an unconditional mandatory cash offer for the Offer Shares, being all the Shares in issue, other than those already owned by the Offeror and parties acting in concert with him.

The purpose of this letter is to provide you with, among other things, information relating to the Company and the Offer and to set out the letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in respect of the terms of the Offer and as to acceptance and the letter from the Independent Financial Adviser containing their advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Offer and as to acceptance of the Offer.

THE OFFER

The following information about the Offer is extracted from the "Letter from KSL" contained in this Composite Document.

KSL is making the Offer for and on behalf of the Offeror in compliance with the Takeovers Code on the following basis:

For each Offer Share . . . . HK$0.70 in cash

The Offer Price of HK$0.70 per Offer Share is the same as the price per Sale Share payable by the Purchaser under the S&P Agreement.

As at the Latest Practicable Date, the Offeror held 275,000,000 Shares, representing 55% of the entire issued share capital of the Company. Save for the aforesaid, the Offeror and the parties acting in concert with him do not have any other interests in the share capital or voting rights of the Company.

Further details of the Offer

Further details of the Offer, including, amongst other things, its extension to the Overseas Shareholders, information on taxation, the terms and conditions and the procedures for acceptance and settlement and acceptance period are set out in the "Letter from KSL" in, and Appendix I to, this Composite Document and the Form of Acceptance.

INFORMATION ON THE GROUP

The Company is a company incorporated in the Cayman Islands with limited liability, the Shares of which are currently listed on GEM (stock code: 8331). The Group is principally engaged in the development of Huanghu Bentonite Mine in Anhui Province, the PRC, and the production and sale of bentonite products in the PRC.

Financial and general information in relation to the Group are set out in Appendices II and III to this Composite Document.

SHAREHOLDING STRUCTURE OF THE GROUP

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the completion of the Offer (assuming all Independent Shareholders accepting the Offer); and (iii) immediately after the completion of the Offer (assuming there is no Independent Shareholder accepting the Offer):

Shareholders	**(i) As at the Latest Practicable Date**		**(ii) Immediately after the completion of the Offer (assuming all Independent Shareholders accepting the Offer)**		**(iii) Immediately after the completion of the Offer (assuming there is no Independent Shareholder accepting the Offer)**	
	Number of Shares held	*Approximate percentage of Shares in issue (%)*	*Number of Shares held*	*Approximate percentage of Shares in issue (%)*	*Number of Shares held*	*Approximate percentage of Shares in issue (%)*
The Offeror and parties acting in concert with him	275,000,000	55.00	500,000,000	100.00	275,000,000	55.00
Deng Li and parties acting in concert with him *(Note)*	3,120,000	0.62	–	–	3,120,000	0.62
Public Shareholders	221,880,000	44.38	–	–	221,880,000	44.38
Total	500,000,000	100.00	500,000,000	100.00	500,000,000	100.00

Note: Mr. Deng Li is an executive Director.

INTENTION OF THE OFFEROR REGARDING THE GROUP

Your attention is drawn to the paragraphs headed "Information of the Offeror" and "Intention of the Offeror in relation to the Group" in the "Letter from KSL" set out in this Composite Document. The Board is aware of the intention of the Offeror in respect of the Company and is willing to render reasonable co-operation with the Offeror which is in the interests of the Company and the Shareholders as a whole.

MAINTAINING THE LISTING STATUS OF THE COMPANY

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25%, of the Shares are held by the public or if the Stock Exchange believes that:-

(i) a false market exists or may exist in the trading of the Shares; or

(ii) there are insufficient Shares in public hands to maintain an orderly market;

it will consider exercising its discretion to suspend dealings in the Shares.

The Offeror intends the Company to remain listed on GEM. The Offeror and the existing Directors have jointly and severally undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists for the Shares. As stated in the "Letter from KSL", in the event any new directors ("**New Directors**") are appointed to the Board before the end of the Offer Period, the Offeror and the New Directors will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

RECOMMENDATIONS

Your attention is drawn to (i) the letter from the Independent Board Committee as set out on pages 19 to 20 of this Composite Document, which contains its advice and recommendations to the Independent Shareholders in respect of the Offer; and (ii) the letter from the Independent Financial Adviser set out on pages 21 to 41 of this Composite Document, which contains its advice to the Independent Board Committee in relation to the Offer and the principal factors considered by it before arriving at its recommendations.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information contained in the appendices to this Composite Document. You are also recommended to read carefully "Further terms and procedures of acceptance of the Offer" set out in Appendix I to this Composite Document and the accompanying Form of Acceptance for further details in respect of the procedures for acceptance of the Offer.

By order of the Board
Feishang Non-metal Materials Technology Limited
CHEN Gongbao
Director

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)

24 May 2017

To the Independent Shareholders

Dear Sir/Madam,

MANDATORY UNCONDITIONAL CASH OFFER BY KINGSTON SECURITIES LIMITED FOR AND ON BEHALF OF ZHANG QIANG (張強) FOR ALL THE ISSUED SHARES OF FEISHANG NON-METAL MATERIALS TECHNOLOGY LIMITED (OTHER THAN THOSE ALREADY OWNED BY ZHANG QIANG (張強) AND PARTIES ACTING IN CONCERT WITH HIM)

INTRODUCTION

We refer to the composite offer and response document (the "**Composite Document**") dated 24 May 2017 jointly issued by the Company and the Offeror, of which this letter forms part. Terms used herein shall have the same meanings as defined in the Composite Document unless the context requires otherwise.

We have been appointed to form the Independent Board Committee to consider the terms of the Offer and to advise you as to whether or not, in our opinion, the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and as to acceptance of the Offer.

INCU Corporate Finance Limited has been appointed as the independent financial adviser to the Company to advise us in this respect of the terms of the Offer and as to acceptance thereof. Details of its advice and the principal factors taken into consideration in arriving at its recommendation are set out in the "Letter from the Independent Financial Adviser" on pages 21 to 41 of the Composite Document.

We also wish to draw your attention to the sections headed "Letter from KSL", "Letter from the Board" and the additional information set out in the Composite Document, including the appendices to the Composite Document and the accompanying Form of Acceptance in respect of the terms of the Offer and the acceptance and settlement procedures for the Offer.

RECOMMENDATION

Having taken into account the terms of the Offer, the advice and recommendation from INCU Corporate Finance Limited, we are of the opinion that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and therefore we recommend the Independent Shareholders to accept the Offer.

Independent Shareholders are reminded to closely monitor the market price and liquidity of the Shares during the Offer Period and consider selling their Shares in the open market during the Offer Period, where possible, rather than accepting the Offer, if the net proceeds from the sale of such Shares in the open market would exceed the net amount receivable under the Offer.

Notwithstanding our recommendations, the Independent Shareholders are strongly advised that the decision to realise or to hold their investment is subject to individual circumstances and investment objectives. If in doubt, the Independent Shareholders should consult their own professional advisers for professional advice. Furthermore, the Independent Shareholders who wish to accept the Offer are recommended to read carefully the procedures for accepting the Offer as detailed in the Composite Document.

Yours faithfully,
Independent Board Committee
Feishang Non-metal Materials Technology Limited

Mr. CHAN Chiu Hung Alex	**Mr. ZHENG Shuilin**	**Mr. DUAN Xuechen**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the full text of a letter of advice from INCU to the Independent Board Committee in relation to the Offer, which has been prepared for the purpose of inclusion in this Composite Document.

INCU Corporate Finance Limited
Unit 1701, 17/F, Wings Building,
110-116 Queen's Road Central,
Central, Hong Kong

24 May 2017

To the Independent Board Committee,
the Independent Shareholders of
Feishang Non-metal Materials Technology Limited

Dear Sirs,

MANDATORY UNCONDITIONAL CASH OFFER BY KINGSTON SECURITIES LIMITED FOR AND ON BEHALF OF ZHANG QIANG (張強) FOR ALL THE ISSUED SHARES OF FEISHANG NON-METAL MATERIALS TECHNOLOGY LIMITED (OTHER THAN THOSE ALREADY OWNED BY ZHANG QIANG (張強) AND PARTIES ACTING IN CONCERT WITH HIM)

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the independent board committee (the "**Independent Board Committee**") of Feishang Non-metal Materials Technology Limited (the "**Company**"), the Independent Shareholders in relation to the Offer, details of which are set out in this composite offer and response document to the shareholders of the Company of even date and of which this letter forms part (the "**Composite Document**"). This letter contains our advice to the Independent Board Committee and the Independent Shareholders as to whether the Offer are fair and reasonable and as to the acceptance of the Offer. Capitalised terms used in the terms of this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

Reference is made to the Joint Announcement. On 11 April 2017, the Offeror (as purchaser), the Vendor and the Guarantor entered into the S & P Agreement pursuant to which the Vendor has unconditionally agreed to sell and the Offeror has unconditionally agreed to acquire a total of 275,000,000 Sale Shares at a total cash consideration of HK$192,500,000 (equivalent to HK$0.70 per Sale Share). The Guarantor has agreed to act as the guarantor for the Vendor to guarantee the due and punctual performance of the Vendor of its obligations under the S & P Agreement. Save as the consideration paid by the Offeror to the Vendor under the S&P Agreement, there is no other consideration, compensation or benefits in whatever form provided by the Offeror or parties acting in concert with him to Vendor or parties acting in concert with it. The Sale Shares, being an aggregate of 275,000,000 Shares, representing 55% of the total issued share capital of the Company as at the date of the Joint Announcement and as at the Latest Practicable Date. The S & P Completion took place on 20 April 2017.

It was further announced that pursuant to Rule 26.1 of the Takeovers Code, the Offeror (as purchaser) will therefore be required to make a mandatory unconditional cash offer for all the issued Shares (other than those already owned by the Offeror and the parties acting in concert with him). As at the Latest Practicable Date, the Offeror held 275,000,000 Shares, which represented 55% of the entire issued share capital of the Company.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Chan Chiu Hung Alex, Mr. Zheng Shuilin and Mr. Duan Xuechen, has been formed to advise the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer. We, INCU Corporate Finance Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. Our appointment has been approved by the Independent Board Committee in accordance with Rule 2.1 of the Takeovers Code.

We have not acted as an independent financial adviser and has not provided any other services to the Company during the past two years. We are independent from and not connected with the Company, the Offeror, or any of their respective substantial shareholders, or any party acting, or presumed to be acting, in concert with any of them. Apart from the normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror, or any of their respective substantial shareholders, or any party acting, or presumed to be acting, in concert with any of them. Accordingly, we are considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Offer.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the statements, information opinions and representations contained or provided to us by the Company and management of the Group, which we have assumed to be true, accurate and complete. We have reviewed the published information on the Company, including but not limited to, the annual reports for the year ended 31 December 2015 and 2016 and the quarterly report for the period ended 31 March 2017, also the information contained in the Composite Document. We have relied on the information and facts provided, and the opinions expressed, by the Directors and the management of the Group, which we have assumed to be true, accurate, complete and not misleading in all material aspects as at the Latest Practicable Date and the Shareholders will be notified of any material changes to such representations as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have sought and received confirmation from the Directors and the management of the Group that no material facts have been omitted from the information provided and opinions expressed by them to us. We consider that the information which we have received is sufficient for us to reach our opinion and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to doubt the truth, accuracy or completeness of the information provided to us or to believe that any material information has been omitted or withheld. We have not, however, conducted any independent investigation into the business and affairs of the Group nor have we carried out any independent verification of the information provided.

We have not considered the tax consequences on the Independent Shareholders in respect of their acceptance or non-acceptance of the Offer since they vary depending on respective individual circumstances. The Independent Shareholders should consider their own tax positions and, if in any doubt, should consult their own professional advisers.

PRINCIPAL TERMS OF THE OFFER

KSL, on behalf of the Offeror, is making the Offer in compliance with the Takeovers Code on the terms set out in the Composite Document on the following basis:

For each Offer Share . . . . HK$0.70 in cash

The Offer Price of HK$0.70 per Offer Share is the same as the price per Sale Share payable by the Purchaser under the S & P Agreement. As at the Latest Practicable Date, the Offeror held 275,000,000 Shares, representing 55% of the entire issued share capital of the Company. The Offer is unconditional in all respects.

By accepting the Offer, the Independent Shareholders will sell their Shares to the Offeror free from all liens, claims, encumbrances and all third party rights and with all rights attached thereto as at the date of this Composite Document or subsequently becoming attached to them, including the right to receive all dividends and distributions recommended, declared, paid or made, if any, on or after the date of this Composite Document.

Acceptance of the Offer by any Independent Shareholder will constitute a warranty by such person that all Offer Shares sold by such person under the Offer are free from all liens, charges, options, claims, equities, adverse interests, third-party rights or encumbrances whatsoever and together with all rights accruing or attaching thereto, including, without limitation, the right to receive dividends and distributions recommended, declared, made or paid, if any, on or after the date on which the Offer is made. Acceptance of the Offer would be irrevocable and would not be capable of being withdrawn, subject to the provisions of the Takeovers Code.

For further details of the Offer (including the terms and procedures for acceptance of the Offer), please refer to the "Letter from KSL" as set out on pages 6 to 13 of the Composite Document, Appendix I to the Composite Document and the accompanying Form of Acceptance. The Independent Shareholders are strongly advised to read the relevant sections in the Composite Document in full.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect of the terms of the Offer, we have considered the following principal factors and reasons:

1. Background information of the Group

The Company is a company incorporated in the Cayman Islands with limited liability, the Shares of which were listed on GEM since 29 December 2015 (stock code: 8331). The Group is principally engaged in the development of Huanghu Bentonite Mine in Anhui Province, the PRC, and the production and sale of bentonite products in the PRC.

2. Financial information of the Group

A. Financial performance of the Group

Set forth below are the audited consolidated financial results of the Group for the two financial years ended 31 December 2015 and 31 December 2016 ("**FY2015**" and "**FY2016**", respectively) as extracted from the annual report of the Company for the year ended 31 December 2015 (the "**2015 Annual Report**") and the annual report of the Company for the year ended 31 December 2016 (the "**2016 Annual Report**") and the unaudited consolidated financial results of the Group for the two financial periods ended 31 March 2016 and 31 March 2017 ("**2016Q1**" and **2017Q1**", respectively) as extracted from the quarterly report of the Company for the period ended 31 March 2017 (the "**2017 Quarterly Report**"):

	FY2015	**FY2016**	**2016Q1**	**2017Q1**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	28,823	26,311	7,046	5,672
– Drilling Mud	18,493	14,729	4,118	1,954
– Pelletising clay	9,854	11,582	2,928	3,718
– Unprocessed clay	476	–	–	–
Gross Profit	13,360	11,520	2,701	2,194
(Loss) profit for the year/ period attributable to the owners of the Company	(10,874)	2,800	1,953	(695)
	RMB cents	*RMB cents*	*RMB cents*	*RMB cents*
(Loss) earnings per Share	(2.89)	0.56	0.39	(0.14)

(i) For the year ended 31 December 2015

During FY2015, the Group recorded revenue of approximately RMB28.82 million, representing a decrease of approximately 5.33% compared to that in the financial year ended 31 December 2014. As disclosed in the 2015 Annual Report, such decrease was mainly due to the decrease in sales volume of drilling mud, pelletising clay and unprocessed clay as a result of general economic downturn in the PRC as well as the adverse weather conditions in east China in 2015, which generally hindered the progress of civil engineering projects and eventually led to the fall in the demand for drilling mud, which was partially offset by the increase in average selling price of drilling mud.

During the year, the Group recorded loss attributable to the owners of the Company of approximately RMB10.87 million, as compared to a profit of approximately RMB7.03 million in the previous year. Such turnaround effect was mainly due to the one-off listing expenses of approximately RMB15.35 million incurred during FY2015.

For illustrative purpose, set aside the effect of one-off listing expenses, the Group would record profit attributable to the owners of the Company of approximately RMB4.48 million, representing a decrease of approximately 36.27% compared to that in the financial year ended 31 December 2014.

(ii) For the year ended 31 December 2016

During FY2016, the Group recorded revenue of approximately RMB26.31 million, representing a decrease of approximately 8.72% compared to that in FY2015. As disclosed in the 2016 Annual Report, such decrease was mainly due to (i) the decrease in sales volume of drilling mud and unprocessed clay as a result of severe floods in eastern China in June 2016 and the general economic condition in the PRC; and (ii) the decrease in average selling price of pelletising clay, which was partially offset by the increase in sales volume of pelletising clay.

