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Post Hearing Information Pack of

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

(the "**Company**")

(Incorporated in the Cayman Islands with limited liability)

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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)

[REDACTED]

Number of [REDACTED]	**:**	**[REDACTED]**
[REDACTED]	**:**	**Not more than [REDACTED] per [REDACTED] and expected to be not less than [REDACTED] per [REDACTED], plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)**
Nominal value	**:**	**HK$0.01 per Share**
Stock code	**:**	**[REDACTED]**

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The **[REDACTED]** is expected to be determined by an agreement to be entered into between our Company and the Sole Lead Manager (for itself and in its capacity as the Underwriter) on the **[REDACTED]**, which is expected to be on or about **[REDACTED]** or such later date as the Sole Lead Manager (for itself and in its capacity as the Underwriter) and our Company may agree. If our Company and the Sole Lead Manager (for itself and in its capacity as the Underwriter) are unable to reach an agreement on the **[REDACTED]** on the **[REDACTED]**, the **[REDACTED]** will not become unconditional and will lapse. In such event, a notice will be published on the website of the Stock Exchange at **www.hkexnews.hk** and our Company's website at **www.fsnmmaterials.com**. The **[REDACTED]** will be not more than **[REDACTED]** and is currently expected to be not less **[REDACTED]**, unless otherwise announced.

The Sole Lead Manager (for itself and in its capacity as the Underwriter) may, with the consent of our Company, reduce the number of **[REDACTED]** being offered under the **[REDACTED]** and/or the estimated **[REDACTED]** below that stated in this document at any time on or prior to the **[REDACTED]**. In the case of such reduction, a notice will be published on the website of the Stock Exchange at **www.hkexnews.hk** and our Company's website at **www.fsnmmaterials.com**.

Prior to making any investment decision, prospective investors should consider carefully all the information set out in this document, including the risk factors set out in "Risk factors" of this document.

Prospective investors of the **[REDACTED]** should note that the Sole Sponsor and/or the Sole Lead Manager (for itself and in its capacity as the Underwriter) may in their/its absolute discretion, upon giving notice in writing to our Company, terminate the Underwriting Agreement with immediate effect if any of the events set out in "Underwriting – Underwriting arrangements and expenses – Grounds for termination" of this document occurs at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date.

CHARACTERISTICS OF GEM

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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Companies listed on GEM are not generally required to issue paid announcements in gazette newspapers. Accordingly, prospective investors should note that they need to have access to the website of the Stock Exchange at www.hkexnews.hk in order to obtain up-to-date information on companies listed on GEM.

EXPECTED TIMETABLE

[REDACTED]

CONTENTS

IMPORTANT NOTICE TO INVESTORS

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Page

Characteristics of GEM i

Expected timetable ii

Contents iii

Summary 1

Definitions 14

Glossary of technical terms 24

Summary of the JORC Code 28

Forward-looking statements 30

Risk factors 32

Information about this document and the [REDACTED] 59

Directors and parties involved in the [REDACTED] 63

Corporate information 66

CONTENTS

Page

Industry overview 68

Regulations 83

History, Reorganisation and Group structure 95

Business 104

Substantial Shareholders 212

Relationship with Controlling Shareholders 213

Directors, senior management and employees 220

Share capital 243

Financial information 247

Future plans and use of proceeds 316

Underwriting 321

Structure and conditions of the [REDACTED] 331

Appendices

Appendix I – Accountants' report I-1

Appendix II – Unaudited pro forma financial information II-1

Appendix III – Independent Technical Report III-1

Appendix IV – Summary of the constitution of our Company and Cayman Islands Company Law IV-1

Appendix V – Statutory and general information V-1

Appendix VI – Documents delivered to the Registrar of Companies and available for inspection VI-1

SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all of the information which may be important to you and is qualified in its entirety, and should be read in conjunction with, the full text of this document. You should read the whole document including the appendices hereto, which constitutes an integral part of this document, before you decide to invest in the **[REDACTED]**.

There are risks associated with any investment. Some of the particular risks of investing in the **[REDACTED]** *are summarised in "Risk factors" of this document. You should read that section carefully before you decide to invest in the* **[REDACTED]**.

Various expressions used in this summary are defined in "Definitions" of this document.

BUSINESS OVERVIEW

We are principally engaged in the development of our Huanghu Bentonite Mine in Anhui province, the PRC, and the production and sale of bentonite products in the PRC. Our current principal products include: (i) drilling mud; and (ii) pelletising clay. We also sell unprocessed clay in its original form. We commenced: (i) bentonite mining operations in 2004; (ii) commercial production of pelletising clay in 2004; and (iii) commercial production of drilling mud in 2010.

Huanghu Bentonite Mine is an open-pit bentonite mine with a permitted mining area of approximately 7.2982 km^2. According to the Independent Technical Report, the estimated remaining mine life of Huanghu Bentonite Mine was 79 years as at 1 July 2015, after taking into account our current production rates and our estimated annual production rate going forward. For further details on our designed production capacity, actual production volume and utilisation rate of our production lines for drilling mud and pelletising clay, please refer to "Business – Our mining and processing operations – Mine work schedule, production plan, production capacity and utilisation rate – Processing plant" on pages 129 to 130 of this document.

OUR MINING LICENCE

Licence holders	Permitted mining right area	Licence number	Validity period of current licence	Mining depth/ elevation limit	Mining method	Permitted production capacity	Type of mineral
Feishang Material	7.2982 km^2	C340000201012 7120099654	9 September 2015 – 9 March 2019	From 57 mASL to -23 mASL	Open-pit	230,000 m^3 per annum (equivalent to approximately 400,000 tpa)	Bentonite

SUMMARY

OUR RESOURCE AND RESERVE

Huanghu Bentonite Mine Resource estimate statement as at 1 July 2015

Domain	Category (Note 1)	DMT (Note 2)	Active montmorillonite %	Colloid index (ml/15g)	Swelling capacity (ml/g)
V1	Measured	1,781,000	45.2	54.9	7.6
	Indicated	5,467,000	47.7	63.9	9.1
	Inferred	4,388,000	48.7	69.9	10.2
V2	Inferred	2,317,000	50.8	51.4	6.1
V3	Inferred	835,000	56.7	57.9	7.2
Subtotal (Note 3)	Measured + Indicated	7,248,000	47.0	61.7	8.8
	Inferred	7,540,000	50.2	62.9	8.6
Total (Note 3)	Measured + Indicated +Inferred	14,788,000	48.7	62.3	8.7

Notes:

(1) 35% active montmorillonite cut-off grade applied. Cut-off grade refers to the level of active montmorillonite in the bentonite ore, below which it is not economically feasible to extract it.

(2) Dry metric tonnes.

(3) For the columns headed "DMT" and "WMT", the figures represent subtotals. For the columns headed "Active montmorillonite", "Colloid index" and "Swelling capacity", the figures represent the weighted average.

Huanghu Bentonite Reserve estimate statement as at 1 July 2015

Ore Reserve category (Note 1)	Marketable category	DMT (Note 2)	WMT (Note 3)	Active montmorillonite %	Colloid index ml/15 g	Swelling capacity ml/g
Proved	Unprocessed clay	165,000	206,000	38.7	47.3	5.8
	Drilling mud	673,000	842,000	47.6	66.6	9.5
	Pelletising clay	882,000	1,103,000	44.9	48.0	6.6
	Subtotal proved ore (Note 4)	**1,720,000**	**2,151,000**	**45.4**	**55.2**	**7.7**
Probable	Unprocessed clay	203,000	254,000	39.4	48.4	6.8
	Drilling mud	3,388,000	4,239,000	48.8	69.4	10.0
	Pelletising clay	1,133,000	1,417,000	45.6	47.3	6.7
	Subtotal probable ore (Note 4)	**4,724,000**	**5,910,000**	**47.6**	**63.2**	**9.1**
Total	Unprocessed clay	368,000	460,000	39.1	47.9	6.4
	Drilling mud	4,061,000	5,081,000	48.6	68.9	9.9
	Pelletising clay	2,014,000	2,520,000	45.3	47.6	6.7
	Total ore (Note 4)	**6,444,000**	**8,061,000**	**47.0**	**61.1**	**8.7**

Notes:

(1) Reserve levels based on the estimated Measured Resource and Indicated Resource levels, and after taking into account certain assumptions and Modifying Factors.

(2) Dry metric tonnes.

(3) Wet metric tonnes.

(4) For the columns headed "DMT" and "WMT", the figures represent subtotals. For the columns headed "Active montmorillonite", "Colloid index" and "Swelling capacity", the figures represent the weighted average.

According to the Independent Technical Consultant, up to the Latest Practicable Date, there were no material changes in the Resource and Reserve estimates of Huanghu Bentonite Mine since 1 July 2015, being the effective date of the Independent Technical Report.

