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Feishang Non-metal Materials Technology Limited
飛尚非金屬材料科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8331)

ANNOUNCEMENT

(A) ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2015
AND
(B) CHANGE IN USE OF PROCEEDS

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

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

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

(A) ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

FINANCIAL HIGHLIGHTS

FOR THE YEAR ENDED 31 DECEMBER 2015

- Revenue down 5.3% to CNY28.8 million
- Gross profit up 4.7% to CNY13.4 million
- Loss attributable to the owners of the Company was CNY10.9 million
- Basic loss per share was CNY2.89 cents

The board (the “Board”) of directors (the “Directors”) of Feishang Non-metal Materials Technology Limited (the “Company”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2015, together with the comparative figures for the year ended 31 December 2014 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2015

		2015	2014
	Notes	CNY'000	CNY'000
Revenue	4	28,823	30,447
Cost of sales		<u>(15,463)</u>	<u>(17,686)</u>
Gross profit		13,360	12,761
Other income		1,229	1,100
Selling and distribution expenses		(1,314)	(1,057)
Administrative and other expenses		(21,956)	(2,911)
Finance costs	6	<u>(358)</u>	<u>(317)</u>
(Loss) profit before tax		(9,039)	9,576
Income tax expense	7	<u>(1,835)</u>	<u>(2,551)</u>
(Loss) profit and total comprehensive (expense) income for the year attributable to the owners of the Company	8	<u><u>(10,874)</u></u>	<u><u>7,025</u></u>
(Loss) earnings per share (CNY):			
Basic and diluted	9	<u><u>(2.89) cents</u></u>	<u><u>1.87 cents</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2015

	Notes	2015 CNY'000	2014 CNY'000
Non-current assets			
Property, plant and equipment	11	13,910	12,282
Prepaid lease payments	12	2,740	–
Intangible asset		3,850	3,181
Restricted bank balances		2,203	2,136
Deferred tax assets		722	1,296
		<u>23,425</u>	<u>18,895</u>
Current assets			
Inventories		2,253	2,026
Trade, bills and other receivables	13	16,361	8,457
Amount due from a related company		–	1,020
Amount due from a controlling shareholder		–	25
Prepaid lease payments	12	77	–
Pledged bank deposit		15,000	–
Bank balances and cash		32,097	23,631
		<u>65,788</u>	<u>35,159</u>
Current liabilities			
Trade and other payables	14	7,543	3,317
Income tax payables		333	1,247
Secured bank borrowing	15	14,323	–
		<u>22,199</u>	<u>4,564</u>
Net current assets		<u>43,589</u>	<u>30,595</u>
		<u><u>67,014</u></u>	<u><u>49,490</u></u>
Capital and reserves			
Share capital	16	4,188	–
Reserves		55,748	43,809
		<u>59,936</u>	<u>43,809</u>
Non-current liabilities			
Asset retirement obligations		6,598	5,121
Deferred income		480	560
		<u>7,078</u>	<u>5,681</u>
		<u><u>67,014</u></u>	<u><u>49,490</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION AND BASIS OF PREPARATION

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

The 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 its principal operating subsidiary is mainly engaged in bentonite mining, and the production and sales of its principal products, namely drilling mud and pelletising clay.

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 operating subsidiary of the Company operates (the functional currency of the principal operating subsidiary).

Feishang International Holdings Limited ("Feishang International"), which is a holding company of Wuhu Feishang Non-metallic Material Co., Ltd. ("Feishang Material") and 深圳市卓瑞企業管理諮詢有限公司 (Shenzhen Zhuorui Business Management Consultant Company Limited*), is ultimately owned by Mr. LI Feilie, Laitan Investments Limited and Feishang Group Limited (the "Controlling Shareholders") since August 2002.

Pursuant to the reorganisation (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 "Prospectus"), the Company became the holding company of the companies now comprising the Group on 17 September 2015.

The Reorganisation above involves interspersing a shell company, the Company, between Feishang International and the Controlling Shareholders, which does not represent combination of businesses. Therefore, the Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity, accordingly, the consolidated financial statements of the Group has 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 two years 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 two years ended 31 December 2015. The consolidated statement of financial position of the Group as at 31 December 2014 have been prepared to present the assets and liabilities of the companies comprising the Group as if the current group structure had been in existence as at those dates.

* For identification purpose only

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) AND NEW HONG KONG COMPANIES ORDINANCE

The Group has consistently applied all the 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”) which are effective for the Group’s financial year beginning on 1 January 2015.