During the year, the Group recorded profit attributable to the owners of the Company of approximately RMB2.80 million, representing an approximately 125.75% increase from FY2015. Such turnaround effect was mainly due to the absence of one-off listing expenses of approximately RMB15.35 million incurred during FY2015 and one-off monetary award of RMB2.00 million from Fanchang Country People's Government*（繁昌縣人民政府）for listing of the Company in 2016.

For illustrative purpose, after excluding the effect of one-off monetary award in FY2016 and one-off listing expenses in FY2015, the Group would record profit attributable to the owners of the Company of approximately RMB0.80 million, representing a decrease of approximately 82.14% compared to the adjusted profit of approximately RMB4.48 million.

(iii) For the period ended 31 March 2017

During 2017Q1, the Group recorded revenue of approximately RMB5.67 million, representing a decrease of approximately 19.50% compared to the 2016Q1. As disclosed in the 2017 Quarterly Report, such decrease was mainly due to decrease in sales volume and average selling price of drilling mud, which was partially offset by the increase in sales volume and average selling price of pelletising clay. The decrease in sales volume and average selling price of drilling mud was mainly due to the general economic condition, especially the uncertainty in investment prospects of the energy industry in the PRC.

During 2017Q1, the Group recorded loss attributable to the owners of the Company of approximately RMB0.70 million, as compared to a profit of approximately RMB1.95 million in the 2016Q1. Such turnaround effect was mainly due to (i) the absence of one-off monetary award from Fanchuang County People's Government*（繁昌縣人民政府）recognised in the first quarter in 2016 amounting to RMB2.00 million in 2017; and (ii) the increase of approximately RMB0.50 million in administrative and other expenses compared to the corresponding period in 2016 as a result of increase in professional fees and research and development expenses.

For illustrative purpose, after excluding the effect of one-off monetary award in 2016Q1, the Group would record a loss of approximately RMB0.05 million in 2016Q1. The Group was in loss-making positions for both of the periods in 2016Q1 and 2017Q1 after excluding the one-off effect.

B. Financial positions of the Group

Set out below are audited consolidated financial positions of the Group as at 31 December 2015 and 2016 extracted from the 2016 Annual report:

	As at 31 December 2015	**As at 31 December 2016**
	RMB'000	*RMB'000*
	(audited)	(audited)
Non-current assets	23,425	27,668
Current assets	65,788	46,222
Non-current liabilities	7,078	7,624
Current liabilities	22,199	3,530
Net current assets	43,589	42,692
Net asset value	59,936	62,736
Gearing ratio (total interest-bearing debt to net assets)	23.90%	Nil

(i) Financial position as at 31 December 2015

As at 31 December 2015, the Group's current assets mainly comprised bank balances and cash of approximately RMB32.10 million, pledged bank deposit of RMB15.00 million, trade, bills and other receivables of approximately RMB16.36 million and inventories of approximately RMB2.25 million. Included in the Group's current liabilities are mainly secured bank borrowing of approximately RMB14.32 million and trades and other payables of approximately RMB7.54 million.

Gearing ratio (total interest-bearing debt to net assets) increased from nil as at 31 December 2014 to approximately 23.90% as at 31 December 2015. Such increase was due to the drawdown of an interest-bearing bank borrowing to repay the amount due to its controlling shareholder before the listing of the Company during FY2015.

The Group's net current assets position improved from approximately RMB30.60 million as at 31 December 2014 to approximately RMB43.60 million as at 31 December 2015. The increase in net current assets was mainly attributable to the combined effect of (i) the increase in trade, bills and other receivables from approximately RMB8.46 million as at 31 December 2014 to RMB16.36 million as at 31 December 2015; (ii) the increase in bank balances and cash from approximately RMB23.63 million as at 31 December 2014 to RMB32.10 million as at 31 December 2015; (iii) the increase in pledged bank deposit from nil as at 31 December 2014 to RMB15.00 million as at 31 December 2015; and (iv) the increase in interest-bearing bank borrowings from nil as at 31 December 2014 to approximately RMB14.32 million as at 31 December 2015. The Group's equity attributable to equity holders of the Company increased from approximately RMB43.81 million as at 31 December 2014 to RMB59.94 million as at 31 December 2015.

Based on the number of issued Shares as at 31 December 2015 of 500,000,000 Shares, the net asset value per Share as at 31 December 2015 amounted to approximately RMB0.120.

(ii) Financial position as at 31 December 2016

As at 31 December 2016, the Group's current assets mainly comprised bank balances and cash of approximately RMB34.64 million, trade, bills and other receivables of approximately RMB8.62 million and inventories of approximately RMB2.89 million. Included in the Group's current liabilities are mainly trades and other payables of approximately RMB3.16 million.

As at 31 December 2016, the Group's net current assets amounted to approximately RMB42.69 million, representing a decrease of 2.06% compare to 31 December 2015. Decrease in net current assets was mainly due to (i) the decrease in trade, bills and other receivables from approximately RMB16.36 million as at 31 December 2015 to RMB8.62 million as at 31 December 2016; (ii) the decrease in pledged bank deposit from RMB15.00 million as at 31 December 2015 to nil as at 31 December 2016; (iii) the increase in bank balances and cash from approximately RMB32.10 million as at 31 December 2015 to RMB34.64 million as at 31 December 2016; (iv) the decrease in trade and other payables from approximately RMB7.54 million as at 31 December 2015 to RMB3.16 million as at 31 December 2016 and (v) the full repayment of interest-bearing bank borrowing of approximately RMB14.32 million as at 31 December 2016.

Gearing ratio (total interest-bearing debt to net assets) as at 31 December 2016 dropped to nil as the Group fully repaid the interest-bearing bank borrowing which was drawn down in December 2015.

Based on the number of issued Shares as at 31 December 2016 of 500,000,000 Shares, the net asset value per Share as at 31 December 2016 amounted to approximately RMB0.125, representing an increase of approximately 4.67% from the net asset value of RMB0.120 per Share as at 31 December 2015.

C. Prospect and outlook of the Group

As disclosed in the 2016 Annual Report, the direct impact of addressing overcapacity policy implemented by the Chinese government has caused pressure on sales of pelletising clay of the Group and the impact on sales of the Group in 2016 was exacerbated by the depression in the energy industry, which is one of the major downstream markets that the Group is relied upon, that investments in oil and gas transportation pipelines construction projects decreased. At the same time, as the outlook for the steel-making sector is uncertain, the Group has delayed the construction of other three new facilities for the storage of pelletising clay and renovation project, and the detailed implementation time will depend on the outlook for the steel-making sector.

We also note from the 2016 Annual Report that, from the Board's view, affected by the macro economy, the steel industry would continue to confront the pressure of addressing overcapacity, cost increment and other unfavourable factors. Therefore, it is expected that the demand for and sales of pelletising clay will remain weak for the year ending 31 December 2017. Sales of drilling mud are still facing great pressure in 2017 as the real estate industry is facing severe regulations coupled with the uncertainty in investment prospects of the energy industry. In order to cope with unfavourable operating conditions, the Group intends to continue expanding its customer base and market share by boosting product awareness of its main products, refining its production technology and developing new products with a view to enhancing the Group's overall competitiveness.

In addition, as disclosed in the Company's announcement dated 14 February 2017, the Group and an individual (the "**Potential Vendor**") entered into a non-legally binding memorandum of understanding (the "**MOU**") on the same day, pursuant to which, the Group intended to acquire and the Potential Vendor intends to sell certain equity interest in a company with limited liability established in the PRC (the "**Target Company**") (the "**Proposed Acquisition**"). The Target Company is principally engaged in, mining, processing and sales of black marble (dolerite) in the PRC. It is expected that the Proposed Acquisition (if materialised) can diversify the Group's business. As at the Latest Practicable Date, the Group is still undergoing due diligence review in accordance with the terms and conditions of the MOU and further negotiation among the parties will be carried out based on the results of the due diligence review. Save for the aforesaid, there was no material progress on the Proposed Acquisition. Also, there was no legally binding agreement in relation to the Proposed Acquisition has been entered into. The Company and the Offeror confirm that the Potential Vendor is a third party independent of the Offeror and parties acting in concert with him and there is no relationship (financial, business or otherwise) in the past, present or contemplated between the Potential Vendor on one hand and the Offeror and parties acting in concert with him on the other hand.

In order to get a better grasp of the iron and steel market in the PRC, we have conducted our own desktop research. With reference to the "The Opinion About Using Price Means To Promote Supply Side Reformation Of Iron And Steel Industry*"(關於運用價格手段促進鋼鐵行業供給側結構性改革有關事項的通知)("**The Opinion**") published by the PRC State Council in December 2016, in order to address the industrial overcapacity problem, certain policy and measures will be carried out to promote the structural change of iron and steel industry. The Opinion proposed to adopt a differential price mechanism for iron and steel companies, posing higher electricity charge for companies which are producing with idle or over capacity. Such increase in electricity charge is expected to increase the production cost of iron and steel companies which create further uncertainties to the iron and steel industry.

Having considered (i) the more tightened regulations posed to iron and steel market and (ii) the persistent macroeconomic uncertainties resulting in weak market conditions in the PRC, we consider that prospects and outlook of the Group would be subject to uncertainties and challenges from keen competition in future.

3. Principal terms of the Offer

The Offer Price of HK$0.70 per Offer Share represents:

(i) a discount of approximately 44.44% to the closing price of HK$1.26 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 55.41% to the closing price of HK$1.57 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

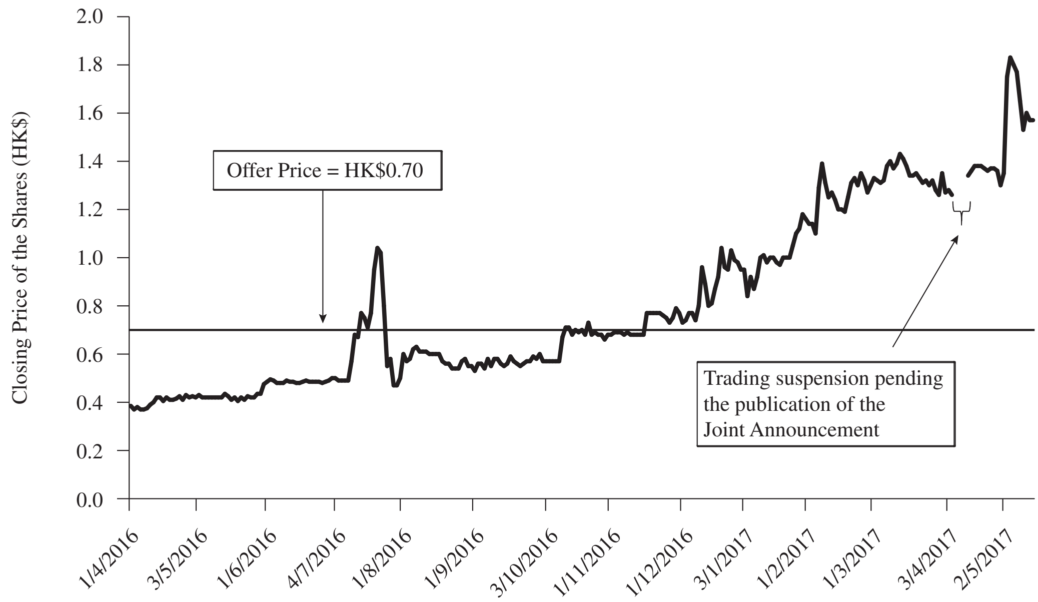
(iii) a discount of approximately 45.48% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day of HK$1.284 per Share; and

(iv) a premium of approximately 396.45% over the audited consolidated net asset value of the Company of approximately RMB0.125 per Share (equivalent to approximately HK$0.141 per Share) as at 31 December 2016.

A. Historical price performance of the Shares

In order to assess the fairness and reasonableness of the Offer Price, we have reviewed the daily closing price of the Shares as quoted on the Stock Exchange during the period commencing from 1 April 2016, being approximately the twelve-month period preceding the commencement of the Offer Period, up to and including the Latest Practicable Date (the "**Review Period**"), as illustrated in the chart below. We consider the Review Period which covers a full year prior to the Offer Period, to represent a reasonable period to provide a general overview of the recent price performance of the Shares for conducting an analysis against the Offer Price.

Share price performance during the Review Period



Source: The website of the Stock Exchange (www.hkex.com.hk)

As shown above, the closing price of the Shares ranged from HK$0.37 recorded on 5, 7 and 8 April 2016 to HK$1.43 recorded on 17 March 2017 during the period from 1 April 2016 to 11 April 2017, being the last trading date prior to the release of the Joint Announcement (both dates inclusive, the "**Pre-Announcement Period**"), with an average of approximately HK$0.75 per Share, which is higher than the Offer Price.

Trading in the Shares was suspended, at the request of the management of the Company, from 12 April 2017 to 19 April 2017 (both days inclusive), pending the release of an announcement regarding inside information pursuant to the Takeovers Code. Following the release of the Joint Announcement and the resumption of trading in the Shares on 20 April 2017, the closing price of the Shares maintained at relatively high level at above HK$1.30 during the period from 20 April 2017 up to the Latest Practicable Date (both dates inclusive, the "**Post Announcement Period**"), the closing price of the Shares ranged from HK$1.30 on 8 May 2017 to HK$1.83 recorded on 11 May 2017, with an average of approximately HK$1.49 per Share, which is also higher than the Offer Price.

During the overall Review Period, the closing price of the Shares ranged from HK$0.37 on 5, 7 and 8 April 2016 to HK$1.83 on 11 May 2017, with an average of approximately HK$0.81 per Share. It is noted that the closing price of the Shares was on an upward trend and fluctuated between HK$0.37 on 5, 7 and 8 April 2016 and reached its peak at HK$1.83 on 11 May 2017. The closing price of the Shares then decreased to HK$1.57 as at the Latest Practicable Date. It is noted that the P/E ratio of the Company is approximately 248.26 times calculated based on its market capitalisation at the Latest Practicable Date divided by the net profit attributable to shareholders as disclosed in the 2016 Annual Report. Based on our review on the latest published information of the Company during the Review Period, we are not aware of any significant information in relation to the positive change in the Company's business, operating performance and/or financial position during the Review Period, which could be reasonably accounted for the price improvement and current high market price. We have also enquired with the management and were advised that the Company is not aware of any particular reason for the price movement. Therefore, we are unable to comment on whether the trend is sustainable as the market price of the Shares may be determined by factors which may not be directly related to the financial or business performance of the Company. Such factors include, among others, investor sentiment, market conditions, the state of the industry in which the company operates in and the state of the economy and political environment in the country which the company operates in. These factors are difficult to gauge and any change in these factors may affect the market price of shares. The Offer Price represents a premium of approximately 89.19% over the lowest closing price of the Shares during the Review Period, although it represents a discount of approximately 61.75% and 13.58% to the highest closing price per Share and average closing price during the Review Period. However, Shareholders should note that the closing price of the Shares has increased significantly by approximately 3.08 times from 1 April 2016 to the Latest Practicable Date. There is no guarantee that the current market price of the Shares will or will not sustain at such a high level during and after the Offer period. We strongly suggest that the Independent Shareholders should closely monitor the market prices and liquidity of the Shares during the Offer Period.

B. Historical trading volume of the Shares

The following table sets out the historical monthly trading volume of the Shares and the percentage of the number of Shares traded compared to the total number of the Shares in issue during the Review Period:

Month/period	**Total trading volume** *(No. of Shares)*	**No. of trading days**	**Average daily trading volume** *(No. of Shares)*	**Percentage of the average daily trading volume to the total number of Shares in issue** *(Note 2)*
2016				
April	8,890,000	20	444,500	0.09%
May	3,560,000	21	169,524	0.03%
June	12,920,000	21	615,238	0.12%
July	69,060,000	20	3,453,000	0.69%
August	9,240,000	22	420,000	0.08%
September	4,780,000	21	227,619	0.05%
October	13,939,900	19	733,679	0.15%
November	5,840,000	22	265,455	0.05%
December	123,210,000	20	6,160,500	1.23%
2017				
January	189,480,000	19	9,972,632	1.99%
February	114,560,000	20	5,728,000	1.15%
March	85,407,000	23	3,713,348	0.74%
April *(Note 1)*	86,130,000	13	6,625,385	1.33%
May *(Up to the Latest Practicable Date)*	63,480,000	14	4,534,286	0.91%

Source: the website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. Trading in the Shares was suspended from 12 April 2017 to 19 April 2017 (both days inclusive).