GEOGRAPHICAL LOCATION AND ACCESS TO OUR HUANGHU BENTONITE MINE

Huanghu Bentonite Mine is located in Fanchang county of Wuhu city, Anhui province, the PRC, which is approximately 130 km to the southwest of Nanjing, the capital of Jiangsu province and 40 km southwest of Wuhu city, the nearest major regional centre whereby most of our supplies are sourced from, and approximately 10 km south of the Yangtze River. The mining area can be accessed from Nanjing via freeway G4211 for approximately 132 km, and then by a paved provincial road for approximately 7 km.

Please refer to "Business – Our business model – Geographical location and access to our Huanghu Bentonite Mine" on pages 110 to 111 of this document for further details.

OUR BUSINESS MODEL

Our principal PRC operating subsidiary, Feishang Material, is responsible for the extraction and processing of the bentonite ore into drilling mud and pelletising clay and their subsequent sales, as well as the sale of unprocessed clay. We generally enter into framework agreements with our major customers, after which they will place individual purchase orders in accordance with the terms stipulated in the framework agreements. Based on various factors such as the delivery dates and volumes of our products stipulated in the purchase orders from our customers, we will prepare our production work plan for the processing of bentonite ore into the final product. We will then arrange for delivery/collection of the final products to/by customers.

THIRD PARTY CONTRACTORS

During the Track Record Period, we engaged third party contractors mainly for the provision of (i) air-drying services; (ii) extraction services; and (iii) transportation services. We also engaged contractors for the provision of processing services on an ad-hoc basis. Please refer to "Business – Third party contractors" on pages 148 to 157 of this document for further details.

COMPETITIVE LANDSCAPE

According to the CRU Report, drilling activities in civil engineering projects are expected to increase over the next five years due to urbanisation and infrastructural development in China, and hence total bentonite consumption in civil engineering projects are also expected to rise. Conversely, the iron ore pelletising industry in China is forecasted to decline until the year 2016, and hence a corresponding reduction in bentonite consumption. This is due to key trends occurring within China's steel industry such as increase in import of iron ore pellets from overseas and slowing demand for steel from the construction industry.

According to the CRU Report, the bentonite industry in China is very fragmented and there is no apparent dominant bentonite producer selling beyond its own regional market or acquired other local bentonite producers in other regional markets. Barriers of entry are also relatively low, resulting in intense competition among industry players and only bentonite producers with certain competitive advantages, such as large scale of production, access to well-established transportation networks and ability to ensure low transportation costs will be able to remain in the bentonite industry and continue to grow.

Please refer to "Industry overview" on pages 68 to 82 of this document for further details.

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths distinguish us from our competitors:

- our Huanghu Bentonite Mine has abundant Resources and Reserves for future development;
- our open-pit mining method is more cost-effective, environmental-friendly and safer as compared to underground mining methods;
- we possess expertise in production technology and strong research and development capabilities;
- our Huanghu Bentonite Mine and our major facilities including the processing plant and air-drying facilities are strategically located and easily accessible by road;
- our senior management team consists of experienced personnel with the requisite industry and management experience; and
- we have a proven operating track record in the mining and processing of bentonite.

Please refer to "Business – Our competitive strengths" on pages 105 to 107 of this document for further details.

OUR BUSINESS STRATEGIES

We intend to strengthen our market position in the PRC by pursuing the following strategies:

- broaden our customer base and develop product recognition;
- enhance our research and development capabilities, including the development of new production technologies and new products;
- recruit more talents;
- expand our business through selective acquisition of other non-metal mines; and
- upgrade our current processing plant and processing machinery and equipment.

Please refer to "Business – Our business strategies" on pages 107 to 109 of this document for further details.

OUR PRODUCTS

Our current principal products include: (i) drilling mud; and (ii) pelletising clay. We also sell unprocessed clay. The drilling mud produced by our Group is mainly used for trenchless directional drilling activities in civil engineering. The pelletising clay produced by our Group is used as a binder for the production of iron ore pellets, which is an essential raw material for the production of iron in the iron and steel industries. Unlike drilling mud and pelletising clay, unprocessed clay does not require any processing and is sold directly to our customers who may further process it according to their own needs. Please refer to "Business – Our products" on pages 118 to 120 of this document for further details.

OUR MINING AND PROCESSING OPERATIONS

The major facilities required for our business operations include: (i) Huanghu Bentonite Mine; (ii) our processing plant; and (iii) the two air-drying facilities located at the site of our Huanghu Bentonite Mine and the two off-site air-drying facilities, whereby the extracted bentonite ore is naturally air-dried before it is transported to the processing plant for further processing. Mining at our Huanghu Bentonite Mine is conducted using the open-pit mining method.

The mining work schedule of our Huanghu Bentonite Mine is generally prepared based on various factors, including but not limited to: (i) historical consumption rate of bentonite ore for processing into drilling mud and pelletising clay; (ii) our extraction capacity; (iii) storage capacity of our warehouse; and (iv) weather conditions.

The production work plan of our processing plant is generally prepared based on various factors, including but not limited to: (i) the delivery dates and volumes of our products stipulated in purchase orders from our customers; (ii) historical sales demand; and (iii) our production capacity.

Please refer to "Business – Our mining and processing operations" on pages 120 to 139 of this document for further details.

OUR CUSTOMERS

During the Track Record Period, our customers mainly comprised (i) traders who buy our products for resale; and (ii) manufacturers who purchase our products for use in their own production processes. All our customers during the Track Record Period were based in the PRC, most of which are corporate customers. While we have not entered into any long-term sales agreement exceeding a term of one year with our existing customers, we believe that our business relationships with our major customers are well-established. During the Track Record Period, our top five customers collectively accounted for approximately 84.4%, 81.6% and 87.4%, respectively of our total revenue. Our largest customer for each of the same periods accounted for approximately 27.0%, 29.7% and 30.6%, respectively of our total revenue. We promote our Group and our products through various marketing channels and methods, which include, among others, customer visits, internet advertising, sourcing and contacting potential customers, and attending events organised by industry associations which our Group has joined as a member. We also carry out marketing activities to promote our products as well as increase awareness of our Group and our products. Please refer to "Business – Sales and marketing" on pages 139 to 148 of this document for further details.

PROCUREMENT AND SUPPLIERS

The principal materials and supplies required for production of our principal products include coal, sodium carbonate and packaging bags. During the Track Record Period, our suppliers included one electricity supplier, 11 third party contractors and a number of suppliers of our consumables. During the Track Record Period, our top five suppliers collectively accounted for approximately 58.8%, 62.9% and 62.9%, respectively of our total purchases, while largest supplier for each of the same periods accounted for approximately 22.4%, 23.1% and 26.2%, respectively of our total purchases. Please refer to "Business – Utilities, procurement of materials and supplies and suppliers – Suppliers" on pages 162 to 164 of this document for further details.

SELECTED OPERATIONAL AND FINANCIAL INFORMATION

The following is our selected operational and financial information as at and for the years ended 31 December 2013 and 2014, and the six months ended 30 June 2015, derived from the accountants' report set out in Appendix I to this document.

Selected items of combined statements of profit or loss and other comprehensive income

	Year ended 31 December		Six months ended 30 June
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	29,987	30,447	15,247
Gross profit	11,238	12,761	7,341
Profit before tax	6,853	9,576	1,358
Profit and total comprehensive income for the year/period attributable to the owners of our Company	5,061	7,025	89

The decrease in net profit for the six months ended 30 June 2015 as compared to the six months ended 30 June 2014 was mainly due to the increases in: (i) selling and distribution expenses mainly due to an increase in sales of pelletising clay to certain customers for which we were responsible for the delivery; (ii) administrative and other expenses mainly as a result of the recognition of listing expenses of approximately RMB3.7 million during the six months ended 30 June 2015 and an increase in staff costs primarily due to an increase in the headcount of administrative and management staff; and (iii) income taxes mainly attributable to deferred tax expenses of approximately RMB0.5 million recognised during the six months ended 30 June 2015. Owing to the foregoing, in particular our listing expenses, our net profit margin also declined from approximately 23.1% for the year ended 31 December 2014 to approximately 0.6% for the six months ended 30 June 2015.