Part 9 of Hong Kong Companies Ordinance (Cap. 622)

In addition, the annual report requirements of Part 9 “Accounts and Audit” of the Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year. As a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

New and revised IFRSs issued but not yet effective

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

IFRS 9	Financial Instruments ³
IFRS 15	Revenue from Contracts with Customers ³
IFRS 16	Leases ⁴
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations ¹
Amendment to IAS 1	Disclosure Initiative ¹
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ¹
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants ¹
Amendments to IAS 27	Equity Method in Separate Financial Statements ¹
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception ¹
Amendment to IAS 7	Statement of Cash Flows ²
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ²
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle ¹

¹ Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

³ Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

⁴ Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

⁵ Effective date not yet been determined.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

4. REVENUE

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

5. SEGMENT INFORMATION

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

For management purpose, the Group operates in one business unit based on 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.

Information about major customers

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

	2015 CNY’000	2014 CNY’000
Customer A	8,349	6,944
Customer B	8,199	9,040
Customer C	5,295	3,555
Customer D	N/A ¹	3,304

¹ The corresponding revenue did not contribute over 10% of the total revenue of the Group.

Information on major products

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

	2015 CNY'000	2014 CNY'000
Drilling mud	18,493	19,123
Pelletising clay	9,854	10,342
Unprocessed clay	476	982
	<u>28,823</u>	<u>30,447</u>

6. FINANCE COSTS

	2015 CNY'000	2014 CNY'000
Interest expenses on secured bank borrowing	15	–
Unwinding of discount on provision for dismantlement	343	317
	<u>358</u>	<u>317</u>

7. INCOME TAX EXPENSE

	2015 CNY'000	2014 CNY'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	1,261	2,415
Deferred taxation:		
Current year	57	136
Attributable to change in tax rate (<i>Note d</i>)	517	–
	<u>1,835</u>	<u>2,551</u>

Notes:

- (a) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (b) No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax for both years.
- (c) Under the Law of the PRC on EIT and implementation regulation of the EIT Law, the tax rate of the subsidiaries established in the PRC 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.

8. (LOSS) PROFIT FOR THE YEAR

	2015 <i>CNY'000</i>	2014 <i>CNY'000</i>
(Loss) profit for the year has been arrived at after charging:		
Directors' emoluments	297	60
Salaries, wages and other benefits	2,832	2,871
Contribution to defined contribution retirement benefits scheme (excluding directors' emoluments)	<u>188</u>	<u>450</u>
	<u>3,317</u>	<u>3,381</u>
Amount included in inventories	<u>412</u>	<u>420</u>
Total staff costs	<u>3,729</u>	<u>3,801</u>
Auditor's remuneration	554	9
Amortisation of intangible asset	44	43
Amortisation of prepaid lease payments	46	–
Professional expenses incurred in connection with the Company's listing	15,352	–
Amount of inventories recognised as an expenses	15,149	17,308
Exchange loss, net	700	–
Depreciation of property, plant and equipment	1,330	1,442
Loss on disposal/written off of property, plant and equipment (included in administrative and other expenses)	25	125
Impairment loss on trade receivables (included in administrative and other expenses)	50	–
Research and development cost	1,882	899
Lease payments paid under operating lease in respect of plant and equipment	<u>2,376</u>	<u>462</u>

9. (LOSS) EARNINGS PER SHARE

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

	2015 <i>CNY'000</i>	2014 <i>CNY'000</i>
(Loss) earnings		
(Loss) earnings for the purpose of basic and diluted earnings per share	<u><u>(10,874)</u></u>	<u><u>7,025</u></u>
	2015	2014
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share (<i>'000 shares</i>)	<u><u>376,370</u></u>	<u><u>375,000</u></u>
Basic and diluted (loss) earnings per share (<i>CNY</i>)	<u><u>(2.89) cents</u></u>	<u><u>1.87 cents</u></u>

The weighted average number of ordinary shares in issue for the years ended 31 December 2014 and 2015 assuming 375,000,000 and 376,370,000 ordinary shares were in issue during the two years ended 31 December 2015 respectively after taking into account the ordinary shares issue pursuant to the Reorganisation as stated in note 1 above and the placing of shares in connection with the listing of the Company.

The dilutive (loss) earnings per share is equal to the basic (loss) earnings per share as there were no dilutive potential ordinary shares outstanding during the years ended 31 December 2015 and 2014.