2. The calculation is based on the average daily trading volume of the Shares divided by the total issued share capital of the Company as at the Latest Practicable Date (i.e. 500,000,000 Shares).

As illustrated in the table above, the average daily trading volume for the respective month/period during the Review Period ranged from approximately 169,524 Shares (May 2016) to approximately 9,972,632 Shares (January 2017), representing approximately 0.03% to approximately 1.99% of the total number of the Shares in issue as at the Latest Practicable Date.

We note that the trading liquidity of the Shares was generally thin given that the average daily trading volume of the Shares during such period (except for December 2016, January, February and April 2017) represents less than 1.0% to the total number of the Shares in issue as at the Latest Practicable Date. Independent Shareholders should be mindful as to whether there will be sufficient liquidity in the Shares for those who wish to realise part or all of their investment in the Company at the prevailing market price of the Shares and whether their disposal of Shares will exert a downward pressure on the market prices of the Shares. They are therefore strongly advised to carefully and closely monitor the market price and liquidity of the Shares during the Offer Period if they wish to dispose of part or all of their Shares.

C. Comparable analysis

Price-to-earnings ("**P/E**") ratio and price-to-book ("**P/B**") ratio are the most commonly used benchmarks for valuation of companies. Therefore, for the purpose of our analysis, we have adopted P/E ratio and P/B ratio analysis to assess the fairness and reasonableness of the terms of the Offer.

We have attempted to identify the comparable companies which are (i) listed on the Stock Exchange and (ii) principally engaged in both development of bentonite mine and production and sale of bentonite related products in PRC, both being the principal businesses of the Group. However, due to the unique business mix of the Group, we have only identified 1 direct comparable, being Zhejiang Chang'an Renheng Technology Co., Ltd (stock code: 8139) (the "**Direct Comparable**") to the Company based on the above-mentioned selection criteria.

In view of the limited sample size, we have therefore revised the selection criteria for those comparable companies which (i) are listed on the Stock Exchange; (ii) principally engaged in developing, production and/or sale of non-metal and non-energy producing mineral resources in the PRC, which are to be processed into the construction and building materials; and (iii) has at least 75% of their revenue generated from the above-mentioned business in their respective latest financial year. Based on these criteria, we have identified an exhaustive list of a total of 3 companies listed on the Stock Exchange (the "**Comparable Companies**").

Given the unique business nature of the Group and based on our review of information of companies listed on the Stock Exchange which engaged in similar line of businesses of the Group, we consider that selecting comparable companies based on market capitalisation would be too limited in forming a fair list to assess the fairness and reasonableness of the terms of the Offer.

Independent Shareholders should note that the business, scale of operation, trading prospect, target market, business mix, cost structure and capital structure of the Company are not exactly the same as those of the Comparable Companies and we have not conducted in-depth investigation into business and operations of the Comparable Companies save for the aforesaid selection criteria. While the Comparable Companies may not have identical business mix as the Group to constitute direct comparables, we consider that, based on the selection criteria we have adopted, they represent a fair and representative selection of companies that can be useful comparables to the Company for the purposes of this analysis on the grounds that (i) the Comparable Companies and the Group are principally engaged in production of materials with similar usage (i.e. to be processed into construction and building materials); (ii) the Comparable Companies and the Group are in general affected by similar macroeconomic factors including but not limited to, the economy in the PRC, the outlook of construction industry and/or construction and building material industry in the PRC, demand from customers (i.e. construction material suppliers) and government policies/ regulations on construction industry or construction and building material industry in the PRC; (iii) the business natures of the Comparable Companies and the Group are capital intensive as large sums of investment in purchase, maintenance, and depreciation of capital equipment are required; and (iv) similar to the Group, their sources of revenue are either mainly or solely generated from business similar to that of the Group in the PRC. Details of our analysis are listed below:

Stock code	Company name	Principal business	Market capitalisation HK$ *(Note 1)*	P/E ratio *(Note 2)*	P/B ratio *(Note 3)*
8139	Zhejiang Chang'an Renheng Technology Co., Ltd.	Development, production and sale of bentonite fine chemicals.	43,520,000 (H shares only)	83.97	1.63
254	National United Resources Holdings Ltd.	Resources trading, media & advertising and provision of online platform for trading & deferred spot delivery services of metals, & other services including transaction settlement, commodity delivery & related consulting services in the PRC.	910,471,411	N/A *(Note 4)*	0.99 *(Note 5)*
433	North Mining Shares Co. Ltd.	Exploitation and exploration, trading of mineral resources, property leasing operations and property management operations.	3,406,092,313	N/A *(Note 4)*	1.02
			Average	83.97	1.32
			Median	83.97	1.32
			Maximum	83.97	1.63
			Minimum	83.97	1.02
	The Company		785,000,000	110.69 *(Note 6)*	4.94 *(Note 7)*

Source: the website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. The market capitalisation is calculated based on the share price and number of issued shares of the respective companies as at the Latest Practicable Date.

2. The P/E ratios of the Comparable Companies are calculated based on their respective market capitalisation divided by the audited net profit attributable to shareholders as disclosed in their respective latest published annual reports.

3. The P/B ratios of the Comparable Companies are calculated based on their respective market capitalisation divided by the consolidated net assets attributable to equity shareholders as disclosed in their respective latest published annual reports or interim reports.

4. P/E ratio is not applicable given that the company is loss making during its latest financial year.

5. This company has been excluded from our calculation of maximum, minimum, median and average for analysis purpose as trading of its shares has been suspended with effect from 9:00 a.m. on 1 August 2016 and hence we consider its P/B ratio cannot reflect latest market condition.

6. The implied P/E ratio of the Company is approximately 110.69 times, which is calculated as the Offer Price of HK$0.70 divided by the basic earnings per Share of the Company of RMB 0.0056 (equivalently to approximately HK$0.0063) as disclosed in the 2016 Annual Report.

7. The implied P/B ratio of the Company is 4.94 times, which is calculated as the Offer Price of HK$0.70 divided by the net assets attributable to equity shareholders of the Company per Share of RMB0.125 (equivalently to approximately HK$0.14) based on the financial information of the Company as disclosed in the 2016 Annual Report.

As illustrated in the table above, it is noted that out of 2 of the 3 Comparable Companies were loss making in their respective latest financial year and therefore the only P/E ratio of the Comparable Companies is that of the Direct Comparable of approximately 83.97 times. Given the insufficient sample size, we are unable to assess the valuation of Offer Price based on the market P/E ratio.

In respect of P/B ratio analysis, as illustrated in the tables above, the P/B ratios of the Comparable Companies ranged from approximately 1.02 times to approximately 1.63 times, with an average of approximately 1.32 times and a median of 1.32 times. The implied P/B ratio of the Company, based on the Offer Price, of approximately 4.94 times is significantly higher than the average and the median of the P/B ratios of the Comparable Companies.

4. Information on the Offeror

As stated in the "Letter from KSL" contained in the Composite Document, the Offeror is a private investor with extensive experience in accounting, finance and investment fund management. The Offeror obtained a degree of master of management studies in accounting and a degree of bachelor of management studies in accounting from Central University of Finance and Economics in the PRC in 2003 and 2000 respectively. He is currently the General Manager of 山丘資產管理(北京)有限公司 (Shan Qiu Assets Management (Beijing) Company Limited*) ("**Shan Qiu Assets Management**"), a company established under the laws of the PRC in December 2014 which is principally engaged in management of securities investment funds in the PRC. As advised by the Offeror, Shan Qiu Assets Management was registered as 基金登記管理人 (Registered Manager of Funds*) by Asset Management Association of China (中國證券投資基金業協會) in April 2015. Since April 2015, Shan Qiu Assets Management issued and managed approximately 13 fund products, and their size of issue was approximately RMB240 million.

5. Intention of the Offeror in relation to the Group and proposed Change of Composition of the Board

As stated in the "Letter from KSL", the intention of the Offeror is that the Company's existing principal activities will be maintained, while upon completion of the Offer, the Offeror will assist the Company in reviewing its business and operations and seek for new investment opportunities.

The Offeror has no intention to introduce major changes to the business of the Group, including any redeployment of fixed assets other than those in its ordinary course of business as at the Latest Practicable Date. As at the Latest Practicable Date, the Offeror has no concrete plan and has not entered into any arrangement, agreement, understanding or negotiation to (i) inject new business/assets into the Company; and (ii) dispose/downsize the existing business of the Company. The Offeror may make some changes to the composition of the Board by nominating new Directors so as to facilitate the business operation and management of the Group. The Offeror has no plan to terminate the employment of any senior management personnel of the Group in the short term. Instead, the Offeror is inclined to work together with the senior management of the Company and to leverage on their expertise and experience to further promote the growth of the Group. The Offeror will, depending on the business operations and development of the Group in the future, constantly review the staff structure of the Group so as to meet the needs of the Group from time to time. However, the Offeror reserves the right to make any changes that he deems necessary or appropriate to the Group's businesses and operations to increase the value of the Group. As at the Latest Practicable Date, the Offeror had not entered into any agreements, arrangements, understandings or discussions in this regard.

6. Public float and maintaining the listing status of the Company

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the Shares. In the event that any new directors ("**New Directors**") are appointed to the Board before the end of the Offer Period, the Offeror and the New Directors will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

As stated in the "Letter from KSL", the Offeror intends the Company to remain listed on GEM. The Offeror and the existing Directors have jointly and severally undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists for the Shares.

RECOMMENDATION

Taking into consideration of the principal factors discussed above and, in particular,

(i) the historical financial information of the Group, including the loss-making position in FY2015, thin profit margin in FY2016 and revenue drop in 2017Q1 (as compared to 2016Q1);

(ii) there are uncertainties in the future prospects of the Group, given that the fact that one of the major downstream markets of the Group (i.e. iron and steel) is facing tightened regulation;

(iii) the average daily trading volume of the Shares has been thin in general during the Review Period and the Independent Shareholders may find it difficult to dispose of a significant number of Shares in the open market without causing an adverse impact on the market price level of the Shares. Thus, the Offer provides a viable alternative exit to Shareholders to realise their investment in the Shares;

(iv) whether the current high market price and sustainability of the increasing trend of the Shares will sustain in the future is questionable, as the Share price as at the Latest Practicable Date represents an abnormal high P/E ratio over 200 times. In addition, based on public information and discussion with the Company's management, we are not aware of any significant information in relation to the positive change in the Company's business, operating performance and/or financial position during the Review Period which could be reasonably accounted for the price improvement and current high market price;

(v) the Offer Price values the Company more favorably when compared with the Comparable Companies in terms of P/B ratio, as the implied P/B ratio of the Company is higher than the average and within the range of the Comparable Companies; and

(vi) the Offer Price represents a premium of approximately 396.45% over the audited consolidated net asset value of the Company of approximately RMB0.125 per Share (equivalent to approximately HK$0.141 per Share) as at 31 December 2016,

we consider that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned. We advise the Independent Board Committee to recommend the Independent Shareholders to accept the Offer.

However, given the recent price surge to the Shares, the Independent Shareholders, having regard their own investment objectives and risk tolerance level, should consider selling their Shares in the open market during the Offer Period, rather than accepting the Offer, if the proceeds from the sale of such Shares in the open market (net of related expenses) exceed the net amount receivable under the Offer. Nevertheless, given that the trading volume of the Shares has been thin during the Review Period, Independent Shareholders should be mindful as to whether there will be sufficient liquidity in the Shares for the Independent Shareholders who wish to realise part or all of their investment in the Company at the prevailing market price of the Shares and whether their disposal of Shares will exert a downward pressure on the market prices of the Shares. They are therefore strongly advised to carefully and closely monitor the market price and liquidity of the Shares during the Offer Period.

For those Independent Shareholders who are optimistic about the Group's future prospects and/or the background of the Offeror, they may consider retaining part or all of their investment in the Company to enjoy the potential growth of the Group, but should closely monitor the future development of the Group subsequent to the close of the Offer. In any event, Independent Shareholders should note that there is no certainty that the current trading volume and/or current trading price level of the Shares will be sustainable after the Offer Period.

As each individual Independent Shareholder would has different investment objectives and/or circumstances, we would recommend the Independent Shareholders who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant, tax adviser or other professional adviser. Furthermore, they should carefully read the procedures for accepting the Offer as set out in the Composite Document, its appendices and the accompanying Form of Acceptance.

Yours faithfully
For and on behalf of
INCU Corporate Finance Limited
Gina Leung
Managing Director

Ms. Gina Leung is a licensed person registered with the SFC and a responsible officer of INCU Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. She has over 20 years of experience in the corporate finance industry and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.

To accept the Offer, you should complete and sign the accompanying Form of Acceptance in accordance with the instructions printed thereon, which form part of the terms of the Offer. The instructions set out in this Composite Document should be read together with the instructions printed on the Form of Acceptance which form part of the terms of the Offer.

1. PROCEDURES FOR ACCEPTANCE

(a) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name, and you wish to accept the Offer, you must send the duly completed and signed Form(s) of Acceptance together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), to the Registrar at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong in an envelope marked "Feishang Non-metal Materials Technology Limited – Offer" as soon as possible but in any event so as to reach the Registrar by not later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce in compliance with the Takeovers Code.

(b) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Offer in respect of your holding of Shares (whether in full or in part), you must either:

i. lodge your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, and with instructions authorising it to accept the Offer on your behalf and requesting it to deliver the Form(s) of Acceptance duly completed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or

ii. arrange for the Shares to be registered in your name by the Company through the Registrar, and deliver the Form(s) of Acceptance duly completed and signed together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or

iii. if your Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC Nominees Limited to accept the Offer on your behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or

iv. if your Shares have been lodged with your investor participant's account maintained with CCASS, give your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them.

(c) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your share certificate(s), and you wish to accept the Offer in respect of your Shares, you should nevertheless complete and sign the Form(s) of Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will constitute an irrevocable authority to the Offeror, KCF and/or KSL or their respective agent(s) to collect from the Company or the Share Registrar on your behalf the relevant share certificate(s) when issued and to deliver such share certificate(s) to the Registrar on your behalf and to authorise and instruct the Registrar to hold such share certificate(s), subject to the terms and conditions of the Offer, as if it was/they were delivered to the Registrar with the Form(s) of Acceptance.

(d) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Offer in respect of your Shares, the Form(s) of Acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it is/they are not readily available. If you find such document(s) or if it/they become(s) available, the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) should be forwarded to the Registrar as soon as possible thereafter. If you have lost your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title, you should also write to the Share Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.

(e) Acceptance of the Offer will be treated as effective and valid only if the completed Form(s) of Acceptance is received by the Registrar on or before the latest time for acceptance of the Offer and the Registrar has recorded that the acceptance and any relevant documents required by Note 1 to Rule 30.2 of the Takeovers Code have been so received, and is:

i. accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if that/those share certificate(s)and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) is/are not in your name, such other documents (e.g. a duly stamped transfer of the relevant Share(s) in blank or in favour of the acceptor executed by the registered holder) in order to establish your right to become the registered holder of the relevant Shares; or

ii. from a registered Shareholder or his personal representatives (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Shares which are not taken into account under another subparagraph of this paragraph (e)); or

iii. certified by the Registrar or the Stock Exchange.

If the Form(s) of Acceptance is executed by a person other than the registered Independent Shareholder, appropriate documentary evidence of authority (e.g. grant of probate or certified copy of a power of attorney) to the satisfaction of the Registrar and the Registrar must be produced.