Revenue by product type

	Year ended 31 December				Six months ended	
	2013		2014		30 June 2015	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Drilling mud	18,319	61.1	19,123	62.8	10,212	67.0
Pelletising clay	11,668	38.9	10,342	34.0	4,560	29.9
Unprocessed clay	–	–	982	3.2	475	3.1
Total	**29,987**	**100.0**	**30,447**	**100.0**	**15,247**	**100.0**

Sales volume and average selling price by product type

	Year ended 31 December				Six months ended	
	2013		2014		30 June 2015	
	Average selling price	Quantity sold	Average selling price	Quantity sold	Average selling price	Quantity sold
	RMB/ tonne	*tonnes*	*RMB/ tonne*	*tonnes*	*RMB/ tonne*	*tonnes*
Drilling mud	383.6	47,761	415.7	46,000	455.9	22,400
Pelletising clay	305.5	38,191	292.2	35,389	307.5	14,828
Unprocessed clay	–	–	54.7	17,953	54.7	8,695
		85,952		**99,342**		**45,923**

The sales volume of drilling mud slightly decreased by approximately 3.7% from approximately 47,761 tonnes for the year ended 31 December 2013 to approximately 46,000 tonnes for the year ended 31 December 2014. The decrease in sales volume was mainly due to the decrease in purchases from our minor customers. The sales volume of drilling mud also decreased by approximately 9.3% from approximately 24,697 tonnes for the six months ended 30 June 2014 to approximately 22,400 tonnes for the six months ended 30 June 2015. The decrease was mainly attributable to the adverse weather conditions in east China in 2015, which generally hindered the progress of civil engineering projects and eventually led to the decrease in the demand for our drilling mud.

The sales volume of pelletising clay decreased by approximately 7.3% from approximately 38,191 tonnes for the year ended 31 December 2013 to approximately 35,389 tonnes for the year ended 31 December 2014. The decrease in sales volume was mainly due to the slowdown in China's iron and steel industry, leading to a decrease in demand for iron ore pellets which is essential for the production of iron, and ultimately a decrease in demand for our pelletising clay. The sales volume of pelletising clay increased by approximately 4.0% from approximately 14,252 tonnes for the six months ended 30 June 2014 to approximately 14,828 tonnes for the six months ended 30 June 2015.

Gross profit and gross profit margin by product type

	Year ended 31 December				Six months ended 30 June	
	2013		2014		2015	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Drilling mud	7,092	38.7	8,476	44.3	5,229	51.2
Pelletising clay	4,146	35.5	3,666	35.4	1,816	39.8
Unprocessed clay	–	N/A	619	63.0	296	62.3
	11,238	**37.5**	**12,761**	**41.9**	**7,341**	**48.1**

Selected items of combined statements of financial position

	As at 31 December		As at 30 June
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets	19,022	18,895	21,660
Current assets	32,450	35,159	36,968
Current liabilities	9,559	4,564	8,267
Net current assets	22,891	30,595	28,701
Non-current liabilities	5,129	5,681	6,463

Selected items of combined statements of cash flows

	Year ended 31 December		Six months ended 30 June
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Net cash from/(used in) operating activities	2,378	15,001	(1,551)
Net cash used in investing activities	(323)	(2,169)	(2,335)
Net cash from/(used in) financing activities	906	(1,835)	4,589
Net increase in cash and cash equivalents	2,961	10,997	703
Cash and cash equivalents as at beginning of year/period	9,673	12,634	23,631
Cash and cash equivalents as at end of year/period	12,634	23,631	24,334

For the six months ended 30 June 2015, we had net cash used in operating activities of approximately RMB1.6 million, which was primarily attributable to: (i) a relatively low level of profit before tax mainly as a result of the recognition of listing expenses for the period; (ii) an increase in trade, bills and other receivables of approximately RMB2.0 million which was mainly due to an increase in deferred professional service fees incurred in relation to the Listing; and (iii) income tax payments of approximately RMB1.6 million for the period.

Key financial ratios

	Year ended 31 December/ As at 31 December		Six months ended 30 June/As at 30 June
	2013	**2014**	**2015**
Net profit margin before interest and tax *(%)*	23.8	32.5	10.0
Net profit margin *(%)*	16.9	23.1	0.6
Current ratio	3.4	7.7	4.5
Quick ratio	3.0	7.3	4.2
Gearing ratio	0.1	–	0.1
Debt-to-equity ratio	N/A	N/A	N/A
Return on assets *(%)*	9.8	13.0	N/A
Return on equity *(%)*	13.8	16.0	N/A
Interest coverage ratio	24.2	31.2	9.1

Please refer to "Financial information" on pages 247 to 315 of this document for further details on our Group's financial information for the Track Record Period.

Actual and forecasted operating costs

		Actual			Forecasted			
			January to June	July to December				2019
	Unit	**2014**	**2015**	**2015**	**2016**	**2017**	**2018**	**onwards**
Total operating cash cost								
Unprocessed clay	RMB	334,826	154,254	126,846	294,857	291,455	329,007	332,264
Pelletising clay	RMB	7,668,284	3,718,883	2,506,979	7,405,263	8,649,849	9,650,965	9,612,311
Drilling mud	RMB	10,222,649	5,986,630	5,658,609	12,328,708	11,494,277	12,825,445	12,773,405
Total	RMB	18,225,759	9,859,767	8,292,435	20,028,828	20,435,580	22,805,416	22,717,981
Total operating unit cash cost								
Drilling mud	RMB/tonne	255.8	253.3	269.1	268.5	267.8	267.6	267.7
Pelletising clay	RMB/tonne	225.6	246.1	247.6	247.0	246.3	246.1	246.2
Unprocessed clay	RMB/tonne	18.7	17.7	19.5	19.2	18.7	18.6	18.8

Please also refer to page III-116 of the Independent Technical Report set out in Appendix III to this document for an after-tax net present value sensitivity analysis in relation to our Huanghu Bentonite Mine.

CONTROLLING SHAREHOLDERS' INFORMATION

Immediately following completion of the **[REDACTED]** (assuming the **[REDACTED]** is not exercised and without taking into account any Shares that may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme), Feishang, which is an investment holding company, will own **[REDACTED]** of our entire issued share capital. Feishang is wholly-owned by Laitan Investments (an investment holding company) which is in turn wholly-owned by Mr. Li. Accordingly, each of Feishang, Laitan Investments and Mr. Li is regarded as our Controlling Shareholder. Please refer to "Relationship with Controlling Shareholders" on pages 213 to 219 of this document for further details.

USE OF PROCEEDS

We estimate that the aggregate net proceeds from the **[REDACTED]** after deducting underwriting fees and commissions and estimated expenses payable by us in connection with the **[REDACTED]** will be approximately **[REDACTED]** million (based on the mid-point of the indicative **[REDACTED]** of **[REDACTED]** per **[REDACTED]**, **[REDACTED]** and estimated total listing expenses of approximately HK$27.7 million, and assuming the **[REDACTED]** is not exercised). We currently intend to apply our net proceeds in the following manner:

- approximately **[REDACTED]** million (or approximately **[REDACTED]**) of the net proceeds for the development of production technology for new products; and
- approximately **[REDACTED]** million (or approximately **[REDACTED]**) of the net proceeds for the improvement of our plant and equipment.

Please refer to "Future plans and use of proceeds" on pages 316 to 320 of this document for further details.

DIVIDENDS

Our Group currently does not have any pre-determined dividend payout ratio. Our Board may declare dividends after taking into account our operations, cash flows, financial position, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that our Board may consider relevant. Any declaration and payment as well as the amount of dividends will also be subject to the Memorandum and Articles of Association and the Cayman Islands Companies Law. No dividends have been declared by our Company or the subsidiaries comprising our Group to their then equity owners during the Track Record Period nor has any dividend been proposed after 30 June 2015. Please refer to "Financial information – Dividends" on page 314 of this document for further details.

RISK FACTORS

The business operations of our Group are subject to certain risks and uncertainties. We believe that the following are some of the major risks that may have a material adverse effect on us:

- our current business operation depends solely on the Huanghu Bentonite Mine;
- any significant downtime in our processing plant will adversely affect our business, financial conditions and results of operations;
- our operations may be interrupted if we are denied access to our mine sites located on land which we hold temporary land use rights, or if we are required to demolish the temporary structures on such land;
- we rely on a limited number of customers for a substantial portion of our revenue; and
- our mining operation is subject to various risks as identified by our Independent Technical Consultant, which may disrupt our business operations.

Please refer to "Risk factors" on pages 32 to 58 of this document for further details.

[REDACTED]

	Based on the [REDACTED] of [REDACTED] per Share *HK$*	**Based on the [REDACTED] of [REDACTED] per Share** *HK$*
Market capitalisation	**[REDACTED]**	**[REDACTED]**
Unaudited pro forma adjusted combined net tangible assets of our Group attributable to the owners of our Company per Share as at 30 June 2015 *(Note)*	**[REDACTED]**	**[REDACTED]**

Note: Please refer to "Unaudited pro forma financial information" in Appendix II to this document for details regarding the assumptions and calculation basis used.