10. DIVIDEND

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

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings CNY'000	Machinery and equipment CNY'000	Dismantlement asset CNY'000	Motor vehicles CNY'000	Construction in progress CNY'000	Total CNY'000
COST						
At 1 January 2014	9,870	15,487	2,257	401	–	28,015
Asset retirement obligations adjustment	–	–	315	–	–	315
Additions	–	698	–	–	–	698
Disposal/written off	(13)	(2,274)	–	–	–	(2,287)
At 31 December 2014	9,857	13,911	2,572	401	–	26,741
Asset retirement obligations adjustment	–	–	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	<u>10,417</u>	<u>14,617</u>	<u>3,706</u>	<u>662</u>	<u>–</u>	<u>29,402</u>
ACCUMULATED DEPRECIATION						
At 1 January 2014	2,939	11,567	205	289	–	15,000
Charge for the year	450	936	27	29	–	1,442
Eliminated on disposal/written off	(6)	(1,977)	–	–	–	(1,983)
At 31 December 2014	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	<u>3,825</u>	<u>11,046</u>	<u>261</u>	<u>360</u>	<u>–</u>	<u>15,492</u>
CARRYING VALUES						
At 31 December 2015	<u>6,592</u>	<u>3,571</u>	<u>3,445</u>	<u>302</u>	<u>–</u>	<u>13,910</u>
At 31 December 2014	<u>6,474</u>	<u>3,385</u>	<u>2,340</u>	<u>83</u>	<u>–</u>	<u>12,282</u>

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 an units-of-production basis over the total proved and probable reserves in the mine.

12. PREPAID LEASE PAYMENT

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

	2015 CNY'000	2014 CNY'000
Current assets	77	–
Non-current assets	<u>2,740</u>	<u>–</u>
	<u>2,817</u>	<u>–</u>

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

As at 31 December 2014, the Group was in the process of obtaining the certificates of ownership for its land use right from the relevant PRC government authority. Subsequently, the Group has obtained ownership certificates of these land use right in June 2015.

13. TRADE, BILLS AND OTHER RECEIVABLES

	2015 CNY'000	2014 CNY'000
Trade receivables	4,760	3,325
Less: allowance for impairment of trade receivables	<u>(50)</u>	<u>–</u>
	4,710	3,325
Bills receivables	3,893	4,790
Trade deposits paid	54	35
Prepayments	121	57
Other receivables (<i>Note</i>)	<u>7,583</u>	<u>250</u>
	<u>16,361</u>	<u>8,457</u>

Note: Included in other receivables was an amount of approximately HK\$8,667,000 (equivalent to approximately CNY7,259,000) (2014: nil) which represents 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 subsequently in January 2016.

The Group offers revolving credit to two of its customers amounted CNY914,000 (2014: CNY937,000) as at 31 December 2015. 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 CNY914,000 (2014: CNY937,000) as at 31 December 2015. 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 CNY3,796,000 (2014: CNY2,388,000) as at 31 December 2015, 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 aged 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.

	2015 <i>CNY'000</i>	2014 <i>CNY'000</i>
Within 30 days	1,734	1,272
31 to 60 days	935	757
61 to 90 days	1,048	242
91 to 180 days	563	684
More than 180 days	430	370
Total	4,710	3,325

As at 31 December 2015 and 2014, all of the bills receivables were aged within 180 days.

14. TRADE AND OTHER PAYABLES

	2015 <i>CNY'000</i>	2014 <i>CNY'000</i>
Trade payables	952	670
Other payables and accruals	6,511	2,451
Advance from customers	80	196
	7,543	3,317

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

	2015 CNY'000	2014 CNY'000
Within 30 days	725	563
31 to 60 days	76	5
61 to 90 days	60	3
91 to 365 days	46	41
Over 1 year	45	58
Total	<u>952</u>	<u>670</u>

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

15. SECURED BANK BORROWING

	2015 CNY'000	2014 CNY'000
Secured bank borrowing and repayable within one year	<u>14,323</u>	<u>—</u>

Notes:

- During the year ended 31 December 2015, the Group obtained a new bank borrowing of HK\$17,100,000 (equivalent to approximately CNY14,323,000) (2014: 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 bank borrowing will be repayable in full in December 2016.
- The bank borrowing carried floating rate at HIBOR effectively 1.89% per annum during the year ended 31 December 2015 (2014: nil).
- At 31 December 2015, the secured bank borrowing was secured by the Group's pledged bank deposit of approximately CNY15,000,000 (2014: nil).
- The Group's borrowing that is denominated in currency other than the functional currency of the relevant group entities is set out below:

	2015 CNY'000	2014 CNY'000
HK\$	<u>14,323</u>	<u>—</u>

16. SHARE CAPITAL

The share capital of the Group as at 31 December 2014 represented the aggregate of share capital of the companies now comprising the Group. The share capital of the Group as at 31 December 2015 represented the share capital of the Company.