(f) Seller's Hong Kong ad valorem stamp duty pursuant to the Stamp Duty Ordinance (Cap. 117) payable by the Independent Shareholders who accept the Offer and calculated at a rate of 0.1% of (i) the market value of the Offer Shares; or (ii) consideration payable by the Offeror in respect of the relevant acceptances of the Offer, whichever is higher, will be deducted from the amount payable by the Offeror to the relevant Independent Shareholder on acceptance of the Offer. The Offeror will arrange for payment of the sellers' Hong Kong ad valorem stamp duty on behalf of the accepting Independent Shareholders and will pay the buyer's Hong Kong ad valorem stamp duty in connection with the acceptance of the Offer and the transfer of the Offer Shares.

(g) If the Offer is withdrawn or lapses, the Offeror shall, as soon as possible but in any event within 10 days thereof, return by ordinary post the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) lodged with the Form(s) of Acceptance to the relevant Independent Shareholder(s).

(h) No acknowledgement of receipt of any Form(s) of Acceptance, share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

2. ACCEPTANCE PERIOD AND REVISIONS

(a) The latest time and date for acceptance will be 4:00 p.m. on the Closing Date, or if the Offer is extended, any subsequent closing date of the Offer that is extended will be announced by the Offeror in accordance with the Takeovers Code. The Offer is unconditional.

(b) The Offer, if revised/extended, will be done as the Offeror may determine in accordance with the Takeovers Code (or permitted by the Executive in accordance with the Takeovers Code). The Offeror will issue an announcement in relation to any revision or extension of the Offer, which will state the next closing date or that the revised Offer will remain open until further notice and at least 14 days' notice by way of an announcement must be given to those Independent Shareholders who have not accepted the Offer before the Offer is closed. If the Offeror revises the terms of the Offer, all Independent Shareholders, whether or not they have already accepted the Offer, will be entitled to accept the revised Offer under the revised terms. If the Offer is extended or revised, the announcement of such extension or revision will state the revised Closing Date. If the Offer is revised, the Offer will remain open for acceptance for a period of not less than 14 days from the posting of the revised Composite Document to the Independent Shareholders. If the Closing Date of the Offer is extended, any reference in the Composite Document and in the Form(s) of Acceptance to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the Closing Date of the Offer so extended.

(c) The Offeror may introduce new condition(s) to be attached to revised Offer, or any subsequent revision thereof but only to the extent necessary to implement the revised Offer and subject to the consent of the Executive in accordance with the Takeovers Code.

(d) If there is (i) a tropical cyclone warning signal number 8 or above; or (ii) a "black" rainstorm warning signal: (a) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the Closing Date, the latest time and date for acceptance of the Offer will remain at 4:00 p.m. on the same Business Day; or (b) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Closing Date, the latest time and date for acceptance will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m. or such other day as the Executive may approve.

3. ANNOUNCEMENTS

(a) By 6:00 p.m. (or such later time and/or date as the Executive may in exceptional circumstances permit) on the Closing Date, the Offeror must inform the Executive and the Stock Exchange of his decision in relation to the revision, extension, expiry of the Offer. The Offeror must publish an announcement on the website of the Stock Exchange by 7:00 p.m. on the Closing Date stating, amongst others, information required under Rule 19.1 of the Takeovers Code, whether the Offer have been revised or extended, or have expired. The announcement will state the following:

i. the total number of Shares and rights over Shares for which acceptances of the Offer have been received;

ii. the total number of Shares and rights over Shares held, controlled or directed by the Offeror and parties acting in concert with him before the Offer Period; and

iii. the total number of Shares and rights over Shares acquired or agreed to be acquired by the Offeror and parties acting in concert with him during the Offer Period.

The announcement will include details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company which the Offeror and any parties acting in concert with him have borrowed or lent, save for any borrowed securities which have been either on-lent or sold, and specify the percentages of the relevant classes of issued share capital of the Company and the percentages of voting rights of the Company represented by these numbers of Shares.

(b) In computing the total number of Shares represented by acceptances, only valid acceptances that are complete and in good order and in compliance with Note 1 to Rule 30.2 of the Takeovers Code, and which have been received by the Registrar no later than 4:00 p.m. on the Closing Date, being the latest time and date for acceptance of the Offer, shall be included.

(c) As required under the Takeovers Code, all announcements in respect of the Offer must be made in accordance with the requirements of the Takeovers Code and the GEM Listing Rules respectively.

4. RIGHT OF WITHDRAWAL

(a) Acceptances of the Offer shall be irrevocable and cannot be withdrawn, except in the circumstances set out in sub-paragraph (b) below.

(b) If the Offeror is unable to comply with the requirements set out in the paragraph headed "3. Announcements" above, the Executive may require that the Independent Shareholders who have tendered acceptances to the Offer be granted rights of withdrawal on terms that are acceptable to the Executive until the requirements set out in that paragraph are met.

(c) If an acceptor withdraws his/her/its acceptance, the Offeror shall, as soon as possible but in any event within 10 days thereof, return, by ordinary post and at the risk of the relevant acceptor, in respect of the Offer, the share certificate(s) and/or transfer receipt(s) and/or other document(s) or title (and/or any satisfactory indemnity or indemnities required in respect thereof) lodged with the Form(s) of Acceptance to the relevant Shareholder.

5. SETTLEMENT OF THE OFFER

(a) Provided that valid Form(s) of Acceptance and the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) as required by Note 1 to Rule 30.2 of the Takeovers Code are complete and in good order in all respects and have been received by the Registrar before the close of the Offer, a cheque for the amount due to each of the Independent Shareholders who accept the Offer less seller's Hong Kong ad valorem stamp duty in respect of the Offer Shares tendered by him/her/its/them under the Offer will be despatched to such Independent Shareholder, or in the case of joint Independent Shareholders, to the Independent Shareholder whose name appears first in the register of members of the Company, by ordinary post at his/her/its/their own risk as soon as possible but in any event within 7 Business Days after the receipt of all the relevant documents by the Registrar to render such acceptance complete and valid.

(b) Settlement of the consideration to which any Independent Shareholder is entitled under the Offer will be implemented in full in accordance with the terms of the Offer (save with respect to the payment of seller's Hong Kong ad valorem stamp duty), without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Independent Shareholder.

6. OVERSEAS SHAREHOLDERS

(a) The making of the Offer to the Overseas Shareholders may be prohibited or affected by the laws of the relevant jurisdictions in which they are resident. Overseas Shareholders should obtain appropriate legal advice regarding the implications of the Offer in the relevant jurisdictions or keep themselves informed about and observe any applicable legal or regulatory requirements. It is the responsibility of Overseas Shareholders who wish to accept the Offer to satisfy themselves as to the full observance of the laws and regulations of all relevant jurisdictions in connection with the acceptance of the Offer (including but not limited to the obtaining of any governmental, exchange control or other consents and any registration or filing which may be required and the compliance with all other necessary formalities, regulatory and/or legal requirements and the payment of any transfer or other taxes) due by the accepting Overseas Shareholders.

(b) Acceptance of the Offer by any Overseas Shareholder will be deemed to constitute a representation and warranty by such person that such person is permitted under all applicable laws and regulations to receive and accept the Offer, and any revision thereof, and such acceptance shall be valid and binding in accordance with all applicable laws and regulations. Any such person is recommended to seek professional advice on deciding whether or not to accept the Offer.

7. TAX IMPLICATIONS

Independent Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of their acceptance of the Offer. It is emphasised that none of the Offeror, KCF, KSL, their respective ultimate beneficial owners and parties acting in concert, the Registrar or any of their respective directors, officers, advisers, associates, agents or any persons involved in the Offer is in a position to advise the Independent Shareholders on their individual tax implications, nor do they accept responsibility for any taxation effects on, or liabilities of, any person or persons as a result of their acceptance of the Offer.

8. GENERAL

(a) All communications, notices, Form(s) of Acceptance, certificate(s), share certificate(s), transfer receipt(s), other document(s) of title and/or any satisfactory indemnity or indemnities required in respect thereof and remittances to settle the consideration payable under the Offer will be delivered by or sent to or from the Independent Shareholders or their designated agents, by ordinary post at their own risk, and none of the Offeror, KCF, KSL, the Registrar, or other parties involved in the Offer or any of their respective directors, officers, advisers, associates, agents accepts any liability for any loss or any other liabilities that may arise as a result thereof.

(b) The provisions set out in the Form(s) of Acceptance form part of the terms and conditions of the Offer.

(c) The accidental omission to despatch this Composite Document and/or Form(s) of Acceptance or any of them to any person to whom the Offer is made will not invalidate the Offer in any way.

(d) The Offer is, and all acceptances will be, governed by and construed in accordance with the laws of Hong Kong. Execution of the Form(s) of Acceptance by or on behalf of a Shareholder will constitute such Shareholder's agreement that the courts of Hong Kong shall have exclusive jurisdiction to settle any dispute which may arise in connection with the Offer.

(e) Due execution of the Form(s) of Acceptance in accordance with Note 1 to Rule 30.2 of the Takeovers Code will constitute an authority to the Offeror, KSL or such person or persons as the Offeror or KSL may direct to complete, amend and execute any document on behalf of the person or persons accepting the Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror, or such person or persons as he may direct, the Shares respect of which such person or persons has/have accepted the Offer.

(f) Acceptance of the Offer by any person or persons will be deemed to constitute a warranty by such person or persons to the Offeror, KCF, KSL that the Shares tendered under the Offer are sold by such person or persons free from all encumbrances and together with all rights accruing or attaching to them as at the date of this Composite Document or subsequently being attached to them, including, without limitation, the rights to receive all future dividends and other distributions, declared, made or paid, if any, by the Company on or after the date of this Composite Document.

(g) Acceptance of the Offer by any nominee will be deemed to constitute a warranty by such nominee to the Offeror that the number of Shares in respect of which it is indicated in the Form(s) of Acceptance is the aggregate number of Shares held by such nominee for such beneficial owners who accept the Offer.

(h) If no number is inserted or a number inserted is greater or smaller than the Independent Shareholder's registered holding of Share(s) or those physical Share(s) tendered for acceptance of the Offer and such person has signed the Form(s) of Acceptance, the Form(s) of Acceptance will be returned to such person for correction and resubmission. Any corrected form must be resubmitted and received by the Registrar on or before 4:00 p.m. on the Closing Date.

(i) Reference to the Offer in this Composite Document and in the Form(s) of Acceptance shall include any extension or revision thereof.

(j) In making their decisions, Independent Shareholders must rely on his/her/its/their own examination of the Offeror and the terms of the Offer, including the merits and risks involved. The contents of this Composite Document, including any general advice or recommendations contained therein, and the Form(s) of Acceptance are not to be construed as legal or business advice. Independent Shareholders could consult with his/her/its/their own professional advisers for professional advice.

(k) If the Offer lapses for any reason, it shall cease to be capable of further acceptance and the Offeror and KSL shall cease to be bound by any of the prior acceptances.

(l) The Offer is being made by the issue and despatch of this Composite Document on 24 May 2017.

(m) The Offer is made in accordance with the Takeovers Code.

(n) All acceptances, instructions, authorities and undertakings given by the Independent Shareholders in the Form(s) of Acceptance shall be irrevocable except as permitted under the Takeovers Code.

(o) The English text of this Composite Document and of the Form(s) of Acceptance shall prevail over their respective Chinese text for the purpose of translation.

1. FINANCIAL SUMMARY

The following is a summary of (i) the audited financial results of the Group for each of the three years ended 31 December 2014, 2015 and 2016 as extracted from the relevant annual reports of the Company; and (ii) the unaudited first quarterly results for 2017 as extracted from the first quarterly report for the three months ended 31 March 2017 of the Company.

The Group did not record any non-controlling interests for each of the three years ended 31 December 2014, 2015 and 2016.

The auditors of the Company have not issued any qualified opinion on the Group's financial statements for each of the three years ended 31 December 2014, 2015 and 2016.

RESULTS

	Three months ended 31 March				
	2017	**2016**	**2016**	**2015**	**2014**
	CNY'000	*CNY'000*	*CNY'000*	*CNY'000*	*CNY'000*
	(Unaudited)	(Unaudited)			
Revenue	5,672	7,046	26,311	28,823	30,447
Cost of sales	(3,478)	(4,345)	(14,791)	(15,463)	(17,686)
Gross profit	2,194	2,701	11,520	13,360	12,761
Other income	89	2,020	3,245	1,229	1,100
Selling and distribution expenses	(620)	(395)	(1,413)	(1,314)	(1,057)
Administrative and other expenses	(2,179)	(1,728)	(8,932)	(21,956)	(2,911)
Finance costs	(93)	(176)	(521)	(358)	(317)
(Loss) profit before tax	(609)	2,422	3,899	(9,039)	9,576
Income tax expense	(86)	(469)	(1,099)	(1,835)	(2,551)
(Loss) profit and total comprehensive (expense) income for the period attributable to the owners of the Company	(695)	1,953	2,800	(10,874)	7,025
(Loss) earnings per share *(CNY)*:					
Basic and diluted	(0.14) cents	0.39 cents	0.56 cents	(2.89) cents	1.87 cents

	2016 *CNY'000*	2015 *CNY'000*	2014 *CNY'000*
Non-current assets			
Property, plant and equipment	13,034	13,910	12,282
Prepaid lease payments	2,663	2,740	–
Intangible asset	5,209	3,850	3,181
Restricted bank balances	6,150	2,203	2,136
Deferred tax assets	612	722	1,296
	27,668	23,425	18,895
Current assets			
Inventories	2,887	2,253	2,026
Trade, bills and other receivables	8,617	16,361	8,457
Amount due from a related company	–	–	1,020
Amount due from a controlling shareholder	–	–	25
Prepaid lease payments	77	77	–
Pledged bank deposit	–	15,000	–
Bank balances and cash	34,641	32,097	23,631
	46,222	65,788	35,159
Current liabilities			
Trade and other payables	3,162	7,543	3,317
Income tax payables	368	333	1,247
Secured bank borrowing	–	14,323	–
	3,530	22,199	4,564
Net current assets	42,692	43,589	30,595
	70,360	67,014	49,490
Capital and reserves			
Share capital	4,188	4,188	–
Reserves	58,548	55,748	43,809
	62,736	59,936	43,809
Non-current liabilities			
Asset retirement obligations	6,954	6,598	5,121
Deferred income	670	480	560
	7,624	7,078	5,681
	70,360	67,014	49,490

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2016

The following is the audited consolidated financial information of the Group for the year ended 31 December 2016 as extracted from the annual report of the Group for the year ended 31 December 2016.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

		2016	2015
	Notes	*CNY'000*	*CNY'000*
Revenue	*7*	26,311	28,823
Cost of sales		(14,791)	(15,463)
Gross profit		11,520	13,360
Other income	*9*	3,245	1,229
Selling and distribution expenses		(1,413)	(1,314)
Administrative and other expenses		(8,932)	(21,956)
Finance costs	*10*	(521)	(358)
Profit (loss) before tax		3,899	(9,039)
Income tax expense	*11*	(1,099)	(1,835)
Profit (loss) and total comprehensive income (expense) for the year attributable to the owners of the Company	*12*	2,800	(10,874)
Earnings (loss) per share (CNY):			
Basic and diluted	*16*	0.56 cents	(2.89) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 CNY'000	2015 CNY'000
Non-current assets			
Property, plant and equipment	*17*	13,034	13,910
Prepaid lease payments	*18*	2,663	2,740
Intangible asset	*19*	5,209	3,850
Restricted bank balances	*23*	6,150	2,203
Deferred tax assets	*20*	612	722
		27,668	23,425
Current assets			
Inventories	*21*	2,887	2,253
Trade, bills and other receivables	*22*	8,617	16,361
Prepaid lease payments	*18*	77	77
Pledged bank deposit	*23*	–	15,000
Bank balances and cash	*23*	34,641	32,097
		46,222	65,788
Current liabilities			
Trade and other payables	*24*	3,162	7,543
Income tax payables		368	333
Secured bank borrowing	*25*	–	14,323
		3,530	22,199
Net current assets		42,692	43,589
		70,360	67,014

	Notes	2016 CNY'000	2015 CNY'000
Capital and reserves			
Share capital	28	4,188	4,188
Reserves		58,548	55,748
		62,736	59,936
Non-current liabilities			
Asset retirement obligations	26	6,954	6,598
Deferred income	27	670	480
		7,624	7,078
		70,360	67,014