LISTING EXPENSES

Our total listing expenses are estimated to be approximately RMB22.7 million (or approximately HK$27.7 million, based on the mid-point of the indicative **[REDACTED]** of **[REDACTED]** per **[REDACTED]** and **[REDACTED]** and assuming the **[REDACTED]** is not exercised). Among the estimated aggregate amount of our listing expenses, approximately RMB6.2 million is expected to be accounted for as a deduction from equity upon the Listing. The remaining amount of approximately RMB16.5 million is expected to be charged to our combined statements of profit or loss and other comprehensive income for the year ending 31 December 2015, of which approximately RMB3.7 million has been recognised by our Group for the six months ended 30 June 2015. Up to 30 June 2015, approximately RMB4.5 million out of our estimated total listing expenses of approximately RMB22.7 million has been paid by our Group, out of which approximately RMB1.8 million and RMB1.0 million were recorded as prepayment and accruals as at 30 June 2015, respectively. As such, our financial results for the year ending 31 December 2015 are expected to be adversely affected by the non-recurring listing expenses.

NON-COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, Feishang Material had certain incidents of non-compliance with the applicable laws and regulations including those relating to land rehabilitation, soil and water conservation, environmental protection, safety, social insurance and housing provident fund contributions and subcontracting arrangement. The majority of these non-compliance incidents initially occurred during and/or were related to the initial start-up of Feishang Material's mining operations or business, during which none of our existing Directors were a director of Feishang Material. Our Directors consider that these non-compliance incidents, whether individually or collectively, will not have a material impact on our business, financial conditions and results of operations. Remedial actions have been taken and internal control measures have been implemented by us to prevent the recurrence of non-compliance incidents and to ensure on-going compliance with applicable laws and regulations. Please refer to "Business – Legal proceedings and regulatory compliance – Regulatory non-compliance" on pages 185 to 206 of this document for further details.

RECENT DEVELOPMENT

Business and financial updates

Based on our unaudited management accounts, our Group recorded a slight decrease in revenue for the ten months ended 31 October 2015 as compared to the same period in 2014, which was mainly due to a decrease in sales volume mainly because of 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 decrease in the demand of our drilling mud, and the effect of which was partially offset by an increase in average selling price mainly because of an increase in sales amount of drilling mud with higher technical specifications from two of our major customers, while our gross profit and gross profit margin increased for the ten months ended 31 October 2015 as compared to the same period in 2014. Our Directors confirm that there has been no material adverse change in our business operation and business environment in which we are operating subsequent to the Track Record Period. Notwithstanding the above, we currently expect that our financial results for the year

ending 31 December 2015 will be negatively impacted by the non-recurring listing expenses recognised and to be recognised as expenses in our combined statements of profit or loss and other comprehensive income.

Subsequent to the Track Record Period and up to the Latest Practicable Date, our Group has entered into collaboration agreements with three external institutions for the development of new technologies and new bentonite products to cater for the downstream markets other than iron ore pelletising and civil engineering. For further details, please refer to "Business – Research and development" of this document. In addition, Feishang Material has paid the deposit for land rehabilitation fees of approximately RMB3.1 million in accordance with its land rehabilitation plan approved by the Anhui Land and Resources Department and the applicable PRC laws and regulations. Please refer to "Business – Legal proceedings and regulatory compliance – Regulatory non-compliance – 1. Non-compliance relating to land rehabilitation" on pages 185 to 187 of this document for further details.

As at the Latest Practicable Date, our Group has pledged its bank deposits of RMB15.0 million with a commercial bank in the PRC for arranging external short-term debt financing for the settlement of outstanding amount due to a Controlling Shareholder before the Listing. Please refer to "Financial information – Indebtedness" on pages 300 to 301 of this document for further details.

Expected decrease in the sales volume of our products and net loss for the year ending 31 December 2015

During the Track Record Period, although our total revenue was generally on a gradual increasing trend, we recorded an overall decrease in the sales volume of our drilling mud and pelletising clay. We expect to record a further decline in sales volume of our products for the year ending 31 December 2015 as compared to the year ended 31 December 2014 mainly due to 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 decrease in the demand for our drilling mud. In addition, the remaining amount of non-recurring listing expenses of approximately RMB16.5 million which is expected to be charged to our combined statements of profit or loss and other comprehensive income for the year ending 31 December 2015 will have an adverse impact on our financial results for the year ended 31 December 2015. Given the foregoing, we expect to record a net loss for the year ending 31 December 2015.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that since 30 June 2015, being the date of the latest audited financial statements of our Company, and up to the date of this document, there has been no material adverse change in our financial or trading position or prospects. Our Directors also confirm that there has been no events since 30 June 2015 which would materially affect the information shown in the accountants' report as set out in Appendix I to this document.

DEFINITIONS

In this document, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in "Glossary of technical terms" of this document.

"Anhui Land and Resources Department"	Department of Land and Resources of Anhui Province (安徽省國土資源廳)
"Articles of Association" or "Articles"	the articles of association of our Company, adopted on 12 December 2015, and as amended from time to time, a summary of which is set out in Appendix IV to this document
"associate(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Audit Committee"	the audit committee of our Board
"Board of Directors" or "Board"	the board of Directors of our Company
"Business Day(s)" or "business day(s)"	a day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate, a measurement to assess the growth rate of value over time
"Cayman Islands Companies Law" or "Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant(s)"	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
"CCASS Custodian Participant(s)"	a person admitted to participate in CCASS as a custodian participant

"CCASS Investor Participant(s)"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant(s)"	a CCASS Clearing Participant, or a CCASS Custodian Participant or a CCASS Investor Participant
"Celestial Capital" and/or "Sole Sponsor" **[REDACTED]**	Celestial Capital Limited, a licensed corporation under the SFO permitted to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities (as defined in the SFO), acting as the sole sponsor to the Listing **[REDACTED]**
"CHNR"	China Natural Resources, Inc., a company incorporated in the BVI on 14 December 1993 with its common shares listed on the NASDAQ Capital Market under the symbol "CHNR", and is owned as to approximately 59.33% in aggregate by Feishang and Mr. Li, our Controlling Shareholders
"close associate(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Companies Act"	the BVI Business Companies Act, as amended, supplemented or otherwise modified from time to time
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Company" or "our Company"	Feishang Non-metal Materials Technology Limited (飛尚非金屬材料科技有限公司), an exempted company incorporated in the Cayman Islands on 15 July 2015
"connected person(s)"	has the meaning ascribed to it under the GEM Listing Rules

"Controlling Shareholder(s)"	has the meaning ascribed to it under the GEM Listing Rules, and in this document, refers to Feishang, Laitan Investments and/or Mr. Li
"core connected person(s)"	has the meaning ascribed to it under the GEM Listing Rules
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the Chinese national securities markets
"CRU Report"	a commissioned market research report dated **[REDACTED]** prepared by the Independent Industry Consultant
"Deed of Indemnity"	the deed of indemnity dated 12 December 2015 entered into between the Controlling Shareholders and our Company as referred to in Appendix V to this document
"Deed of Non-competition"	the deed of non-competition dated 12 December 2015 entered into by the Controlling Shareholders in favour of our Company, details of which are disclosed in "Relationship with Controlling Shareholders" of this document
"Director(s)"	the director(s) of our Company
"EIT"	enterprise income tax in the PRC
"EIT Law"	中華人民共和國企業所得税法 (the Enterprise Income Tax Law of the PRC*)
"EIT Rules"	中華人民共和國企業所得税法實施條例 (the Regulation on the Implementation of the Enterprise Income Tax Law of the PRC*)
"Feishang"	Feishang Group Limited (formerly known as Citrine Capital Limited), a company incorporated in the BVI on 3 January 1997, and is wholly-owned by Laitan Investments, one of our Controlling Shareholders

"Feishang Anthracite"	Feishang Anthracite Resources Limited (飛尚無煙煤資源有限公司), a company incorporated in the BVI with limited liability on 6 January 2010, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 1738) and is owned as to approximately 53.53% in aggregate by Feishang and Mr. Li, our Controlling Shareholders
"Feishang Anthracite Group"	Feishang Anthracite and its subsidiaries from time to time
"Feishang Development"	蕪湖飛尚礦業發展有限公司 (Wuhu Feishang Mining Development Co., Limited*), a company established in the PRC with limited liability on 21 June 2002 and an indirect wholly-owned subsidiary of CHNR
"Feishang Enterprise"	Feishang Enterprise Group Co., Ltd. (飛尚實業集團有限公司), a company established in the PRC on 9 June 2000 and owned as to approximately 60.74% by Mr. Li, approximately 4.48% by Mr. Li Feiwen, approximately 17.39% by Mr. Li Qingquan and approximately 17.39% by Ms. Li Ruijin, all of whom are associates of Mr. Li
"Feishang International"	Feishang International Holdings Limited, a company incorporated in the BVI with limited liability on 5 February 2002, and is a direct wholly-owned subsidiary of our Company
"Feishang Material"	Wuhu Feishang Non-metallic Material Co., Ltd (蕪湖飛尚非金屬材料有限公司), a wholly-foreign owned enterprise established in the PRC with limited liability on 21 June 2002, and is an indirect wholly-owned subsidiary of our Company
"Feishang Mining"	Feishang Mining Holdings Limited (飛尚礦業集團有限公司), a company incorporated in the BVI on 3 September 2004, and is a wholly-owned subsidiary of CHNR
"FVTPL"	fair value through profit and loss, one of the categories for classification of financial assets or financial liabilities under HKFRS
"GDP"	gross domestic product
"GEM"	the Growth Enterprise Market of the Stock Exchange