The Company

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

Notes:

- 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.
- 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.
- 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.
- 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.
- All shares issued during the year ended 31 December 2015 rank pari passu in all respects among themselves and with the then existing shares.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

29 December 2015 marked an important milestone in the history of the Group, as the Company was successfully listed on the GEM of the Stock Exchange by way of placing, with total gross proceeds of HK\$40.0 million. This can be used to enhance the capital base of the Group, develop new products and improve the plant and equipment. Also, the new financing channel will provide strong capital guarantees for the sustainable development of the Group.

The Group is principally engaged in bentonite mining, and the production and sales of its principal products, namely drilling mud and pelletising clay. In 2015, the Group was able to exploit several market opportunities to pursue growth in stability, increased its marketing efforts, and enhanced product quality management, all of which contributed to a rise in the selling price of the Group's products. Notwithstanding the increase in average selling price of the Group's products, the Group recorded a slight drop in turnover and a decline in sales volume in 2015 as compared to 2014's because of the general economic downturn in China 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 a decrease in demand for drilling mud.

In order to satisfy the needs of our customers and the demands of the ever-evolving bentonite products industry, in 2015, the Group entered into collaboration agreements with two universities and one research institution in China for the development of new technologies and new bentonite products. The Directors believe that improved production technologies and the development of new products will facilitate more effective cost control and increase the competitiveness of the Group's products, and will thereby help the Group expand its market share in the bentonite industry.

Business Strategies Review with Progress of Implementation

The Group aims to strengthen its market position in the PRC. In order to achieve this objective, the Group intends to pursue the following strategies. The following table sets out a comparison of the Group's business strategies as disclosed in the Prospectus with the actual progress of implementation as of 31 December 2015.

Business Strategy	Implementation Plan	Progress of Implementation as of 31 December 2015
Broaden customer base and develop product recognition	(i) Collaborating with external institutions in the PRC for the development of new technologies and new bentonite products to cater for high-valued downstream markets other than iron ore pelletising and civil engineering; (ii) attending and participating in industry forums and events to network with other industry professionals and potential customers; and (iii) expanding sales and marketing team to further enhance sales and marketing activities.	No update
Development of new production technology and new products	Signing collaboration agreements with two universities and one research institute	No new product or technology has been developed so far
Recruitment of more talents	Recruiting more experienced personnel who possess abundant knowledge and rich experience in various aspects of the business, including mine design and construction, mining, processing, sales and marketing and research and development of principal products	No update
Acquisition of other non-metal mines	Evaluating any potential targets meeting the criteria when opportunities arise	Not yet identified any qualified targets
Improvement of plant and equipment	Construction of new storage facilities for pelletising clay	Completed the construction of one storage facility as planned

The Group had entered into collaboration agreements with two universities and one research institute for the development of new technologies and new bentonite products to cater for high-valued downstream markets other than iron ore pelletising and civil engineering. However, there is no assurance that research and development activities undertaken will be successful or yield the anticipated benefits. Even if such activities are successful, the Group may not be able to apply the new technologies or launch the new products in a timely manner. Market demand anticipated at the initial stages of the research and development cycle may not materialise by the end of research, and the anticipated benefits may be adversely affected and undermined by other competitors' rampant replication of similar technologies or products. The Directors will continue to closely monitor the progress of the Group's research and development activities and review the terms and conditions of collaboration agreements if necessary.

FINANCIAL REVIEW

Items of the Consolidated Statement of Profit or Loss

Items	For the year ended 31 December 2015 <i>CNY'000</i>	For the year ended 31 December 2014 <i>CNY'000</i>	Change (%)
Revenue	28,823	30,447	(5.3%)
Cost of sales	(15,463)	(17,686)	(12.6%)
Gross profit	13,360	12,761	4.7%
Other income	1,229	1,100	11.7%
Selling and distribution expenses	(1,314)	(1,057)	24.3%
Administrative and other expenses	(21,956)	(2,911)	654.2%
Finance costs	(358)	(317)	12.9%
Income tax expense	(1,835)	(2,551)	(28.1%)
(Loss) profit and total comprehensive (expense) income attributable for the year to the owners of the Company	<u>(10,874)</u>	<u>7,025</u>	<u>(254.8%)</u>

Revenue

Breakdown of the Group's Revenue by Products

	2015		2014	
	<i>CNY'000</i>	%	<i>CNY'000</i>	%
Drilling mud	18,493	64.2	19,123	62.8
Pelletising clay	9,854	34.2	10,342	34.0
Unprocessed clay	<u>476</u>	<u>1.6</u>	<u>982</u>	<u>3.2</u>
Total revenue	<u>28,823</u>	<u>100.0</u>	<u>30,447</u>	<u>100.0</u>