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share Capital	Share premium	Other reserve	Statutory reserve	Safety fund and production maintenance fund	Retained earnings	Total
	CNY'000	*CNY'000*	*CNY'000*	*CNY'000*	*CNY'000*	*CNY'000*	*CNY'000*
			(Note i)	*(Note ii)*	*(Note iii)*		
At 1 January 2015	–	–	26,492	2,148	490	14,679	43,809
Loss and total comprehensive expense for the year	–	–	–	–	–	(10,874)	(10,874)
Appropriation to statutory reserve	–	–	–	682	–	(682)	–
Appropriation and utilisation of safety fund and production maintenance fund, net	–	–	–	–	162	(162)	–
Arising from reorganisation *(Note 28(c))*	3,141	–	(3,141)	–	–	–	–
Issue of ordinary shares in connection with the listing of shares of the Company *(Note 28(d))*	1,047	32,457	–	–	–	–	33,504
Share issue expenses	–	(6,503)	–	–	–	–	(6,503)
At 31 December 2015	4,188	25,954	23,351	2,830	652	2,961	59,936
Profit and total comprehensive income for the year	–	–	–	–	–	2,800	2,800
Appropriation to statutory reserve	–	–	–	571	–	(571)	–
Appropriation and utilisation of safety fund and production maintenance fund, net	–	–	–	–	156	(156)	–
At 31 December 2016	4,188	25,954	23,351	3,401	808	5,034	62,736

Notes:

(i) Other reserve

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

(ii) Statutory reserve

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

(iii) Safety fund and production maintenance fund

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016	2015
	CNY'000	*CNY'000*
OPERATING ACTIVITIES		
Profit (loss) before tax	3,899	(9,039)
Adjustments for:		
Depreciation of property, plant and equipment	1,252	1,330
Amortisation of intangible asset	57	44
Amortisation of prepaid lease payments	77	46
Government grants	(2,133)	(433)
Net loss on disposal/written off of property, plant and equipment	5	25
Finance costs	521	358
Bank interest income	(463)	(205)
Release of government grant for property, plant and equipment	(95)	(80)
Reversal of impairment loss of trade receivables	(50)	–
Impairment loss on trade receivables	–	50
Net gain on financial assets at fair value through profit or loss	–	(414)
Operating cash flows before movements in working capital	3,070	(8,318)
Increase in inventories	(634)	(227)
Decrease (increase) in trade, bills and other receivables	7,794	(7,954)
(Decrease) increase in trade and other payables	(4,381)	4,211
Decrease in financial assets at fair value through profit or loss	–	414
Cash generated from (used in) operations	5,849	(11,874)
Income tax paid	(954)	(2,175)

	2016	2015
	CNY'000	*CNY'000*
NET CASH FROM (USED IN) OPERATING ACTIVITIES	4,895	(14,049)
INVESTING ACTIVITIES		
Increase in bank deposits with a maturity of more than three months	(15,000)	–
Placement of restricted bank balances	(3,947)	(67)
Payment to acquire mining right	(1,416)	(713)
Purchases of property, plant and equipment	(392)	(1,859)
Proceeds from disposal of property, plant and equipment	11	10
Bank interest income received	463	205
Withdrawal of pledged bank deposit	15,000	–
Placement of pledged bank deposit	–	(15,000)
Payment to acquire land use right	–	(2,863)
Repayment from a controlling shareholder	–	25
Repayment from a related company	–	1,020
NET CASH USED IN INVESTING ACTIVITIES	(5,281)	(19,242)
FINANCING ACTIVITIES		
Government grant received	2,433	433
Interests paid on bank loan	(180)	–
Repayment of bank loan	(14,323)	–
Proceeds from placing of shares	–	33,504
New bank loan raised	–	14,323
Advance from a controlling shareholder	–	11,702
Repayment to a controlling shareholder	–	(11,702)
Share issue expenses	–	(6,503)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(12,070)	41,757

	Note	2016 CNY'000	2015 CNY'000
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(12,456)	8,466
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		32,097	23,631
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	23	19,641	32,097

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. Corporate Information and Basis of Preparation of Consolidated Financial Statements

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 Growth Enterprises Market ("GEM") of the Stock Exchange of Hong Kong Limited (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 PRC.

The immediate holding company and ultimate holding company of the Company are Feishang Group Limited and Laitan Investments Limited respectively, both of which were incorporated in the British Virgin Islands (the "BVI").

The Company is an investment holding company while the principal subsidiary is mainly engaged in bentonite mining, production and sales of drilling mud and pelletising clay. Details of the subsidiaries are set out in note 33.

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).

Feishang International, which is a holding company of Feishang Material and Shenzhen Zhuorui Business Management Consultant Company Limited*（深圳市卓瑞企業管理咨詢有限公司）("Zhuorui"), is ultimately owned by Mr. Li Feilie, Laitan Investments Limited and Feishang Group Limited (the "Controlling Shareholders") since August 2002.

Pursuant to the reorganisation as set out in the section headed "History, Reorganisation and Group Structure" in the prospectus of the Company dated 18 December 2015 (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group on 17 September 2015.

* The English name is for identification purpose only.

The Reorganisation above involved interspersing a shell company, the Company, between Feishang International and the Controlling Shareholders, which did not represent combination of businesses. Therefore, the Group comprising the Company and its subsidiaries resulting from the Reorganisation was regarded as a continuing entity, accordingly, the consolidated financial statements of the Group had been prepared and presented on the basis as if the Company had always been the holding company of the companies now comprising the Group throughout the year ended 31 December 2015.

Accordingly, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows including the results and cash flows of the companies comprising the Group have been prepared as if the current group structure had been in existence throughout the year ended 31 December 2015.

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 2012 – 2014 Cycle
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IAS 27	Equity Method in Separate Financial Statements
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations

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[2]
IFRS 15	Revenue from Contracts with Customers[2]
IFRS 16	Leases[3]
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration[2]
Amendments to IAS 7	Disclosure Initiative[1]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendments to IAS 40	Transfers of Investment Property[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[2]
Amendments to IFRSs	Annual Improvements to IFRSs 2014 – 2016 Cycle[5]

1 *Effective for annual periods beginning on or after 1 January 2017.*

2 *Effective for annual periods beginning on or after 1 January 2018.*

3 *Effective for annual periods beginning on or after 1 January 2019.*

4 *Effective date not yet been determined.*

5 *Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.*

The directors of the Company anticipate that, except as described below, the application of other new and revised IFRSs will have no material impact on the results and the financial position of the Group.

IFRS 9 (2014) Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 was amended in 2010 and includes the requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, IFRS 9 was further amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. A finalised version of IFRS 9 was issued in 2014 to incorporate all the requirements of IFRS 9 that were issued in previous years with limited amendments to the classification and measurement by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain financial assets. The finalised version of IFRS 9 also introduces an "expected credit loss" model for impairment assessments.

Key requirements of IFRS 9 (2014) are described as follows:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9 (2014), entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss ("FVTPL"), IFRS 9 (2014) requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL was presented in profit or loss.

- In the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in IAS 39 for the recognition of credit losses. Under the impairment approach in IFRS 9 (2014) it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

- IFRS 9 (2014) introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, IFRS 9 (2014) looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under IAS 39, it is necessary to exhibit eligibility and compliance with the requirements in IAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for IAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

IFRS 9 (2014) will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The directors of the Company anticipate that the adoption of IFRS 9 (2014) in the future may have an impact on amounts reported in respect of the Group's financial assets in relation to the impairment assessment on trade receivables, with the potential early recognition of credit losses based on the expected loss model in relation to the Group's financial assets measured at amortised costs. The directors of the Company are in the process of assessing the impact of IFRS 9 (2014) on the consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Thus, IFRS 15 introduces a model that applies to contracts with customers, featuring a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

(i) Identify the contract with the customer;

(ii) Identify the performance obligations in the contract;

(iii) Determine the transaction price;

(iv) Allocate the transaction price to the performance obligations; and

(v) Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective. IFRS 15 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosure are required by IFRS 15.

The directors of the Company are in the process of assessing the impact of IFRS 15 on the consolidated financial statements.

IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of IAS 16 Property, Plant and Equipment, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 will supersede the current lease standards including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 will be effective for annual periods beginning on or after 1 January 2019 with early application permitted provided that the entity has applied IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. The directors of the Company are in the process of assessing the impact of IFRS 16 on the consolidated financial statements.

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 and by the Hong Kong Companies Ordinance.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. If a subsidiary prepares its financial statements using accounting policies other than those adopted in the consolidated financial statements, appropriate adjustments are made to that subsidiary's financial statements in preparing the consolidated financial statements to ensure conformity with the Group's accounting policies.

Control is achieved when the Company has:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the Group's returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control of the subsidiary and ceases when the Group loses control of the subsidiary. Income and expenses of subsidiaries are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on combination.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production of goods or for administration purpose other than construction in progress as described below, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Stripping costs incurred during the production phase of a surface mine are allocated between the inventory produced and the stripping activity asset is depreciated on a systematic basis, over the expected useful life of the identified component of the mineralised body that becomes more accessible as a result of the stripping activity, on a units-of-production basis over the estimated recoverable mineral reserves that directly benefit from the stripping activity.

Dismantlement asset and capitalised stripping costs are depreciated on a units-of-production basis over the total proved and probable reserves while all other assets, other than construction in progress, are depreciated using the straight line method so as to write down the cost less any estimated residual value of these assets over their expected useful lives. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production of goods or for administration purposes are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Deprecation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below). Amortisation for intangible assets with finite useful lives is recognised on a units-of-production basis over the total proved and probable reserves. The estimated reserves and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Research and development expenditure

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

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. An impairment loss is recognised as expenses immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or the CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the CGU) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term bank deposits with a maturity of twelve months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash at bank and on hand, and short-term bank deposits with a maturity of three months or less.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Work in progress

Production costs are capitalised and included in work in progress of the inventory based on the current mining and processing cost incurred including the cost of materials and supplies; direct labour; mine-site overhead expenses; stripping costs; and allocated indirect costs, including depreciation and amortisation of mining right.

Prepaid lease payments

Payment for obtaining land use rights is considered as operating lease payment. Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is charged to the consolidated statement of profit or loss and other comprehensive income over the period of the rights using the straight-line method.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss is included in the 'other income' line item.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade, bills and other receivables, restricted bank balances, pledged bank deposit, and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the respective credit periods granted to individual customers, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

The Group's financial liabilities are classified into other financial liabilities.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities including trade and other payables and secured bank borrowing are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

A financial asset is derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

A financial liability is derecognised when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of business, net of sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the terms of the relevant leases.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as prepaid lease payments in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to the state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Provisions

a) General

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. When the effect of discounting is material, the amount recognised for a provision is the present value at the reporting date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in profit or loss.

b) Assets retirement obligations

Dismantlement liability is recognised when the Group has a present legal or constructive obligation as a result of the past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related property, plant and equipment. The amount recognised is the estimated cost of dismantlement, discounted to its present value using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Changes in the estimated timing of dismantlement or dismantlement cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the dismantlement provision is included as a finance cost.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit (loss) before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Share-based payment transaction

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the date of grant is expensed on a straight-line basis over the vesting period or recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to retained earnings. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

Share options granted to suppliers/consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

4. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment is less than the original estimated useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining period. As at 31 December 2016, the carrying amounts of property, plant and equipment were approximately CNY13,034,000 (2015: CNY13,910,000).

Units-of-production depreciation for dismantlement asset and amortisation for intangible asset

The Group determines the depreciation of dismantlement asset and amortisation of intangible asset by the actual units of production over the estimated reserves of the mines. Further details about the reserve estimates are included below.

Reserve estimates

Proved and probable bentonite reserve estimates are estimates of the amount of bentonite that can be economically and legally extracted from the Group's mining properties. In determining the estimates, recent production and technical information of each mine will be considered.

Fluctuations in factors including the price of bentonite, production costs and transportation costs of bentonite, a variation on recovery rates or unforeseen geological or geotechnical perils may render it necessary to revise the estimates of bentonite reserves.

Because the economic assumptions used to estimate reserves changes from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- Asset carrying values may be affected due to change in estimated future cash flows.

- Depreciation, depletion and amortisation charged to the consolidated statement of profit or loss and other comprehensive income may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change.

- Asset retirement obligations may change where changes in estimated reserves affect expectations about the timing or cost of these activities.

- The carrying value of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

As at 31 December 2016, the carrying amounts of dismantlement asset were approximately CNY3,403,000 (2015: CNY3,445,000) while the carrying amounts of intangible asset were approximately CNY5,209,000 (2015: CNY3,850,000).

Impairment of property, plant and equipment

The Group performs assessments on whether items of property, plant and equipment have suffered any impairment whenever events or changes in circumstances indicated that the carrying amounts of the assets may not be recoverable, in accordance with the stated accounting policy. Where there is an indicator of impairment, an estimation of the recoverable amount is required. Such estimations is based on certain assumptions which are subject to uncertainty and might differ from the actual result.

As at 31 December 2016, the carrying amounts of property, plant and equipment were approximately CNY13,034,000 (2015: CNY13,910,000), no impairment loss was recognised for the years ended 31 December 2016 and 2015.

Impairment of trade and other receivables

The policy for making impairment loss on trade and other receivables of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss may be required. As at 31 December 2016, the carrying amounts of trade receivables were approximately CNY5,478,000 (2015: CNY4,710,000) (net of allowance for doubtful debts of nil (2015: approximately CNY50,000)). The carrying amounts of other receivables were approximately CNY328,000 (2015: CNY7,583,000), no impairment loss on other receivables was recognised for the years ended 31 December 2016 and 2015.

Allowance for inventories

The management of the Group reviews the ageing of the inventories at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer saleable in the market. The identification of obsolete inventories requires the use of estimation of the net realisable value of items of inventory and judgements on the conditions and usefulness of items of inventories. Where the expected net realisable value is lower than the cost of certain items, a write-down of inventories may arise. As at 31 December 2016, the carrying amounts of inventories were approximately CNY2,887,000 (2015: CNY2,253,000), no allowance for inventories was recognised for the years ended 31 December 2016 and 2015.

Asset retirement obligations

The ultimate asset retirement obligations are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect the future financial results. As at 31 December 2016, the carrying amounts of asset retirement obligations were approximately CNY6,954,000 (2015: CNY6,598,000).

Income taxes

As at 31 December 2016, the Group has recognised deferred tax assets of approximately CNY612,000 (2015: CNY722,000). The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

5. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes secured bank borrowing disclosed in note 25, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company regularly review and manage the Group's capital structure. As part of this review, the directors of the Company consider the cost of capital and risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues or issue of new debts or the repayment of existing debts.

6. FINANCIAL INSTRUMENTS

a) Categories of financial instruments

	2016	**2015**
	CNY'000	*CNY'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	49,145	65,486
Financial liabilities		
Financial liabilities at amortised cost	2,895	21,706

b) Financial risk management objectives and policies

The Group's major financial instruments include trade, bills and other receivables, restricted bank balances, pledged bank deposit, bank balances and cash, trade and other payables, and secured bank borrowing.

Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The Group operates in the PRC with transactions denominated in CNY. Other than certain other receivables, bank balances, other payables and secured bank borrowing which are denominated in Hong Kong dollars ("HK$"), currencies other than the functional currency of the relevant group entities, most of the Group's financial instruments are denominated in CNY.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's monetary assets and liabilities denominated in HK$ at the end of the reporting period are as follows:

	2016	**2015**
	CNY'000	*CNY'000*
Assets	7,416	28,132
Liabilities	(833)	(18,332)
	6,583	9,800

Sensitivity analysis

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

The following table details the Group' sensitivity to a 5% (2015: 5%) increase and decrease in CNY against HK$ for the year ended 31 December 2016. 5% (2015: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2015: 5%) change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than CNY.

A negative (2015: positive) number below indicates a decrease (2015: increase) in profit after tax (2015: loss after tax) for the year where CNY strengthen 5% (2015: 5%) against HK$. For a 5% (2015: 5%) weakening of CNY against HK$, there would be an equal and opposite impact on the profit after tax (2015: loss after tax) for the year and the balance below would be positive (2015: negative).