"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM, as amended, supplemented or otherwise modified from time to time
"Group" or "our Group" or "we" or "us"	our Company and its subsidiaries at the relevant time or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the present subsidiaries of our Company or the businesses operated by its present subsidiaries or (as the case may be) its predecessor
"HKD" or "HK$" or "HK dollar(s)"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Share Registrar"	**[REDACTED]**, our Hong Kong branch share registrar and transfer office
"Huanghu Bentonite Mine"	蕪湖飛尚非金屬材料有限公司黃滸膨潤土礦 (Wuhu Feishang Non-metallic Material Co., Ltd Huanghu Bentonite Mine*), a bentonite mine located in Fanchang county of Wuhu city, Anhui province, the PRC
"IFRS"	International Financial Reporting Standards
"Independent Industry Consultant" or "CRU"	CRU Consulting, the consultancy division of CRU International Limited, an Independent Third Party and a professional market research and consulting firm
"Independent Technical Consultant" or "SRK"	SRK Consulting (Hong Kong) Limited, an Independent Third Party that specialises in providing expert advice and solutions for clients requiring specialised services in the fields of mining, geotechnics, water, waste, energy and the environment

"Independent Technical Report"	the independent technical report dated **[REDACTED]** prepared by the Independent Technical Consultant as set out in Appendix III to this document
"Independent Third Party(ies)"	an individual(s) or company(ies) who or which is/are independent of and not connected with (within the meaning of the GEM Listing Rules) any Director, chief executive or substantial shareholders of our Company, any of our subsidiaries or any of their respective associates
"Laitan Investments"	Laitan Investments Limited, a company incorporated in the BVI on 8 January 1997 and is wholly-owned by Mr. Li, and our Controlling Shareholder
"Latest Practicable Date"	10 December 2015, being the latest practicable date for the purpose of ascertaining certain information contained in this document prior to its publication
"Listing"	the listing of the Shares on GEM
"Listing Date"	the date expected to be on **[REDACTED]**, on which our Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
"Listing Division"	the listing division of the Stock Exchange
"Main Board"	the Main Board of the Stock Exchange
"Memorandum of Association" or "Memorandum"	the memorandum of association of our Company adopted on 12 December 2015, as amended from time to time
"Mining Area"	the mining area of 7.2982 km^2 at Huanghu Bentonite Mine as permitted by the mining licence currently held by us
"MLR"	Ministry of Land and Resources of the PRC (中華人民共和國國土資源部)
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部)
"Mr. Li"	Mr. LI Feilie (李非列), our Controlling Shareholder

"NDRC"	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"Nomination Committee"	the nomination committee of our Board
[REDACTED]	
"PBOC"	the People's Bank of China (中國人民銀行), the central bank of the PRC
[REDACTED]	
"PRC" or "China" or "People's Republic of China"	the People's Republic of China which, in this document, excludes Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
"PRC government" or "State"	the central government of the PRC, including all political sub-divisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof, or where the context requires, any of them
"PRC Legal Advisers"	Commerce & Finance Law Offices, our legal advisers as to the PRC laws

[REDACTED]

"Remuneration Committee"	the remuneration committee of our Board
"Renminbi" or "RMB"	Renminbi, the lawful currency of the PRC
"Reorganisation"	the corporate reorganisation of our Group conducted in preparation for the Listing, details of which are set out in "History, Reorganisation and Group structure" of this document
"Rules of CCASS"	the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAIC"	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
"SAT"	the State Administration of Taxation of the PRC (中華人民共和國國家税務總局)
"SCNPC"	中華人民共和國全國人民代表大會常務委員會 (the Standing Committee of the National People's Congress of the PRC*)
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Share(s)"	the ordinary share(s) of HK$0.01 each in the share capital of our Company

"Shareholder(s)"	holder(s) of our Shares
"Share Option Scheme"	the share option scheme conditionally adopted by our Company on 12 December 2015, a summary of principal terms of which is set out in "Statutory and General Information – 5. Share Option Scheme" in Appendix V to this document
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it under section 2 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance
"substantial shareholder(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Takeovers Code"	The Hong Kong Codes on Takeovers and Mergers and Share Buy-backs, as amended, supplemented or otherwise modified from time to time
"Team 322"	安徽省地質礦產勘查局322地質隊 (Anhui Province Geological Bureau Team 322*)
"Track Record Period"	the two financial years ended 31 December 2013 and 2014, and the six months ended 30 June 2015, and the phrase "for/during the Track Record Period", followed by a series of figures or percentages, refers to information relating to the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, respectively
"Underwriting Agreement"	the conditional underwriting agreement entered into on 17 December 2015 among the Company, the Controlling Shareholders, the executive Directors, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Underwriter relating to the **[REDACTED]**, particulars of which are summarised in "Underwriting – Underwriting arrangements and expenses – Underwriting Agreement" of this document
"U.S." or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction

"U.S. dollar" or "US$" or "USD"	United States dollar, the lawful currency of the United States
"Zhuorui"	深圳市卓瑞企業管理諮詢有限公司 (Shenzhen City Zhuorui Enterprise Management Consulting Limited*), a subsidiary of a wholly foreign-owned enterprise with limited liability established in the PRC on 19 June 2015, and is an indirect wholly-owned subsidiary of our Company
"%"	per cent

The English names of the PRC entities mentioned in this document which are marked with "" are translation, or transliteration from their Chinese names and are for identification purposes only. All English translations of the PRC laws and regulations in this document are unofficial translations and provided for identification purpose only. If there is any inconsistency between the Chinese name of the PRC laws and regulations or PRC entities mentioned in this document and their English translation, the Chinese version shall prevail.*

GLOSSARY OF TECHNICAL TERMS

This glossary contains definitions of certain technical terms used in this document in connection with our Company and the business of our Group. These terms and their given meanings may not correspond to standard industry definitions or usage of these terms.

"bentonite"	a type of clay, consisting of smectite minerals (mainly montmorillonite) which are absorbent phyllosilicate (layer-silicate) clay minerals
"bentonite ore"	refers to the ore extracted from Huanghu Bentonite Mine and which includes: (i) ore used for the production of drilling mud and pelletising clay; and (ii) ore directly sold in its original form to customers as unprocessed clay
"calcium bentonite"	a kind of bentonite in which the major constituent is calcium montmorillonite
"cm"	centimetre(s)
"colloid index"	capacity of forming thick gels when mixed with water or other fluids
"drilling mud"	a bentonite product produced by our Group that is mainly used for trenchless directional drilling activities
"east China"	the region in the east and related coastal areas of China, and includes Shandong, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Guangdong provinces, and Shanghai municipality
"Indicated Resource(s)"	that part of a Resource for which quantity, grade (or quality), densities, shape, physical characteristics, grade and bentonite content can be estimated with a reasonable level of confidence such as to allow the generation of mine plans and the economic viability of the bentonite deposit
"Inferred Resource(s)"	that part of a Resource for which quantity and grade (or quality) can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability

"JORC"	the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
"JORC Code"	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC), December 2012
"km"	kilometre(s)
"km^2"	square kilometre(s)
"kt"	thousand tonnes
"m"	metre(s)
"m^2" or "sq.m."	square metre(s)
"m^3"	cubic metre(s)
"mASL"	metres above sea level
"Measured Resource(s)"	that part of a Resource for which tonnage, densities, shape, physical characteristics, grade and bentonite content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity
"mining bench"	a narrow strip of land cut into the side of an open-pit
"mine life"	the number of years that a mine is expected to continue operations based on the current mine plan
"mining right(s)"	the rights to mine mineral resources and obtain mineral products in areas where mining activities are licensed