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

	2015		2014	
	Sales volume (tonnes)	Average selling price (CNY/tonne)	Sales volume (tonnes)	Average selling price (CNY/tonne)
Drilling mud	41,220	448.6	46,000	415.7
Pelletising clay	33,087	297.8	35,389	292.2
Unprocessed clay	8,695	54.7	17,953	54.7

The revenue decreased by approximately 5.3% from approximately CNY30.4 million in 2014 to approximately CNY28.8 million in 2015. Such decrease in revenue was mainly due to the decrease in sales volume of drilling mud, pelletising clay and unprocessed clay, which was partially offset by the increase in average selling price of drilling mud. The drop in sales volume of drilling mud was mainly caused by the 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. The increase in average selling price of drilling mud was contributed by an increase in proportion of sales volume of drilling mud with higher technical specifications in 2015. The decrease in sales volume of pelletising clay was mainly due to the slowdown in China's iron and steel industry, leading to a drop in demand for iron ore pellets which is essential for the production of iron, and ultimately a decrease in demand for pelletising clay.

Cost of Sales

Breakdown of the Group's Cost of Sales

Cost Items	2015		2014	
	CNY'000	%	CNY'000	%
Extraction costs	528	3.4	872	4.9
Processing costs				
– Air-drying costs	1,313	8.5	1,529	8.6
– Consumables, materials and supplies	3,088	20.0	4,100	23.2
– Depreciation and amortisation	1,184	7.7	1,495	8.5
– Staff costs	2,715	17.5	3,295	18.6
– Transportation costs	1,812	11.7	1,799	10.2
– Utility costs	2,970	19.2	2,724	15.4
– Others	604	3.9	386	2.2
Sales tax and surcharges	1,249	8.1	1,486	8.4
Total cost	15,463	100.0	17,686	100.0

Breakdown of the Group's Cost of Sales by Products

	2015			2014		
	Average cost of sales <i>CNY/tonne</i>	Total cost of sales <i>CNY'000</i>	%	Average cost of sales <i>CNY/tonne</i>	Total cost of sales <i>CNY'000</i>	%
Drilling mud	219.1	9,032	58.4	231.5	10,647	60.2
Pelletising clay	189.0	6,252	40.4	188.6	6,676	37.7
Unprocessed clay	20.6	179	1.2	20.2	363	2.1
		<u>15,463</u>	<u>100.0</u>		<u>17,686</u>	<u>100.0</u>

The total cost of sales decreased by approximately 12.6% from approximately CNY17.7 million in 2014 to approximately CNY15.5 million in 2015. The decrease in total cost of sales was mainly due to (i) a decrease in the unit extraction costs and unit processing costs; and (ii) a decrease in the overall processing costs primarily because of a reduction of the aggregate sales volume of drilling mud and pelletising clay by approximately 8.7% from approximately 81,389 tonnes in 2014 to approximately 74,307 tonnes in 2015.

Cost of sales for drilling mud decreased by approximately 15.2% from approximately CNY10.6 million in 2014 to approximately CNY9.0 million in 2015. The decrease in cost of sales for drilling mud was mainly due to a decrease in the sales volume of drilling mud by approximately 10.4%. Cost of sales for pelletising clay decreased by approximately 6.3% from approximately CNY6.7 million in 2014 to approximately CNY6.3 million in 2015. The decrease in cost of sales for pelletising clay was mainly due to a decrease in the sales volume of pelletising clay by approximately 6.5%.

The drop in the unit extraction costs and unit processing costs was mainly contributed by: (i) a decrease in stripping costs by terminating the engagement of the third party contractor to provide extraction services and instead leasing of extraction equipment from such contractor to carry out the extraction works by the Group itself since October 2014, which reduced the unit cost; (ii) a decrease in the depreciation and amortisation primarily as a result of that certain machinery and equipment in use were already fully depreciated in 2014, which reduced the unit cost; and (iii) a decrease in unit costs of consumables, materials and supplies mainly due to a reduction of the purchase price of coal and sodium carbonate, notwithstanding a rise in utility cost due to more frequent use of rotary drum-drying.