	2016	**2015**
	CNY'000	*CNY'000*
Post-tax profit or loss	(303)	490

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposit. The Group is also exposed to cash flow interest rate risk in relation to the fluctuation of the prevailing market interest rate on restricted bank balances, bank balances and bank deposits. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated. Due to their short-term maturities, the exposure of the interest rate risk is minimal and no sensitivity to interest rate risk is presented.

During the year ended 31 December 2015, the Group's cash flow interest rate risk related primarily to variable-rate secured bank borrowing (see note 25) (2016: nil). It was the Group's policy to keep its borrowing at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the Hong Kong Interbank Offered Rate ("HIBOR") arising from the Group's HK$ denominated secured bank borrowing.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point (2016: nil) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If the interest rates had been 100 basis points (2016: nil) higher/lower and all other variables were held constant, the Group's loss after tax and retained profits for the year ended 31 December 2015 would decrease/increase by approximately CNY143,000 (2016: nil).

Credit risk

As at 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group offers revolving credit to two customers. This revolving credit provides for a predetermined credit limit that may be outstanding at any one time based on, among others, their background, credit history, length of business relationship and historical transaction amounts. The Group generally evaluates the credit limits granted to the customers annually upon renewal of the relevant sales agreements and upon special request from the customers.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by authorised credit-rating agencies.

The Group's concentration of credit risk by geographical location is in the PRC, which accounted for all of the trade receivables as at 31 December 2016 and 2015.

The Group has concentration of credit risk as 1% (2015: 6%) and 86% (2015: 88%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively as at 31 December 2016.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowings and ensures compliance with terms of loan.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	At 31 December 2016		
	Within one year or on demand	**Total contractual undiscounted cash flows**	**Carrying amount**
	CNY'000	*CNY'000*	*CNY'000*
Non-derivative financial liabilities			
Trade and other payables	2,895	2,895	2,895

	At 31 December 2015		
	Within one year or on demand	Total contractual undiscounted cash flows	Carrying amount
	CNY'000	*CNY'000*	*CNY'000*
Non-derivative financial liabilities			
Trade and other payables	7,383	7,383	7,383
Secured bank borrowing	14,593	14,593	14,323
	21,976	21,976	21,706

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

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

The directors of the Company consider that the carrying amounts of the non-current financial assets approximate its fair value as the impact of discounting is immaterial.

The directors of the Company consider that the carrying amounts of other current financial assets and financial liabilities recorded at amortised cost approximate their fair values.

7. Revenue

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

8. Segment Information

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

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

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:

	2016	2015
	CNY'000	*CNY'000*
Customer A	6,890	8,349
Customer B	6,822	8,199
Customer C	6,124	5,295

Information from major products

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

	2016	**2015**
	CNY'000	*CNY'000*
Drilling mud	14,729	18,493
Pelletising clay	11,582	9,854
Unprocessed clay	–	476
	26,311	28,823

9. Other Income

	2016	**2015**
	CNY'000	*CNY'000*
Bank interest income	463	205
Government grants *(Note)*	2,133	433
Release of government grant for property, plant and equipment *(Note 27)*	95	80
Net exchange gain	500	–
Reversal of impairment loss on trade receivables	50	–
Gain on disposal of property, plant and equipment	3	–
Recovery of bad debts	–	89
Net gain on financial assets at FVTPL	–	414
Others	1	8
	3,245	1,229

Note:

Included in the amount of government grants recognised during the year ended 31 December 2016, CNY2,000,000 (2015: nil) was received from local government authority for the Company's shares listed on GEM successfully and approximately CNY133,000 (2015: CNY433,000) was granted in respect of product innovation contributed to the industry, which were immediately recognised as other income for the year as the Group fulfilled the relevant granting criteria.

10. Finance Costs

	2016 *CNY'000*	2015 *CNY'000*
Interest expenses on secured bank borrowing	165	15
Unwinding of discount on provision for dismantlement *(Note 26)*	356	343
	521	358

11. Income Tax Expense

	2016 *CNY'000*	2015 *CNY'000*
Current tax:		
PRC Enterprise Income Tax ("EIT")	1,029	1,261
Over-provision in previous year	(40)	–
	989	1,261
Deferred taxation *(Note 20)*:		
Current year	110	57
Attributable to change in tax rate *(Note d)*	–	517
	1,099	1,835

Notes:

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

(b) No provision for Hong Kong Profits Tax has been made for both 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 2016, 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 CNY2,914,500 (2015: CNY2,829,800). 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.

The income tax expense for the year can be reconciled to the profit (loss) before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2016	**2015**
	CNY'000	*CNY'000*
Profit (loss) before tax	3,899	(9,039)
Tax at the tax rate of 25%	975	(2,260)
Preferential income tax rates applicable to a subsidiary	(751)	(840)
Tax effect of expenses not deductible for tax purpose	916	4,418
Tax effect of income not taxable for tax purpose	(1)	–
Over-provision in previous year	(40)	–
Decrease in opening deferred tax assets resulting from a decrease in applicable tax rate	–	517
Income tax expense	1,099	1,835

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

12. Profit (loss) for the year

	2016	2015
	CNY'000	*CNY'000*
Profit (loss) for the year has been arrived at after charging:		
Directors' and chief executive's emoluments *(Note 13)*	814	297
Salaries, wages, allowances and other benefits	2,615	2,832
Contributions to retirement benefits scheme (excluding directors' and chief executive's emoluments) *(Note a)*	619	188
	4,048	3,317
Staff costs included in inventories	716	412
Total staff costs	4,764	3,729
Auditor's remuneration	617	554
Amortisation of intangible asset	57	44
Amortisation of prepaid lease payments	77	46
Professional expenses incurred in connection with the Company's listing	–	15,352
Amount of inventories recognised as an expense	14,386	15,149
Exchange loss, net	–	700
Depreciation of property, plant and equipment	1,252	1,330
Loss on disposal/written off of property, plant and equipment	8	25
Impairment loss on trade receivables	–	50
Research and development cost *(Note b)*	1,799	1,882
Lease payments paid under operating lease in respect of plant and equipment	1,869	2,376

Notes:

(a) Contributions to retirement benefits scheme of Feishang Material mainly comprised cost of approximately CNY1,019,000 (2015: CNY952,000) offset by the reversal of provision for prior years of approximately CNY349,000 (2015: CNY726,000). The Group reversed the provision for retirement benefits costs after considering respective relevant local rules and regulations.

(b) Staff costs of approximately CNY304,000 (2015: CNY344,000) are included in the research and development cost for the year ended 31 December 2016.

13. Directors' and chief executive's emoluments

The emoluments paid or payable to each director and the chief executive were as follows:

Emoluments paid or receivable in respect of a persons' services as a director, whether of the Company or its subsidiary undertaking:	Fees	Salaries, allowances and other benefits	Contributions to retirement benefits scheme	Total
	CNY'000	*CNY'000*	*CNY'000*	*CNY'000*
Year ended 31 December 2016				
Executive directors				
Mr. Xu Chengyin *(Notes i, ii)*	–	85	28	113
Mr. Zhang Pingwu *(Note i)*	–	80	23	103
Mr. Chen Gongbao *(Notes i, iii)*	–	236	53	289
Independent non-executive directors				
Mr. Chan Chiu Hung, Alex *(Note iv)*	103	–	–	103
Mr. Zheng Shuilin *(Note iv)*	103	–	–	103
Mr. Duan Xuechen *(Note iv)*	103	–	–	103
Total	309	401	104	814
Year ended 31 December 2015				
Executive directors				
Mr. Xu Chengyin *(Notes i, ii)*	–	60	19	79
Mr. Zhang Pingwu *(Note i)*	–	60	19	79
Mr. Chen Gongbao *(Notes i, iii)*	–	109	27	136
Non-executive director				
Mr. Li Feilie *(Note v)*	–	–	–	–
Independent non-executive directors				
Mr. Chan Chiu Hung, Alex *(Note iv)*	1	–	–	1
Mr. Zheng Shuilin *(Note iv)*	1	–	–	1
Mr. Duan Xuechen *(Note iv)*	1	–	–	1
Total	3	229	65	297

Notes:

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

(ii) Mr. Xu Chengyin was a director of the Company's subsidiary, Feishang Material. On 15 July 2015, he was re-designated as Chairman and Executive Director of the Company.

(iii) Appointed on 15 July 2015.

(iv) Appointed on 12 December 2015.

(v) Appointed on 15 July 2015 and resigned on 18 September 2015.

Mr. Xu Chengyin was appointed as the chief executive of the Company on 15 July 2015 and his emoluments disclosed above include those for services rendered by him as the chief executive.

Neither the chief executive nor any of the directors of the Company waived or agreed to waive any emolument paid by the Group during the years ended 31 December 2016 and 2015. No emoluments were paid by the Group to any of the directors or chief executive as an incentive payment for joining the Group or as compensation for loss of office during the years ended 31 December 2016 and 2015.

Mr. Deng Li was appointed as the Company's executive director on 13 March 2017. During the year ended 31 December 2016, Mr. Deng Li has not yet been appointed and did not receive any remuneration.

14. Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2015: three) were the directors and the chief executive of the Company whose emoluments are set out in Note 13 above. The emoluments of the remaining two (2015: two) highest paid individuals were as follows:

	2016	**2015**
	CNY'000	*CNY'000*
Salaries, allowances, and other benefits	146	110
Contributions to retirement benefits scheme	47	22
	193	132

Their emoluments were within the following bands:

	2016	**2015**
	Number of individuals	*Number of individuals*
Nil to HK$1,000,000 (equivalent to approximately CNY896,000 (2015: CNY838,000))	2	2

No emoluments were paid by the Group to the five highest paid individuals as an incentive payment for joining the Group or as compensation for loss of office for the years ended 31 December 2016 and 2015.

15. Dividend

No dividend was paid or proposed during the year ended 31 December 2016, nor has any dividend been proposed since the end of the reporting period (2015: nil).

16. Earnings (loss) per share

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

	2016	2015
	CNY'000	*CNY'000*
Earnings (loss)		
Earnings (loss) for the purpose of basic and diluted earnings (loss) per share	2,800	(10,874)

	2016	2015
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings (loss) per share *('000 shares)*	500,000	376,370

The weighted average number of ordinary shares in issue during the year ended 31 December 2016 represents 500,000,000 ordinary shares in issue during the year ended 31 December 2016.

The weighted average number of ordinary shares in issue during the year ended 31 December 2015 represented 376,370,000 ordinary shares assuming in issue during the year ended 31 December 2015 after taking into account the ordinary shares issue pursuant to the Reorganisation as stated in note 1 and the share subscription as stated in Note 28(d).

The dilutive earnings (loss) per share is equal to the basic earnings (loss) per share as there were no dilutive potential ordinary shares outstanding during the years ended 31 December 2016 and 2015.

17. Property, plant and equipment

	Buildings	Machinery and equipment	Dismantlement asset	Motor vehicles	Construction in progress	Total
	CNY'000	*CNY'000*	*CNY'000*	*CNY'000*	*CNY'000*	*CNY'000*
COST						
At 1 January 2015	9,857	13,911	2,572	401	–	26,741
Asset retirement obligations adjustment *(note 26)*	–	–	1,134	–	–	1,134
Additions	22	334	–	261	1,242	1,859
Transfer	559	683	–	–	(1,242)	–
Disposal/written off	(21)	(311)	–	–	–	(332)
At 31 December 2015	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
ACCUMULATED DEPRECIATION						
At 1 January 2015	3,383	10,526	232	318	–	14,459
Charge for the year	452	807	29	42	–	1,330
Eliminated on disposal/written off	(10)	(287)	–	–	–	(297)
At 31 December 2015	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
CARRYING VALUES						
At 31 December 2016	6,325	3,014	3,403	292	–	13,034
At 31 December 2015	6,592	3,571	3,445	302	–	13,910

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

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

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

18. Prepaid lease payments

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

	2016	**2015**
	CNY'000	*CNY'000*
Current assets	77	77
Non-current assets	2,663	2,740
	2,740	2,817

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

19. Intangible asset

	Mining right
	CNY'000
COST	
At 1 January 2015	3,537
Additions	713
At 31 December 2015	4,250
Additions	1,416
At 31 December 2016	5,666
AMORTISATION	
At 1 January 2015	356
Charge for the year	44
At 31 December 2015	400
Charge for the year	57
At 31 December 2016	457
CARRYING VALUES	
At 31 December 2016	5,209
At 31 December 2015	3,850

The mining right represents a mining license acquired for exploration and mining of a bentonite mine in the PRC. The mining right is amortised on a units-of-production basis over the total proved and probable reserves in the mine.

20. DEFERRED TAXATION

The following is the analysis of the deferred tax assets, after set off certain deferred tax assets against deferred tax liabilities of the same taxable entity, for financial reporting purposes:

	2016	**2015**
	CNY'000	*CNY'000*
Deferred tax assets	612	722

The following are the deferred tax assets (liabilities) recognised by the Group and movements thereon during the year:

	Temporary difference on allowance, accrued liabilities and deferred income	**Temporary difference on asset retirement obligations**	**Accelerated tax depreciation**	**Total**
	CNY'000	*CNY'000*	*CNY'000*	*CNY'000*
At 1 January 2015	1,110	1,281	(1,095)	1,296
Effect of change in tax rate	(443)	(512)	438	(517)
Credit (charge) to profit or loss	(78)	221	(200)	(57)
At 31 December 2015	589	990	(857)	722
Credit (charge) to profit or loss	(114)	53	(49)	(110)
At 31 December 2016	475	1,043	(906)	612

21. Inventories

	2016	**2015**
	CNY'000	*CNY'000*
Materials and supplies	1,809	1,182
Work-in-progress	797	684
Finished goods	281	387
	2,887	2,253

22. Trade, bills and other receivables

	2016	2015
	CNY'000	*CNY'000*
Trade receivables	5,478	4,760
Less: allowance for impairment of trade receivables	–	(50)
	5,478	4,710
Bills receivables	2,548	3,893
Trade deposits paid	35	54
Prepayments	228	121
Other receivables *(Note)*	328	7,583
	8,617	16,361

Note: As at 31 December 2015, included in other receivables was an amount of approximately HK$8,667,000 (equivalent to approximately CNY7,259,000) (2016: nil) which represented the net proceeds from issue and placing of shares due from the underwriter in connection with the listing of the Company's shares on GEM. The amount was fully settled in January 2016.

The Group offers revolving credit to two of its customers amounted approximately CNY988,000 (2015: CNY914,000) as at 31 December 2016. 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 customers annually upon renewal of the relevant sales agreements and upon special request from the customers. The Group held charges on such customers' buildings and motor vehicles as collaterals over the balance of approximately CNY988,000 (2015: CNY914,000) as at 31 December 2016. 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 CNY4,490,000 (2015: CNY3,796,000) as at 31 December 2016, 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.

	2016	**2015**
	CNY'000	*CNY'000*
Within 30 days	3,210	1,734
31 to 60 days	846	935
61 to 90 days	447	1,048
91 to 180 days	809	563
More than 180 days	166	430
Total	5,478	4,710

As at 31 December 2016 and 2015, all of the bills receivables were aged within 180 days.

The movement in the allowance for impairment of trade receivables is set out below:

	2016	**2015**
	CNY'000	*CNY'000*
At the beginning of the year	50	–
Impairment loss recognised on trade receivables	–	50
Reversal on impairment of trade receivables	(50)	–
At the end of the year	–	50

Included in the allowance for impairment of trade receivables are individually impaired trade receivables with an aggregate balances of approximately CNY50,000 (2016: nil) as at 31 December 2015, due to long outstanding and unsatisfactory repayment record.

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:

	2016	2015
	CNY'000	*CNY'000*
Past due but not impaired:		
Within 30 days	448	1,118
31 to 60 days	314	555
61 to 90 days	358	397
More than 90 days	828	449
Total	1,948	2,519

Included in the Group's trade receivables are debtors with aggregate carrying amount of approximately CNY1,948,000 (2015: CNY2,519,000) as at 31 December 2016 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 2016 was 109 days (2015: 121 days).

23. Restricted bank balances, pledged bank deposit and bank balances and cash

Restricted bank balances

Restricted bank balances represent restricted cash set aside by the Group in banks placed for the settlement of asset retirement obligations for future environmental rehabilitation. The restricted bank balances carried at prevailing market rates ranging from 0.40% to 2.18% per annum (2015: 2.17% to 3.25% per annum) during the year ended 31 December 2016.