"Modifying Factors"	considerations used to convert Resources to Reserves, including but not limited to, mining, processing, economic, legal, environmental, social and governmental factors, in accordance with the JORC code
"montmorillonite"	a mineral containing mainly magnesium and aluminium, and is the most common of the smectite mineral group
"montmorillonite grade"	the montmorillonite content
"Mt"	million tonnes
"mu"	Chinese arce (畝)
"OEM"	acronym for original equipment manufacturer, a business that manufactures goods or equipment for branding and resale by others
"open-pit mining"	a surface mining technique of extracting rock or minerals from the earth by their removal from an open pit
"ore"	a naturally occurring mineral containing a valuable constituent, which in this case refers to bentonite, for which it is mined and worked
"overburden"	material that lies above an area that lends itself to economical exploitation, such as the rock, soil and ecosystem that lies above an ore body
"pelletising clay"	a bentonite product produced by our Group that can be used as a binder in the production of iron ore pellets
"Probable Reserve(s)"	the economically mineable part of an Indicated Resource, representing a lower level of confidence than a Proved Reserve, but has adequate reliability as the basis of mining studies
"Proved Reserve(s)"	the economically mineable part of a Measured Resource, representing a higher level of confidence than a Probable Reserve

GLOSSARY OF TECHNICAL TERMS

"Reserve(s)"	the economically mineable part of a Measured Resource and/or Indicated Resource. Reserves are sub-divided in order of increasing confidence into Probable Reserves and Proved Reserves
"Resource(s)"	concentration or occurrence of bentonite material of economic interest in or on the earth's crust in such form, grade (or quality), and quantity that there are reasonable prospects for eventual economic extraction, which are sub-divided, in order of increasing geological confidence, into the categories of (i) Inferred Resource; (ii) Indicated Resource; and (iii) Measured Resource
"sodium modification"	modification of calcium bentonite to sodium bentonite using sodium modifiers such as sodium carbonate
"sodium bentonite"	a kind of bentonite in which the major constituent is sodium montmorillonite
"swelling capacity"	degree of swelling in the presence of water or other fluids
"tonne" or "t"	metric ton, a metric unit of weight, being 1,000 kg
"tpa"	tonnes per annum
"unprocessed clay"	bentonite ore that cannot be used for production of drilling mud or pelletising clay, and is directly sold to customers in its original form

SUMMARY OF JORC CODE

The Mineral Resource and Ore Reserve statements in this document have been prepared in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "**JORC Code**"). The JORC Code is one of the internationally accepted Mineral Resource and Ore Reserve classification systems established in Australia, which was first published in February 1989 and last revised in December 2012. This is commonly used in independent technical reports and Competent Person's Reports for reporting Mineral Resource and Ore Reserve for public companies reporting to the Stock Exchange. This is used by the Competent Person to report the Mineral Resources and Ore Reserves of Huanghu Bentonite Mine in this document.

The JORC Code defines "Mineral Resource" as a concentration or occurrence of solid material of economic interest in or on the Earth's crust in such form, grade (or quality) and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade (or quality), continuity and other geological characteristics of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge, including sampling. Mineral Resources are subdivided in order of increasing geological confidence into the following categories:

- ***Inferred Mineral Resource*** *– is that part of a Mineral Resource for which quantity and grade (or quality) are estimated on the basis of limited geological evidence and sampling. Geological evidence is sufficient to imply but not verify geological and grade (or quality) continuity. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.*

- ***Indicated Mineral Resource*** *– is that part of a Mineral Resource for which quantity, grade (or quality), densities, shape and physical characteristics are estimated with sufficient confidence to allow the application of Modifying Factors in sufficient detail to support mine planning and evaluation of the economic viability of the deposit.*

  Geological evidence is derived from adequately detailed and reliable exploration, sampling and testing gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes, and is sufficient to assume geological and grade (or quality) continuity between points of observation where data and samples are gathered.; and

- ***Measured Mineral Resource*** *– is that part of a Mineral Resource for which quantity, grade (or quality), densities, shape, and physical characteristics are estimated with confidence sufficient to allow the application of Modifying Factors to support detailed mine planning and final evaluation of the economic viability of the deposit.*

Geological evidence is derived from detailed and reliable exploration, sampling and testing gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes, and is sufficient to confirm geological and grade (or quality) continuity between points of observation where data and samples are gathered.

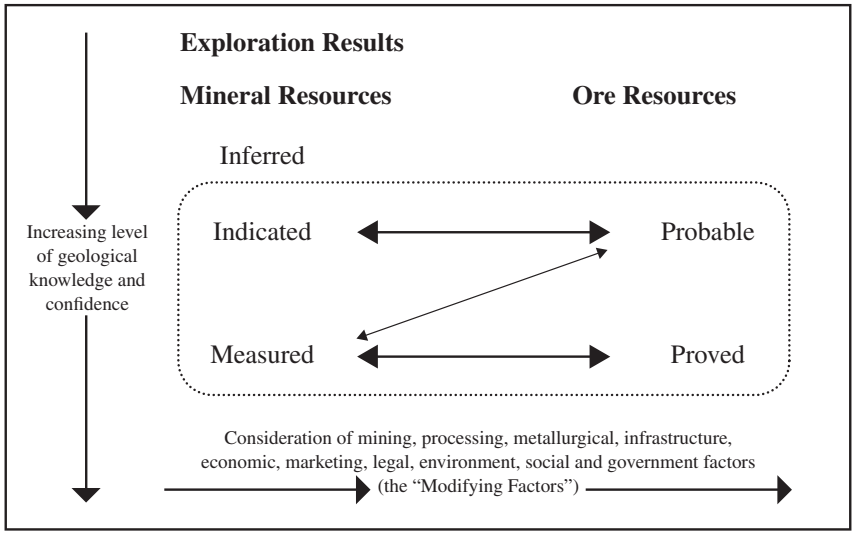
The JORC Code defines "Ore Reserve" as the economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined or extracted and is defined by studies at Pre-Feasibility or Feasibility level as appropriate that include application of Modifying Factors. Such studies demonstrate that, at the time of reporting, extraction could reasonably be justified.

Ore reserves are sub-divided into the following categories:

- ***Probable Ore Reserve*** *– is the economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource. The confidence in the Modifying Factors applying to a Probable Ore Reserve is lower than that applying to a Proved Ore Reserve; and*

- ***Proved Ore Reserve*** *– is the economically mineable part of a Measured Mineral Resource. A Proved Ore Reserve implies a high degree of confidence in the Modifying Factors.*

The following diagram summarises the general relationship between Exploration Results, Mineral Resources and Ore Reserves under the JORC Code:



Ore Reserves are generally quoted as comprising a portion of the total Mineral Resource rather than the Mineral Resources being additional to the Ore Reserves quoted. Under the JORC Code either procedure is acceptable, provided the method adopted is clearly identified. The Independent Technical Report in this document reports all of the Ore Reserves as part of the Mineral Resources.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties, including the risk factors described in this document. These forward-looking statements include, but are not limited to, statements relating to:

- our operations and business prospects;
- future developments, trends and competition in industries and markets in which we operate;
- products under development or planning;
- our strategy, business plans, objectives and goals;
- our capital expenditure plans;
- our dividend distribution plans;
- the prospective financial information regarding our business;
- our future financial condition and results of operations;
- the amount and nature of, and potential for, future development of our business;
- general economic conditions; and
- changes to regulatory and operating conditions in the markets in which we operate.

In some cases we use words such as "believe", "seek", "intend", "anticipate", "estimate", "project", "plan", "potential", "will", "may", "should", "expect" and other similar expressions to identify forward looking statements. All statements other than statements of historical facts included in this document, including statements regarding our future financial position, strategy, projected costs and plans and objectives of management for future operations, are forward looking statements. Although we believe that the expectations reflected in those forward-looking statements are reasonable, we can give no assurance that those expectations will prove to have been correct, and you are cautioned not to place undue reliance on such statements.

Furthermore, these forward looking statements merely reflect our current view with respect to future events and are not a guarantee of future performance. Our financial condition may differ materially from the information contained in the forward looking statements as a result of a number of factors, including, without limitation, factors disclosed in "Risk factors" of this document and elsewhere in this document.

FORWARD-LOOKING STATEMENTS

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation and do not intend to update or otherwise revise the forward looking statements in this document, whether as a result of new information, future events or otherwise. Because of these risks, uncertainties or assumptions, the forward looking events and circumstances discussed in this document might not occur in the way we expect, or at all. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on any forward-looking statements. All forward looking statements contained in this document are qualified by reference to this cautionary statement.

You should carefully consider all of the information set out in this document including the risks and uncertainties described below before making an investment in our Shares. You should pay particular attention to the fact that we were incorporated in the Cayman Islands and that all of our operations are conducted in the PRC, the legal and regulatory environment of which may differ in some respects from that which prevails in other countries. Our business, financial conditions and results of operations could be materially and adversely affected by any of these risks and uncertainties. The trading price of our Shares could decline due to any of these risks, and you may lose all or part of your investment.