Gross Profit and Gross Margin

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

	2015		2014	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	CNY'000	%	CNY'000	%
Drilling mud	9,461	51.2	8,476	44.3
Pelletising clay	3,602	36.6	3,666	35.4
Unprocessed clay	297	62.4	619	63.0
	<u>13,360</u>	<u>46.4</u>	<u>12,761</u>	<u>41.9</u>

The overall gross profit slightly increased by approximately 4.7% from approximately CNY12.8 million in 2014 to approximately CNY13.4 million in 2015, while the overall gross profit margin increased from approximately 41.9% in 2014 to approximately 46.4% in 2015. The increase in the overall gross profit was mainly contributed by the rise in average selling price of drilling mud, partly offset by the decrease in the sales volume of drilling mud, pelletising clay and unprocessed clay. The increase in overall gross profit margin was mainly driven by (i) an increase in the proportion of sales amount of drilling mud, which accounted for approximately 62.8% of total revenue in 2014 and increased to approximately 64.2% of total revenue in 2015 as the gross profit margin of drilling mud was higher than that of pelletising clay; and (ii) an increase in gross profit margin for the sale of drilling mud, which is discussed further below.

Gross profit for the sale of drilling mud increased by approximately 11.6% from approximately CNY8.5 million in 2014 to approximately CNY9.5 million in 2015. Gross profit margin for the sale of drilling mud also increased from approximately 44.3% in 2014 to approximately 51.2% in 2015. The increases in gross profit and gross profit margin for the sale of drilling mud were mainly attributable to (i) an increase in the average selling price of drilling mud by approximately 7.9% primarily because of an increase in sales amount of drilling mud with higher technical specifications; and (ii) a decrease in the unit cost of drilling mud by approximately 5.4% from approximately CNY231.5 per tonne in 2014 to approximately CNY219.1 per tonne in 2015 primarily because of a decrease in stripping costs and the leasing of extraction equipment since October 2014, which reduced unit cost. The effects mentioned above were partially offset by a decrease in the sales volume of drilling mud by approximately 10.4%.

Gross profit for the sale of pelletising clay slightly dropped by approximately 1.7% from approximately CNY3.7 million in 2014 to approximately CNY3.6 million in 2015. However, the gross profit margin for the sale of pelletising clay increased from approximately 35.4% in 2014 to approximately 36.6% in 2015. The decrease in gross profit for the sale of pelletising clay was caused by a decrease in the sales volume of pelletising clay by approximately 6.5%. The increase in gross profit margin for the sale of pelletising clay was contributed by an increase in the sales of pelletising clay to a customer to whom the Group included the transportation costs relating to product delivery in the selling price.

Selling and Distribution Expenses

The 24.3% rise in selling and distribution expenses increased from CNY1.1 million in 2014 to CNY1.3 million in 2015 was primarily due to the increase in transportation fee arising from the increase in pelletising clay sales, which the Group was responsible for the delivery.

Administrative and Other Expenses

The administrative and other expenses increased by 654.2% from CNY2.9 million in 2014 to CNY22.0 million in 2015. The increase was mainly due to (i) the one-off listing expenses amounting to CNY15.4 million recognised; (ii) the CNY1.0 million increase in research and development expense; (iii) the rise of staff cost amounting to CNY0.6 million because of an increase in the headcount of administrative and management staff; (iv) the CNY0.7 million increase in legal and professional fee; and (v) the exchange loss amounting to CNY0.7 million arising from the depreciation of CNY on the Hong Kong dollar denominated bank loan.

Finance Costs

The finance costs increased by 12.9% from CNY0.3 million in 2014 to CNY0.4 million in 2015, primarily due to the increase in accrual of bank loan interest expense drawn down in December 2015.

Income Tax Expense

The Group had an income tax expense of CNY1.8 million in 2015 as compared to CNY2.6 million in 2014. The decrease was contributed by a reduction of enterprise income tax rate of Feishang Material, the indirect wholly owned subsidiary of the Company, from 25% to 15% from 1 January 2015 as it was recognised as a High Technology Enterprise.

Although the Group incurred a loss for the financial year ended 31 December 2015, Feishang Material was subject to enterprise income tax because it is profit-making and the one-off listing expense recognised in 2015 was not tax deductible.

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

The loss and total comprehensive expense attributable to the owners of the Company for the year was CNY10.9 million in 2015, a decrease in CNY17.9 million from the profit of CNY7.0 million in 2014. This was mainly caused by (i) the CNY15.4 million one-off listing expenses; (ii) the increase in research and development expense amounting to CNY1.0 million; (iii) the CNY0.7 million increase in legal and professional fee; and (iv) the exchange loss amounting to CNY0.7 million. If the listing expense was excluded, the Group would be able to generate profit of CNY4.5 million for the year ended 31 December 2015.

OUTLOOK

Despite increasingly fierce competition in the bentonite industry and the complex and dynamic domestic and international economy, the Group will continue to expand its customer base, increase product recognition of its principal products, enhance its production technologies, and develop new products in order to achieve more effective cost control and increase the Group's competitiveness. At the same time, the Group will also recruit more talents to meet the needs of its development and identify other suitable non-metal mines to support and expand its business.