Pledged bank deposit

Pledged bank deposit represented deposit pledged to a bank to secure banking facilities granted to the Group. As at 31 December 2015, the bank deposit of CNY15,000,000 (2016: nil) has been pledged by Feishang Material to secure short-term bank borrowing *(note 25)* and was therefore classified as current asset. The pledged bank deposit carried interest at a fixed interest rate of 1.80% per annum during the year ended 31 December 2015 (2016: 1.80% per annum). The amount was fully released upon the settlement of bank borrowing during the year ended 31 December 2016.

Bank balances and cash

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

	2016	2015
	CNY'000	*CNY'000*
Cash at bank and in hand	12,886	30,794
Short-term bank deposits	21,755	1,303
Bank balances and cash shown in the consolidated statement of financial position	34,641	32,097
Less: Bank deposits with a maturity of more than three months	(15,000)	–
Cash and cash equivalents shown in the consolidated statement of cash flows *(Note)*	19,641	32,097

Note: As at 31 December 2015, included in cash and cash equivalents was an amount of approximately CNY3,063,000 which represented a short-term bank deposit placed in a bank. As at 31 December 2016, such bank deposit was classified as restricted bank balance as it was designated for the settlement of asset retirement obligations for future environmental rehabilitation.

Bank balances and bank deposits carried at prevailing market rates ranging from 0.20% to 1.80% per annum during the year ended 31 December 2016 (2015: 0.30% to 1.60% per annum).

24. Trade and other payables

	2016	2015
	CNY'000	*CNY'000*
Trade payables	1,254	952
Other payables and accruals	1,679	6,511
Accrued directors' remunerations	57	–
Advance from customers	172	80
	3,162	7,543

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

	2016	2015
	CNY'000	*CNY'000*
Within 30 days	1,042	725
31 to 60 days	64	76
61 to 90 days	26	60
91 to 365 days	57	46
Over 1 year	65	45
Total	1,254	952

The average credit period granted is 30 days. The Group has financial risk management in place to ensure that all payables are settled within the credit timeframe.

25. Secured bank borrowing

	2016	2015
	CNY'000	*CNY'000*
Secured bank borrowing and repayable within one year	–	14,323

(a) No bank borrowing was obtained by the Group during the year ended 31 December 2016.

(b) During the year ended 31 December 2015, the Group obtained a bank borrowing of HK$17,100,000 (equivalent to approximately CNY14,323,000) (2016: nil) to repay the outstanding amount due to a controlling shareholder incurred during the year ended 31 December 2015 before the listing of the Company. The loan has been fully settled in December 2016.

(c) The bank borrowing carried floating rate at HIBOR effectively 1.89% per annum as at ended 31 December 2015 (2016: nil).

(d) At 31 December 2015, the secured bank borrowing was secured by the Group's pledged bank deposit of CNY15,000,000 (2016: nil).

26. Asset retirement obligations

Asset retirement obligations primarily relate to the restoration costs for the closure of mining site, which included dismantling mining-related structures and the reclamation of land upon exhaustion of bentonite reserves.

The following is the asset retirement obligations recognised by the Group and movement is set out as below:

	2016	**2015**
	CNY'000	*CNY'000*
At the beginning of the year	6,598	5,121
Adjustment on change in discount rate	–	1,134
Unwinding of discount *(Note 10)*	356	343
At the end of the year	6,954	6,598

The asset retirement obligation is calculated at the net present value of estimated future net cash flows of the restoration costs, amounting to approximately CNY15,305,000, discounted at 5.40% per annum at 31 December 2016 (2015: 5.40% per annum).

27. Deferred income

	2016	2015
	CNY'000	*CNY'000*
Analysed as:		
Current liabilities (included in other payables)	95	80
Non-current liabilities	670	480
	765	560

Note:

During the year ended 31 December 2013, the Group received government grants of CNY800,000, which were designated for the purchase of plant and machinery. Such government grants are presented as deferred income and are released to income over the useful lives of the related plant and machinery. During the year ended 31 December 2016, government grants released to the consolidated statement of profit or loss and other comprehensive income amounted to CNY80,000 (2015: CNY80,000).

During the year ended 31 December 2016, the Group received government grants of CNY300,000, which was designated for buildings improvement work. Such government grants are presented as deferred income and are released to income over the useful lives of building. During the year ended 31 December 2016, government grants released to the consolidated statement of profit or loss and other comprehensive income amounted to CNY15,000 (2015: nil).

28. Share capital

The Company

	Number of shares	Share capital	
			(Equivalent to)
		HK$	*CNY'000*
Ordinary share of HK$0.01 each			
Authorised			
At the date of incorporation *(Note a)*	10,000,000	100,000	
Increase during the year *(Note b)*	9,990,000,000	99,900,000	
At 31 December 2015 and 2016	10,000,000,000	100,000,000	
Issued and fully paid			
At the date of incorporation *(Note a)*	1	–	–
Issue in consideration for the acquisition of the issued share capital of Feishang International *(Note c)*	374,999,999	3,750,000	3,141
Issue upon listing of the Company *(Note d)*	125,000,000	1,250,000	1,047
At 31 December 2015 and 2016	500,000,000	5,000,000	4,188

Notes:

(a) On 15 July 2015, the Company was incorporated in the Cayman Islands with an authorised share capital of HK$100,000 divided into 10,000,000 ordinary shares of HK$0.01 each. At the date of incorporation, one fully paid share of HK$0.01 was allotted and issued.

(b) Pursuant to the written resolutions of the then shareholder of the Company passed on 17 September 2015, the authorised share capital of the Company was increased from HK$100,000 to HK$100,000,000 by the creation of 9,990,000,000 new shares of HK$0.01 each.

(c) On 17 September 2015, the Company acquired the entire issued share capital of Feishang International by allotting and issuing 374,999,999 shares of HK$0.01 each as consideration to its then shareholder, Feishang Group Limited.

(d) In connection with the Company's placing and listing, on 28 December 2015, the Company issued 125,000,000 ordinary shares HK$0.01 each at a price of HK$0.32 per share. Of the gross proceeds from the placing of HK$40,000,000 (equivalent to approximately CNY33,504,000), HK$1,250,000 (equivalent to approximately CNY1,047,000), representing the par value credit to the Company's share capital, and HK$38,750,000 (equivalent to approximately CNY32,457,000), before the share issue expenses, were credited to the share premium account.

(e) All shares issued during the year ended 31 December 2015 rank *pari passu* in all aspects among themselves and with the then existing shares (2016: nil).

29. Share-based payment transactions

Equity-settled share option scheme of the Company

The Company's share option scheme (the "Scheme"), was adopted pursuant to written resolution of the Company passed on 12 December 2015 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 28 December 2025. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

Options granted must be taken up on the date of grant, upon payment of HK$1.00. Options may be exercised at any time from the date of grant of the share option to the tenth anniversary of the date of grant. The exercise price is determined by the board of directors of the Company, and will not be less than the highest of (i) the nominal value of the Company's share; (ii) the closing price of the Company's shares on the date of grant; and (iii) the average closing price of the shares for the five Business Days immediately preceding the date of grant.

No share options have been granted since the adoption of the Scheme and during the years ended 31 December 2016 and 2015.

30. Retirement benefits scheme

As stipulated by rules and regulations in the PRC, subsidiaries in the PRC are required to contribute to a state-managed retirement plan for all its employees at a certain percentage of the basic salaries of its employees. The state-managed retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-managed retirement plan, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions.

During the year ended 31 December 2016, the total amount contributed by the Group to this scheme and charged to the consolidated statement of profit or loss and other comprehensive income amounted to approximately CNY723,000 (2015: CNY253,000).

31. Related party transactions

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

(a) Compensation to key management personnel

The remuneration of directors of the Company and other members of key management during the year was as follows:

	2016	**2015**
	CNY'000	*CNY'000*
Short-term benefits	856	380
Post-employment benefits	180	93
	1,036	473

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

(b) During the year ended 31 December 2015, a trademark owned by a related company, which is beneficially owned by the ultimate controlling shareholder, was used by the Group at nil consideration (2016: nil). The Group has ceased to use the trademark since August 2015.

(c) During the years ended 31 December 2016 and 2015, Wuhu Feishang Development Limited*（蕪湖市飛尚實業發展有限公司）, in which Mr. Li Feilie, the controlling shareholder of the Company, has direct equity interests, provides part of its property to the Group for administrative purpose at nil consideration.

* *The English name is for identification purpose only.*

32. Information about the statement of financial position of the Company

	Note	2016 CNY'000	2015 CNY'000
Non-current asset			
Investment in a subsidiary		47,192	47,192
Current assets			
Other receivables		207	7,380
Amount due from a subsidiary		4,081	48
Bank balances		3,452	20,738
		7,740	28,166
Current liabilities			
Other payables		837	4,009
Secured bank borrowing		–	14,323
		837	18,332
Net current assets		6,903	9,834
		54,095	57,026
Capital and reserves			
Share capital		4,188	4,188
Reserves	*(a)*	49,907	52,838
		54,095	57,026

Note:

(a) Movements in reserves

	Share premium *CNY'000*	Other reserve *CNY'000* *(Note)*	Accumulated losses *CNY'000*	Total *CNY'000*
At date of incorporation on 15 July 2015	–	–	–	–
Loss and total comprehensive expense for the year	–	–	(17,167)	(17,167)
Arising from reorganisation	–	44,051	–	44,051
Issue of ordinary shares in connection with the listing of shares of the Company *(Note 28(d))*	32,457	–	–	32,457
Share issue expenses	(6,503)	–	–	(6,503)
At 31 December 2015	25,954	44,051	(17,167)	52,838
Loss and total comprehensive expense for the year	–	–	(2,931)	(2,931)
At 31 December 2016	25,954	44,051	(20,098)	49,907

Note: Other reserve represents the difference between the nominal value of the shares issued and the net asset value of the subsidiaries of the Company upon the Reorganisation on 17 September 2015.

33. Particulars of subsidiaries of the company

Details of the Company's subsidiaries as at 31 December 2016 and 2015 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment/ operation	Issued and fully paid ordinary share capital/ registered capital	Percentage of equity interest and voting power attributable to the Company				Principal activities
			Direct		Indirect		
			2016	2015	2016	2015	
Feishang International	BVI	United States Dollar 1	100%	100%	–	–	Investment holding
Feishang Material *(Note i)*	The PRC	HK$35,000,000 (2015: HK$25,000,000)	–	–	100%	100%	Bentonite mining, production and sales of drilling mud and pelletising clay
Zhuorui *(Note ii)*	The PRC	CNY1,000,000	–	–	100%	100%	Provision of business management consultation service for the group companies.

Notes:

(i) The subsidiary is a wholly foreign owned enterprise established in the PRC. On 21 January 2016, an addition paid-up share capital of HK$10,000,000 has been injected in Feishang Material.

(ii) The subsidiary is a limited company established in the PRC on 19 June 2015.

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

34. Event after the reporting period

Proposed acquisition

On 14 February 2017, the Company entered into a non-legally binding memorandum of understanding with an independent third party, for the proposed acquisition of the equity interests in a limited liability company established in the PRC. No legally binding contract was signed as of the date of approval of the consolidated financial statements. Further details of the proposed acquisition are set out in the Company's announcement dated 14 February 2017.

3. UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31 MARCH 2017

		Three months ended 31 March	
		2017	**2016**
	Notes	*CNY'000*	*CNY'000*
Revenue	*3*	5,672	7,046
Cost of sales		(3,478)	(4,345)
Gross profit		2,194	2,701
Other income		89	2,020
Selling and distribution expenses		(620)	(395)
Administrative and other expenses		(2,179)	(1,728)
Finance costs		(93)	(176)
(Loss) profit before tax		(609)	2,422
Income tax expense	*4*	(86)	(469)
(Loss) profit and total comprehensive (expense) income for the period attributable to the owners of the Company		(695)	1,953
(Loss) earnings per share *(CNY)*:			
Basic and diluted	*6*	(0.14) cents	0.39 cents

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2017

	Share capital CNY'000	Share premium CNY'000	Other reserve CNY'000 (Note i)	Statutory reserve CNY'000 (Note ii)	Safety fund and production maintenance fund CNY'000 (Note iii)	Retained earnings CNY'000	Total CNY'000
At 1 January 2016	4,188	25,954	23,351	2,830	652	2,961	59,936
Profit and total comprehensive income for the period	–	–	–	–	–	1,953	1,953
Appropriation to statutory reserve	–	–	–	213	–	(213)	–
Appropriation and utilisation of safety fund and production maintenance fund, net	–	–	–	–	32	(32)	–
At 31 March 2016	4,188	25,954	23,351	3,043	684	4,669	61,889
At 1 January 2017	4,188	25,954	23,351	3,401	808	5,034	62,736
Loss and total comprehensive expenses for the period	–	–	–	–	–	(695)	(695)
Appropriation and utilisation of safety fund and production maintenance fund, net	–	–	–	–	37	(37)	–
At 31 March 2017	4,188	25,954	23,351	3,401	845	4,302	62,041

Notes:

(i) Other reserve

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

(ii) Statutory reserve

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

(iii) Safety fund and production maintenance fund

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL RESULTS

For the three months ended 31 March 2017

1. General Information and Basis Of Preparation

The Company was incorporated in the Cayman Islands under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 15 July 2015 and its shares were listed on 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. The address of the principal place of business of the Company is Xiao Keshan, Xingang Town, Fanchang County, Wuhu, Anhui Province, the PRC.

The immediate holding company and ultimate holding company of the Company are Feishang Group Limited and Laitan Investments Limited, respectively, both of which were incorporated in the British Virgin Islands (the "BVI").

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

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

2. Significant Accounting Policies

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

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial statements for the three months ended 31 March 2017 are consistent with those used in the annual accounts for the year ended 31 December 2016. The Group has adopted new or revised standards, amendments to standards and interpretations of IFRSs which are effective for accounting periods commencing on or after 1 January 2016. The adoption of such new or revised standards, amendments to standards and interpretations does not have material impact on the consolidated accounts and does not result in substantial changes to the Group's accounting policies.

3. Revenue and Segment Information

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

	Three months ended 31 March	
	2017	**2016**
	CNY'000	*CNY'000*
Drilling mud	1,954	4,118
Pelletising clay	3,718	2,928
	5,672	7,046

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

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.

4. Income Tax Expense

	Three months ended 31 March	
	2017	**2016**
	CNY'000	*CNY'000*
Current tax:		
PRC Enterprise Income Tax ("EIT")	–	320
Deferred taxation:		
Current year	86	149
	86	469

Notes:

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

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

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

(iv) During the three months ended 31 March 2017 and 2016 respectively, Feishang Material was recognised as a High Technology Enterprise and subject to PRC income tax at 15% in accordance with the EIT Law for both periods.

5. Dividend

No dividend was paid or declared by the Company during the three months ended 31 March 2017 (for the three months ended 31 March 2016: Nil), nor has any dividend been proposed since the end of 31 March 2017.

6. (Loss) Earnings Per Share

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

	Three months ended 31 March	
	2017	**2016**
	CNY'000	*CNY'000*
(Loss) earnings		
(Loss) earnings for the purpose of basic and diluted (loss) earnings per share	(695)	1,953

	Three months ended 31 March	
	2017	**2016**
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted (loss) earnings per share *('000 shares)*	500,000	500,000
Basic and diluted (loss) earnings per share *(CNY)*	(0.14) cents	0.39 cents

The weighted average number of ordinary shares in issue during the three months ended 31 March 2017 and 2016 represents 500,000,000 ordinary shares in issue during the three months ended 31 March 2017 and 2016 respectively.

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

7. Subsequent event

On 20 April 2017, Mr. ZHANG Qiang acquired a total of 275,000,000 ordinary shares, representing 55% of the entire issued share capital of the Company, held by Feishang Group Limited. Upon completion of the acquisition, Mr. ZHANG Qiang became the new controlling shareholder of the Company. Pursuant to Rule 26.1 of the Hong Kong Code on Takeovers and Mergers, Mr. ZHANG Qiang was required to make a mandatory unconditional cash offer for all the issued shares (other than those already owned by Mr. ZHANG Qiang and the parties acting in concert with him). For details, please refer to the joint announcement of the Company and Mr. ZHANG Qiang dated 20 April 2017.

4. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 March 2017, being the latest practicable date for the purpose of this indebtedness statement prior to the publication of this Composite Document, the Group did not have any outstanding borrowings.

Save as aforesaid and apart from the intra-group liabilities, the Group did not have, at the close of business on 31 March 2017, any outstanding borrowings, mortgages, charges, debentures, loan capital or overdraft, debt securities or other similar indebtedness, finance leases or hire-purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities.

The Directors have confirmed that there has not been any material change in the indebtedness or contingent liabilities of the Group since 31 March 2017.

5. MATERIAL CHANGE

The Directors confirm that save as disclosed below, there had been no material change in the financial or trading position or outlook of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Company were made up, up to and including the Latest Practicable Date.

(a) as disclosed in the Company's announcement dated 14 February 2017, the Company (as the potential purchaser) and an individual (the "Potential Vendor") entered into a non-legally binding memorandum of understanding (the "MOU"). Pursuant to the MOU, the Company intends to acquire and the Potential Vendor intends to sell certain equity interests in a limited liability company established in the PRC (the "Target Company") (the "Proposed Acquisition"). The Target Company is principally engaged in mining, processing and sale of black marble (dolerite) in the PRC, which is used in polished slabs. It is expected that the potential acquisition (if materialised) can diversify the Group's business. Up to the Latest Practicable Date, the Group is still undergoing due diligence review in accordance with the terms and conditions of the MOU and further negotiation among the parties will be carried out based on the results of the due diligence review. Save for the aforesaid, there was no material progress on the Proposed Acquisition. Also, there was no legally binding agreement in relation to the Potential Acquisition has been entered into. The Company and the Offeror confirm that the Potential Vendor is a third party independent of the Offeror and parties acting in concert with him and there is no relationship (financial, business or otherwise) in the past, present or contemplated between the Potential Vendor on one hand and the Offeror and parties acting in concert with him on the other hand.

(b) as disclosed in the first quarterly report of the Company for the three months ended 31 March 2017 dated 15 May 2017 (the unaudited condensed consolidated statement of profit or loss and other comprehensive income for the three months ended 31 March 2017 as set out in the first quarterly report of the Company for the three months ended 31 March 2017 is reproduced in this appendix), the Group recorded loss attributable to the owners of the Company of approximately RMB695,000, as compared to a profit of approximately RMB1,953,000 for the three months ended 31 March 2016 ("2016Q1"). Such turnaround effect was mainly due to the combined effect of the followings:

(i) the revenue generated from drilling mud decreased by 52.5% to approximately RMB1,954,000 as compared to 2016Q1. Such decrease was mainly due to the general economic condition, especially the uncertainty in investment prospects of the energy industry in the PRC;

(ii) the revenue generated from pelletising clay increased by 27.0% to approximately RMB3,718,000 as compared to 2016Q1. Such increase was mainly due to the increase in sales volume with and average selling price of pelletising clay by Group's focus on strengthening pelletising clay's quality management, marketing and sales effort;

(iii) the other income decreased by 95.6% to approximately RMB89,000 as compared to 2016Q1, as a result of the absence of one-off monetary award in the sum of RMB2.0 million from Fanchang County People's Government*（繁昌縣人民政府）for the successful listing of the Company's shares on GEM on 29 December 2015 which was received in the first quarter of 2016; and

(iv) the administrative and other expenses increased by 26.10% to approximately RMB2,179,000 as compared to 2016Q1, which was mainly due to the increase in professional fees and research and development expenses.

1. RESPONSIBILITY STATEMENT

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than information relating to the Offeror and parties acting in concert with him, the terms of the Offer and the future intentions of the Offeror regarding the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than the opinion expressed by the Offeror and parties acting in concert with him) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document the omission of which would make any statement contained herein misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital of the Company was HK$100,000,000 divided into 10,000,000,000 Shares, of which 500,000,000 Shares had been issued and were fully paid or credited as fully paid.

All the existing issued Shares are fully paid up and rank *pari passu* in all respects including all rights as to dividends, voting and capital.

Other than the Shares in issue, as at the Latest Practicable Date, there were no convertible securities, warrants, options, derivatives or other securities issued by the Company that are convertible or exchangeable into Shares or other types of equity interest in issue.

3. DISCLOSURE OF INTERESTS

(a) Interests and short positions of the Directors' and Chief Executive in the shares, the underlying shares and debentures of the Company or any associated corporation

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the Shares and the underlying Shares

Name of Director	Capacity	Number of ordinary shares held	Approximate percentage of shareholding in the Company
Mr. DENG Li	Beneficial owner	3,120,000	0.62%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange.

(b) Interests and short positions of the substantial Shareholders in the Shares and underlying Shares

As at the Latest Practicable Date, so far as was known to the Directors, the following persons (other than the Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Long positions in the Shares

Name of shareholder	Capacity	Number of shares held	Approximate percentage of shareholding in the Company
The Offeror	Beneficial owner	275,000,000	55%
Ms. Wang Jie	Interest of spouse	275,000,000	55%

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

4. DEALINGS IN SECURITIES OF THE COMPANY

During the Relevant Period,

(a) Prior to the appointment as a Director on 13 March 2017, Mr. Deng Li has dealt in the Shares as follows:

Date of dealing	Nature of dealing	Number of relevant Shares dealt	Purchase/ Selling price (approximately) *(HK$)*
30 November 2016	Purchase	50,000	0.72
15 December 2016	Purchase	2,850,000	0.70
19 December 2016	Sale	(60,000)	0.89
21 December 2016	Purchase	50,000	0.85
12 January 2017	Purchase	110,000	0.92
20 February 2017	Purchase	60,000	1.20
28 February 2017	Purchase	60,000	1.27

save as disclosed above, the Directors did not have any dealings in the Shares, warrants, options, derivatives and securities carrying conversion or subscription rights into Shares;

(b) no subsidiaries of the Company, pension funds of any member of the Group or any advisers to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code had any dealings in any Shares, warrants, options, derivatives and securities carrying conversion or subscription rights into Shares;

(c) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" under the Takeovers Code; and

(d) no fund managers connected with the Company had any dealings in any Shares, warrants, options, derivatives and securities carrying conversion or subscription rights into Shares.

5. OTHER DISCLOSURE OF INTERESTS

As at the Latest Practicable Date:

(a) no Shares or any convertible securities, warrants, options or derivatives issued by the Company was owned or controlled by a subsidiary of the Company or by a pension fund (if any) of any member of the Group or by an adviser to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code;

(b) no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code exists between a person who owned or controlled Shares or any convertible securities, warrants, options or derivatives issued by the Company and the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" under the Takeovers Code;

(c) no Shares, convertible securities, warrants, options or derivatives of the Company was managed on a discretionary basis by any fund managers connected with the Company;

(d) Mr. Deng Li has confirmed that he will not accept the Offer in respect of the Shares held by him, save for the aforesaid, none of the Directors had any interest in the Shares;

(e) none of the Company or the Directors had borrowed or lent any Shares, convertible securities, warrants, options or derivatives in respect of any Shares;

(f) no benefit was or would be given to any Director as compensation for loss of office or otherwise in connection with the Offer;

(g) there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer;

(h) no material contracts had been entered into by the Offeror in which any Director had a material personal interest; and

(i) there is no special deal (as defined under Rule 25 of the Takeovers Code) between the Offeror and parties acting in concert with him on one hand and the Vendor and parties acting in concert with it on the other hand.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, each of the Directors had an existing service contract with the Company which was a fixed term contract with more than 12 months to run irrespective of the notice period.

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries or associated companies which (i) (including both continuous and fixed term contracts) had been entered into or amended within 6 months before the date of the commencement of the Offer Period; or (ii) was a continuous contract with a notice period of 12 months or more; or (iii) was not determinable by the employer within one year without payment of compensation (other than statutory compensation), and none of the Directors had any existing or proposed service contract with any of the subsidiaries or associated companies of the Company which was a fixed term contract with more than 12 months to run irrespective of the notice period.

8. MATERIAL CONTRACTS

No contract (not being contracts in the ordinary course of business carried on or intended to be carried on by the Company) had been entered into by members of the Group within the two years preceding 19 April 2017 (being the date of commencement of the Offer Period) and up the Latest Practicable Date which were or might be material.

9. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration or claims which would materially or adversely affect the operations of the Company and no litigation, arbitration or claim which would materially or adversely affect the operations of the Company was known to the Directors to be pending or threatened by or against any member of the Group.

10. EXPERT'S QUALIFICATION AND CONSENT

The following are the qualifications of the expert who has given opinion or advice which is contained or referred to in this Composite Document:

Name	Qualification
INCU	a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO

INCU has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion of the text of its letter, report, and/or references to its name in the form and context in which it appears.

As at the Latest Practicable Date, INCU did not have any shareholding, direct or indirect, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any direct or indirect interest in any assets which had been, since 31 December 2016, being the date of the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

11. GENERAL

(i) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, KY1-1111 Cayman Islands. Its head office and principal place of business in Hong Kong is situated at Room 2204, Shun Tak Centre 200 Connaught Road Central Sheung Wan, Hong Kong.

(ii) The registered office of the Independent Financial Adviser is situated at Unit 1701, 17/F, Wings Building, 110-116 Queen's Road Central, Central, Hong Kong.

(iii) The English text of this Composite Document and the Form of Acceptance shall prevail over the Chinese translation in the case of inconsistency.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection on (i) the website of the SFC at http://www.sfc.hk; and (ii) the website of the Company at http://www.fsnmmaterials.com, from the date of this Composite Document up to and including the Closing Date:

(a) the amended and restated memorandum and articles of association of the Company;

(b) the annual report of the Company for each of the two years ended 31 December 2015 and 2016 and the first quarterly report for the three months ended 31 March 2017;

(c) the letter from the Board as set out on pages 14 to 18 of this Composite Document;

(d) the letter from the Independent Board Committee as set out on pages 19 to 20 of this Composite Document;

(e) the letter from the Independent Financial Adviser as set out on pages 21 to 41 of this Composite Document;

(f) the service contracts referred to under the paragraph headed "Service contracts" in this appendix;

(g) the written consent from INCU referred to in the paragraph headed "Expert's qualification and consent" in this appendix; and

(h) S&P Agreement.

1. RESPONSIBILITY STATEMENT

This Composite Document includes particulars given in compliance with the Takeovers Code for the purpose of providing information to the Shareholders with regard to the Offeror and the Offer.

The Offeror accepts full responsibility for the accuracy of the information contained in this Composite Document (other than the information relating to the Group, the Vendor and parties acting in concert with any one of them), and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this Composite Document (other than the opinion expressed by the Group, the Vendor and parties acting in concert with any one of them) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement contained in this Composite Document misleading.

2. MARKET PRICES

The table below shows, based on publicly available information of the Company, the closing price of the Shares quoted on the Stock Exchange on (i) the last day on which trading took place in each of the calendar months during the Relevant Period; (ii) the Last Trading Day; and (iii) the Latest Practicable Date.

Date	**Closing price per Share** *(HK$)*
31 October 2016	0.69
30 November 2016	0.75
30 December 2016	1.03
27 January 2017	1.05
28 February 2017	1.30
31 March 2017	1.32
11 April 2017 (Last Trading Day)	1.26
28 April 2017	1.36
22 May 2017 (Latest Practicable Date)	1.57

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK$1.83 per Share on 11 May 2017 and HK$0.66 per Share on 3 November 2016 respectively.

3. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the Offeror holds 275,000,000 Shares, representing 55% of the total issued share capital of the Company. Save as disclosed below, the Offeror and parties acting in concert with him do not have any other interests in the share capital or voting rights of the Company:

		Number of Shares		Percentage of holding	
Name of Shareholder	Capacity	Long Position	Short Position	Long Position	Short Position
ZHANG Qiang	Beneficial owner	275,000,000	–	55%	–

4. DEALINGS IN SECURITIES

Save for the transactions under the S&P Agreement as set out below, none of the Offeror nor parties acting in concert with him had dealt for value in any relevant securities of the Company as defined in Note 4 to Rule 22 of the Takeovers Code during the Relevant Period and up to the Latest Practicable Date.

The following transactions were carried out by the Offeror during the Relevant Period:

Date of transaction on the Stock Exchange	No. of Shares purchased Share	Transaction price per Share *(HK$)*
11 April 2017	275,000,000	0.70

5. OTHER ARRANGEMENTS

As at the Latest Practicable Date:

(a) save for the 275,000,000 Shares held by the Offeror, none of the Offeror and parties acting in concert with him owns, has control, or direction over any voting rights or rights over Shares or convertible securities, warrants, options of the Company or derivatives of the Company;

(b) save as disclosed in paragraph 4 above, the Offeror did not have any interests in any Shares, convertible securities, warrants, options of the Company or any derivatives in respect of such securities, or had dealt for value in any Shares, convertible securities, warrants, options of the Company or any derivatives in respect of such securities;

(c) none of the Offeror and parties acting in concert with him has borrowed or lent any relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company;

(d) pursuant to the Share Charges, the Offeror shall deposit all the Shares owned or to be owned by him to a securities account maintained in KSL as security for the Facility. Save as disclosed, the Offeror and parties acting in concert with him had no agreement, arrangement or understanding to transfer, charge or pledge any of the Offer Shares acquired pursuant to the Offer to any other persons;

(e) no arrangement of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code existed between the Offeror or any parties acting in concert with him and any other person;

(f) as at the Latest Practicable Date, no arrangement of any kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between a person who owned or controlled Shares or convertible securities, warrants, options or derivatives of the Company and the Offeror or any parties acting in concert with him or the Offeror's associates (as defined under the Takeovers Code);

(g) save for the Facility Agreement and the Share Charges, there is no arrangement (whether by way of option, indemnity or otherwise) in relation to the Offeror, parties acting in concert with him and the Company which might be material to the Offer;

(h) there is no agreement or arrangement to which the Offeror or parties acting in concert with him is a party which relates to circumstances in which it may or may not invoke or seek to invoke a precondition or condition to the Offer;

(i) no benefit (other than statutory compensation required under the applicable laws) had been or would be given to any Director as compensation for loss of office or otherwise in connection with the Offer;

(j) no agreement, arrangement or understanding (including any compensation arrangement) existed between the Offeror or any person acting in concert with him and any of the Directors, recent Directors, and Shareholders or recent Shareholders which had any connection with or dependence upon the Offer;

(k) none of the Offeror and parties acting in concert with him has received any irrevocable commitment(s) to accept or reject the Offer; and

(l) there is no special deal (as defined under Rule 25 of the Takeovers Code) between the Offeror and parties acting in concert with him on one hand and the Vendor and parties acting in concert with it on the other hand.

6. CONSENTS AND QUALIFICATIONS

(a) The following are the qualifications of the experts who have given opinions or advice which are contained in this Composite Document:

Name	**Qualification**
KCF	a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity under the SFO, being the financial adviser to the Offeror in respect of the Offer
KSL	a licensed corporation to carry on Type 1 (dealing in securities) regulated activity under the SFO, being the agent making the Offer on behalf of the Offeror

(b) Each of KCF and KSL has given and has not withdrawn their respective written consents to the issue of this Composite Document with the inclusion of their respective advice, letters and/or reports (as the case may be) and references to their names and logos in the form and context in which they respectively appear.

7. GENERAL

(a) The correspondence address of the Offeror is 中國北京市朝陽區霄雲路46號國航世紀大廈裙樓三層F戶 (Flat F, 3rd Floor, Podium Building, Guo Hang Shi Ji Da Sha, 46 Xiao Yun Road, Chao Yang District, Beijing, PRC).

(b) The registered address of KCF is Suite 2801, 28/F., One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.

(c) The registered address of KSL is Suite 2801, 28/F., One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection on the SFC's website at http://www.sfc.hk and the website of the Company at http://www.fsnmmaterials.com from the date of this Composite Document for as long as the Offer remains open for acceptance:

(a) the "Letter from KSL", the text of which is set out on pages 6 to 13 of this Composite Document; and

(b) the letters of consent from KCF and KSL referred to in the paragraph headed "6. Consents and qualifications" in this appendix.