There are certain risks relating to an investment in our Shares. These can be categorised into: (i) risks relating to our business and operations; (ii) risks relating to our industry; (iii) risks relating to conducting business in the PRC; (iv) risks relating to the **[REDACTED]** and our Shares; and (v) risks relating to statements made in this document.

RISKS RELATING TO OUR BUSINESS AND OPERATIONS

Our current business operation depends solely on Huanghu Bentonite Mine

As at the Latest Practicable Date, our only operating mine was Huanghu Bentonite Mine. Huanghu Bentonite Mine is expected to continue being our only operating mine in the near future upon which we will depend on for the supply of bentonite ore required for the production of our principal products, namely drilling mud and pelletising clay, and hence all of our revenue and cash flows. Our mining operations, like all other mining operations, are subject to various operating risks and hazards. If we fail to obtain the expected economic benefits from Huanghu Bentonite Mine due to the occurrence of any event that causes it to operate at a lower capacity than anticipated or other significant negative development, our business, prospects, financial condition and results of operations could be materially and adversely affected.

Any significant downtime in our processing plant will adversely affect our business, financial conditions and results of operations

According to the Independent Technical Report, the current machinery and equipment at our processing plant is relatively old, which may lead to lower efficiency and lower productivity as compared to our competitors. Any disruptions or delays in our processing processes may cause us to incur additional expenses in order to produce sufficient final products to meet our deadlines, and could consequently impair our ability to fulfil our customers' demands, leading to cancellation of orders, all of which will have an adverse impact on our Group's reputation and results of operation.

Our operations may be interrupted if we are denied access to our mine sites located on land which we hold temporary land use rights, or if we are required to demolish the temporary structures on such land

Pursuant to the relevant PRC laws and regulations, we may use collective land for a period not exceeding two years, subject to renewal, if we have: (i) been granted by the competent government authorities with short-term land use right; and (ii) entered into land use agreements with the relevant land owners. As at the Latest Practicable Date, we occupied and used four parcels of collective land with an aggregate site area of approximately 221.925 mu (equivalent to approximately 147,950 m^2), all of which all are located within the Mining Area where we conduct our mining operations. In addition, as at the Latest Practicable Date, there were two temporary structures comprising a warehouse, office building and ancillary space with an aggregate gross floor area of approximately 1,109 m^2 constructed within the area comprising the four parcels of collective land. For details on our use of collective land and temporary structures, please refer to "Business – Properties – Temporary land and building" of this document. If we are denied access to our Huanghu Bentonite Mine due to, among others: (i) violation of the relevant laws; (ii) change in PRC laws and regulations; (iii) a dispute in relation to the use of such collective land; (iv) not being able to renew our land use right of such collective land upon expiry of our existing short-term land use rights; or (v) change in position of the government authorities that initially granted our land use right or allowed our continued use of the temporary structures, we may be required to demolish our temporary structures and surrender the four parcels of collective land to the relevant authorities. In addition, we may be required to expend a substantial amount of time, cost and effort to regain access to our Huanghu Bentonite Mine as well as the temporary structures. If any of the foregoing materialises, our mining operations will be severely disrupted, which may in turn materially and adversely affect our business, financial condition and results of operations.

We rely on a limited number of customers for a substantial portion of our revenue

During the Track Record Period, sales of our bentonite products to our top five customers amounted to approximately RMB25.3 million, RMB24.8 million and RMB13.3 million, respectively, representing approximately 84.4%, 81.6% and 87.4% of our Group's total revenue, respectively. In addition, during the Track Record Period, we derived revenue from one customer which accounted for more than 25% of our total revenue for the years ended 31 December 2013 and 2014 and derived revenue from two customers which accounted for more than 25% of our total revenue for the six months ended 30 June 2015. As such, we may be subject to concentration and counter-party risk from these customers. We have not entered into any long-term sales agreements exceeding a term of one year with any of our existing customers. There is no assurance that we will be able to maintain good business relationships with our existing customers in future. There is also no assurance that we will be able to successfully broaden and diversify our customer base by increasing the number of customers in various different industries. Any decline in our existing customers' business could indirectly lead to a decline in purchase orders for our pelletising clay and drilling mud. If: (i) any of our existing customers were to

substantially reduce the quantity of their purchase orders from us or terminate their business relationship with us, and we are not be able to obtain similar quantities of purchase orders from other existing customers or new customers in a timely manner to replace any such lost sales on comparable terms, or at all; or (ii) if there is any adverse event resulting from a general economic downturn, the entry of new competitors to the bentonite industry, unanticipated shift in customer preference, government policies or any other factors affecting the demand for our products, our business, financial condition, results of operations and future prospects may be materially and adversely affected.

Our mining operations are subject to various risks as identified by our Independent Technical Consultant, which may disrupt our business operations

The mining industry is subject to high levels of risks in various areas, such as occupational health and safety, environmental, nature of the mineral body and natural disaster that may affect our mining and production operations. According to the Independent Technical Report, there are several potential risks in relation to our mining and production operations which were given a risk rating of "medium", and these include, among others:

- internal waste layers are larger than modelled;
- geotechnical conditions not as ideal as anticipated, resulting in greater potential for pit slope failures and lower production;
- reduced profit margins and increased vulnerability to competitors;
- loss of sales or reduced selling price of our products; and
- sub-optimal equipment configuration and ageing of equipment which may result in equipment breakdowns or affect the quality of our products.

For details, please refer to "Business – Our mining and processing operations – Risks associated with our mining and processing activities" of this document. If we are unable to manage the above potential risks in a timely and appropriate manner, or should any of the above potential risks materialise, our business operations may be disrupted, which may in turn materially and adversely affect our business, financial condition, results of operations and future prospects.

Our failure to obtain, retain and renew governmental approvals, permits and licences required for our mining and processing activities could materially and adversely affect our business, financial condition and results of operations

Under the 中華人民共和國礦產資源法 (Mineral Resources Law of the PRC*), all mineral resources in China are stated-owned. As such, all mining companies including our Company, are required to obtain certain governmental approvals, permits and licences prior to conducting any exploration, mining and relevant production activities. These permits and licences generally stipulate a validity period and specify the type of activities that may be undertaken by the permit or licence applicant. For further details on our mining licence as well as other permits and approvals required for our mining and processing operations, please refer to "Business – Our resources, reserves and mining rights – Major licences, permits and approvals obtained" of this document. Whether we can carry on our mining and processing activities depends on our ability to renew and obtain our mining licence and other approvals and permits from the relevant PRC authorities upon the expiration of their respective validity periods. Our applications for renewal are subject to a certain degree of the PRC government's discretion. As such, there is no assurance that we will be able to renew the licences, permits and approvals required for our business operations in future, and any failure to do so could materially and adversely affect our business, financial conditions and results of operations.

Our mining operations may be materially and adversely affected by operational risks and hazards, natural disasters, adverse weather conditions and unexpected disruptions

Our mining operations are subject to a number of operational risks and hazards, some of which are beyond our control. These risks and hazards may include, among others: (i) unexpected technical or maintenance problems; (ii) disruptions to our mining operations due to unfavourable weather conditions and natural disasters, such as earthquakes, floods, landslides and snowstorms; (iii) geological variations in bentonite quality; (iv) accidents; (v) disruptions to our electricity supply and/or water supply; (vi) key equipment failures; (vii) unusual or unexpected variations in the mine and geological or mining conditions, such as instability of the slopes and subsidence of the mining site.

These risks and hazards may result in personal injury, damage to, or destruction to our major equipment and facilities which may consequently disrupt our business operations. In addition, should we fail to comply with any relevant safety laws, regulations or policies, we may be subject to penalties, civil and/or criminal liabilities, which may impact negatively on our business, reputation, financial condition and results of operations. There is no guarantee that we will not encounter accidents in the future. Any disruption for a sustained period of time to our business operations could materially and adversely affect our reputation, business, financial condition, results of operations and future prospects.

Our financial results may be materially and adversely affected by our listing expenses

Our financial results may be materially and adversely affected by the non-recurring listing expenses. Our Directors currently estimate that our total listing expenses will amount to approximately RMB22.7 million (or approximately HK$27.7 million, based on the mid-point of the indicative **[REDACTED]** of **[REDACTED]** per **[REDACTED]** and **[REDACTED]**, and assuming the **[REDACTED]** is not exercised). Among the estimated listing expenses, approximately RMB6.2 million is expected to be accounted for as a deduction from equity in accordance with the relevant accounting standards upon the Listing. The remaining amount of approximately RMB16.5 million is expected to be charged to our combined statements of profit or loss and other comprehensive income for the year ending 31 December 2015, of which approximately RMB3.7 million has been recognised by our Group for the six months ended 30 June 2015. The estimated future listing expenses to be charged to our combined statements of profit or loss and other comprehensive income are subject to adjustments based on changes in variables and assumptions. As such, our financial results for the year ending 31 December 2015 are expected to be adversely affected by the non-recurring listing expenses.