The Board deeply believes that maintaining a high level of internal control is essential for the healthy long-term development of the Group, so the Group has optimised work procedures and risk control measures in respect of quality management and compliance management. The Board will further enhance the Group's corporate governance and risk control measures on a continuing basis.

CAPITAL COMMITMENTS AND FINANCING NEEDS

As of 31 December 2015, apart from the implementation plans, capital needs and financing plans as stated in the section headed "Future Plans and Use of Proceeds" (as adjusted by the shortfall in net proceeds, details is set out in the section headed "(B) Change in use of proceeds" in this announcement below) and "Financial Information" of the Prospectus, the Group had no other new implementation plans or financing plans.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2015 (2014: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2015, the Group employed approximately 86 full time employees (2014: 114) for its principal activities. Employees' costs (including Directors' emoluments) amounted to CNY3.3 million (2014: CNY3.4 million) for the year ended 31 December 2015. The Group recognises the importance of high calibre and competent staff and continues to provide remuneration packages to employees with reference to prevailing market practices and individual performance. Other various benefits, such as medical and retirement benefits, are also provided. In addition, share options may be granted to eligible employees of the Group in accordance with the terms of the approved share option scheme adopted on 12 December 2015.

The emolument policy of the employees of the Group is set up on the basis of their merit, qualifications and competence. The emoluments of the Directors are determined having regard to the Company's operating results, individual performance and comparable market statistics. No Director, or any of his associates, and executive is involved in dealing his own remuneration.

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

On 29 December 2015, the Company completed the placing of 125,000,000 new shares at the placing price of HK\$0.32 per share in connection with the listing of the Company on 29 December 2015.

Save as disclosed above, there was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the year ended 31 December 2015.

CORPORATE GOVERNANCE

The Company has adopted the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as contained in Appendix 15 to the GEM Listing Rules as its own code of corporate governance. Since the date of listing of the Company on 29 December 2015 and up to the date of this announcement, the Company has complied with the code provisions as set out in the CG Code, save and except for code provision A.2.1, as set out below.

Chairman and Chief Executive

Mr. XU Chengyin is the chairman and chief executive officer of the Company. He is mainly responsible for formulating corporate strategies and supervising the business and marketing operations of the Group. Code provision A.2.1 of the CG Code stipulates that the roles of the chairman and chief executive should be separate and should not be performed by the same individual. The Company deviates from this code provision of the CG Code with Mr. XU Chengyin being the chairman and chief executive officer of the Company concurrently. The Board considers this arrangement is appropriate as it allows for efficient discharge of the executive functions of the chief executive officer. The Board believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high-calibre individuals including three independent non-executive Directors offering independent advice from different perspectives. In addition, major decisions are made after consultation with the Board and appropriate Board committees, as well as senior management. The Board is therefore of the view that there are adequate balance and safeguards in place.

SUBSEQUENT EVENT

There is no material event undertaken by the Company or the Group subsequent to 31 December 2015 and up to the date of this announcement.

REVIEW OF ANNUAL RESULTS

The figures in this preliminary announcement of the results of the Group for the year ended 31 December 2015, which have been reviewed by the audit committee of the Company, have been agreed to the amounts set out in the Group's draft consolidated financial statements for the year by the Group's auditors, SHINEWING (HK) CPA Limited. The work of SHINEWING (HK) CPA Limited, in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants.

INTEREST OF COMPLIANCE ADVISER

The Company has received confirmation from its compliance adviser, Celestial Capital Limited (the "Compliance Adviser"), that as at 31 December 2015, except for the compliance adviser's agreement entered into between the Company and the Compliance Adviser dated 19 September 2015 in connection with the listing of the Company, neither the Compliance Adviser nor its directors, employees or close associates had any interests in relation to the Company or any member of the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (“AGM”) is scheduled to be held on 27 May 2016. The notice of AGM will be published on the website of the Company at www.fsnmmaterials.com and the GEM website at www.hkgem.com in due course.

PUBLICATION OF ANNUAL REPORT ON THE WEBSITES OF THE COMPANY AND THE STOCK EXCHANGE

Pursuant to the requirements of the GEM Listing Rules, the 2015 annual report of the Company will set out all information required by the GEM Listing Rules and will be published on the website of the Company at www.fsnmmaterials.com and the GEM website at www.hkgem.com on or before 30 March 2016.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 25 May 2016 to Friday, 27 May 2016 (both days inclusive) during which period no transfer of shares will be effected. In order to determine the entitlement to attend and vote at the AGM, all share transfers accompanied by the relevant share certificates, must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 24 May 2016.

APPRECIATION

The chairman of the Group would like to take this opportunity to express his appreciation to the staff and management team of the Group for their hard work and dedication throughout the year. The chairman of the Group would also like to express his sincere gratitude to all the shareholders for their continuous support.

(B) CHANGE IN USE OF PROCEEDS

References are made to the Prospectus in relation to the placing of 125,000,000 new shares of the Company at the placing price of HK\$0.32 per placing share (the “Placing”) in connection with the listing of the Company on the GEM and the announcement of the Company dated 28 December 2015, among others, in relation to the allotment results of the Placing (the “Announcement”). The Board would like to announce that the Board has resolved to change the use of net proceeds accruing to the Group from the Placing.

As set out in the Announcement, the net proceeds from the Placing was approximately HK\$12.4 million, and it was intended to be applied by the Company in the following manner:

- approximately HK\$6.7 million (or approximately 53.9%) of the net proceeds for development of production technology for new products; and
- approximately HK\$5.7 million (or approximately 46.1%) of the net proceeds for improvement of plant and equipment.

Change in Use of Proceeds and the reasons for the proposed change

The actual net proceeds from the Placing was approximately HK\$12.7 million and there is approximately HK\$12.6 million of the proceeds remain unutilised as at the date of this announcement and had been placed as short-term interest-bearing deposits with authorised financial institutions. In light of the reasons stated in the notes below and as the actual net proceeds based on HK\$0.32 per placing share are less than the estimated net proceeds based on HK\$0.35 per placing share, being the mid-point of the indicative placing price range, as stated in the section headed “Future Plans and Use of Proceeds” of the Prospectus, the Board has resolved to adjust the HK\$3.3 million shortfall in the use of proceeds from Placing (the “Shortfall”) according to the development needs as follows:

	As of 31 December 2015 (HK\$ million)	For the six months ending 30 June 2016 (HK\$ million)	For the six months ending 31 December 2016 (HK\$ million)	For the six months ending 30 June 2017 (HK\$ million)	For the six months ending 31 December 2017 (HK\$ million)	Total net proceeds (HK\$ million)	Approximate percentage of net proceeds %
Development of production technology for new products	–	– (Note c)	– (Note c)	– (Note c)	7.7 (Note d)	7.7	60.6
Improvement of plant and equipment	– (Note a)	0.4 (Note b)	4.6 (Note d)	–	–	5.0	39.4
Total	–	0.4	4.6	–	7.7	12.7	100.0

Notes:

- (a) The original use of proceeds for improvement of plant and equipment for the period from the listing date of 29 December 2015 to 31 December 2015 was HK\$0.2 million. Since the Company was listed on the GEM shortly before year ended date and due to time consideration, the Group paid the HK\$0.2 million for the plant and equipment out of its own funds instead of the originally planned net proceeds.

- (b) The original use of proceeds for improvement of plant and equipment for the six months ending 30 June 2016 was HK\$2.6 million. After considering the uncertain prospects of the iron and steel industry which might impact the Company's business and the Shortfall, and in order to protect the interests of the shareholders, the Company has decided to postpone the construction of new storage facilities for pelletising clay which was originally scheduled in the first half of 2016, and the originally planned relevant expenditure of HK\$2.2 million will be financed with the Group's own funds instead. The detailed implementation time will depend on the prospects of the iron and steel industry.
- (c) The original use of proceeds for development of production technology for new products for the six months ending 30 June 2016, 31 December 2016 and 30 June 2017 were HK\$0.1 million, HK\$0.4 million and HK\$0.4 million respectively. The Group will also apply its internal fund to finance the research and development of HK\$0.9 million as a result of the Shortfall.
- (d) The use of proceeds for improvement of plant and equipment for the six months ending 31 December 2016 and for development of production technology for new products for the six months ending 31 December 2017 remain unchanged as originally planned.

The Board has confirmed the above change of the use of the net proceeds accruing to the Group from the Placing and consider that such change is fair and reasonable and in the interests of the Company and the shareholders as a whole.

By Order of the Board
Feishang Non-metal Materials Technology Limited
XU Chengyin
Chairman

Hong Kong, 21 March 2016

As at the date of this announcement, the executive Directors are Mr. XU Chengyin, Mr. ZHANG Pingwu and Mr. CHEN Gongbao; and the independent non-executive Directors are Mr. CHAN Chiu Hung Alex, Mr. ZHENG Shuilin and Mr. DUAN Xuechen.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

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