Our Group had negative operating cash flows for the six months ended 30 June 2015

We recorded negative operating cash flows of approximately RMB1.6 million for the six months ended 30 June 2015, which was, among others, mainly due to the non-recurring listing expenses of approximately RMB3.7 million and income tax payments of approximately RMB1.6 million for the period. For more details, please refer to "Financial information – Liquidity and capital resources – Net cash from (used in) operating activities" of this document. We cannot guarantee that we will be able to record positive operating cash flows in future as we continue to grow our business. If we continue to record negative operating cash flows in the future, our working capital may be constrained which may materially and adversely affect our business, financial condition, results of operations and growth prospects.

Any delay in payment from our customers may affect our cash flow position and results of operations

Based on our Group's average trade and bills receivables turnover days and average trade payables turnover days during the Track Record Period, it is estimated that our Group had cash flow mismatch between making payment to suppliers and receiving payment from customers of up to approximately 79.9 days during the Track Record Period. Although we are offered credit terms by some of our suppliers and may be able to rely on our cash and bank balances for meeting some of the payment obligations to our suppliers where necessary, we may still have to pay in advance certain costs and expenses prior to receipt of payment from our customers. If any of our customers have insufficient liquidity, we could encounter significant delays or defaults in payments owed to us by such customers, and we may need to extend our payment terms or restructure the trade receivables owed to us, all of which could materially and adversely impact on our financial conditions. As such, any significant timing difference between the payment and credit terms given by us to our customers and the payment and credit terms given to us by our suppliers may result in significant cash flow mismatch, which may adversely affect our cash flow position and our ability to meet our working capital requirements in the future.

Our business may be affected by the general economic conditions in the PRC, which could lead to a decrease in the level of economic activities and slowdown in the growth of our downstream industries and their demands for our products, all of which may materially and adversely affect our business, financial position and results of operations

During the Track Record Period, we derived all of our revenue from sales to customers in the PRC. As such, our business performance is affected by the general economic conditions in the PRC, which may be affected by various general economic conditions beyond our control, including but not limited to, GDP growth rate, consumer confidence, levels of inflation, unemployment levels and mortgage and interest rates. A downturn or anticipated slowdown in economic activities in the PRC could therefore lead to a corresponding slowdown in our downstream industries, which include, the drilling industry and the iron and steel industry. A slowdown in our downstream industries may in turn, result in decreased demand for our products and ultimately a material adverse effect on our business, financial position and results of operations.

The sales volume of our drilling mud decreased by: (i) approximately 3.7% from approximately 47,761 tonnes for the year ended 31 December 2013 to approximately 46,000 tonnes for the year ended 31 December 2014; and (ii) approximately 9.3% from approximately 24,697 tonnes for the six months ended 30 June 2014 to approximately 22,400 tonnes for the six months ended 30 June 2015. The sales volume of our pelletising clay also decreased by approximately 7.3% from approximately 38,191 tonnes for the year ended 31 December 2013 to approximately 35,389 tonnes for the year ended 31 December 2014. If the sales volume of our products continue declining as a result of adverse economic conditions in the PRC, our business, financial position and results of operations will be materially affected.

Fluctuations in the market prices and supply and demand for bentonite and our products could materially and adversely affect our business, financial condition and results of operations

Our revenue is mainly derived from the sale of our principal bentonite products, namely drilling mud and pelletising clay. According to the Independent Technical Report, our operations are market-limited rather than resource-limited. As such, any drastic change in China's or east China's market demand for bentonite, and hence the market price for bentonite, will also have a corresponding impact on the price of our products. Government policies, macroeconomic factors, the global economic environment and other factors beyond our control may also result in imbalances in supply and demand for our products, which may in turn lead to fluctuations in market prices for our products. In addition, if there are other minerals that can replace or act as a substitute for bentonite in the production of drilling mud and pelletising clay, the demand for our products may not grow as anticipated, or even decline. There is no assurance that the market prices of bentonite or our bentonite products will not decline in future or that such prices will remain at sufficiently high levels to ensure our profitability. Any adverse impact on China's market demand or prices of bentonite and/or our products could materially and adversely affect our business, financial condition and results of operations.

There may be disruptions to the supply of, or an increase in prices of, among others, electricity and materials and supplies

Our business operations, in particular our processing operations require a constant and reliable supply of electricity. During the Track Record Period, the expenses incurred for electricity amounted to approximately RMB3.1 million, RMB2.4 million and RMB1.5 million, respectively. Any shortages or disruptions in the availability of electricity could lead to delays or even suspension of our mining and production operations, while any increase in costs of electricity will lead to an increase of our overall operating costs. The occurrence of any of the foregoing could materially and adversely affect our business, financial condition and results of operation if we are unable to: (i) secure a reliable supply of electricity; or (ii) pass on the increased costs to our customers.

Our processing operations also require the use of other consumables, materials and supplies such as coal, sodium carbonate, other compound additives and packaging. During the Track Record Period, the expenses incurred for consumables, materials and supplies represented approximately 29.3%, 23.2% and 26.0% of our total cost of sales. There is no assurance that the supply of consumables, materials and supplies will not be interrupted or will be delivered in a timely manner, or that prices will not increase in the future. In the event of a shortage in supply of consumables, materials and supplies, our business, financial condition and results of operations may also be materially and adversely affected.

We rely on third party contractors to provide air-drying, transportation and processing services

During the Track Record Period, we engaged contractors for the provision of various services, namely: (i) air-drying; (ii) extraction; (iii) transportation; and (iv) processing. We will continue to engage contractors for the provision of air-drying, transportation and processing services. Sub-standard performance of any of our contractors leading to their failure to meet, among others, our Group's quality, safety and environmental protection standards may result in us being liable to third parties, which could materially and adversely affect our business, financial condition and results of operations. Being able to engage suitable contractors to perform the relevant services is also crucial to our business operations. Any failure to retain suitable contractors at a reasonable cost or seek replacements on reasonable terms, or at all, in a timely manner and any failure of our contractors to perform their obligations or comply with relevant laws, rules and regulations may have a material and adverse impact on our business and results of operations. For details on our third party contractors, please refer to "Business – Third party contractors" of this document.

Our business depends on the availability of reliable transportation networks and reliable transportation companies

As at the Latest Practicable Date, all of our customers and suppliers were located in the PRC, and our products and materials and supplies were transported by road. After extracting the bentonite ore from our Huanghu Bentonite Mine, the bentonite ore is either air-dried at the air-drying facilities located at the site of our Huanghu Bentonite Mine or transported to the air-drying facilities at Digang town and Suncun town, or directly transported to the processing plant to be dried by the rotary drum dryer, to reduce the moisture content of the bentonite ore to the level suitable for the production of drilling mud and pelletising clay. The bentonite ore air-dried at the air-drying facilities has to be transported to the processing plant for further processing to produce drilling mud and pelletising clay. During the Track Record Period, we engaged three transportation companies for the transportation of extracted bentonite ore from our Huanghu Bentonite Mine to the air-drying facilities at Digang town and Suncun town and/or our processing plant, and incurred transportation costs of approximately RMB1.6 million, RMB1.8 million and RMB0.8 million, representing approximately 8.3%, 10.2% and 10.3% of our total cost of sales for the years ended 31 December 2013 and 2014, and the six months ended 30 June 2015, respectively.

If the major road networks connecting our Huanghu Bentonite Mine to, among others, our customers, our suppliers, the air-drying facilities and the production site are blocked off for an extended period of time due to traffic accidents or are significantly damaged or rendered inaccessible due to unforeseeable incidents such as natural disasters, the delivery of our products will be significantly affected, resulting in late delivery and/or even loss of existing customers. In addition, there is no guarantee that the transportation companies engaged will not: (i) increase the price of their services; and/or (ii) fail to perform their obligation or comply with relevant laws, rules and regulations. If the major road networks are blocked for an extended period of time and/or we are unable to pass on increase in transportation costs to our customers, our business, reputation, financial condition, results of operations and prospects may be materially and adversely affected.

We have offered revolving credit limits or credit periods to certain customers in respect of payments for purchasing our products, and failure by our customers to pay us in a timely manner may materially and adversely affect out results of operations and financial conditions

During the Track Record Period, we offered revolving credit limits to two of our major customers in respect of payments for purchasing our products. The revolving credit limit provides for a predetermined credit limit that may be outstanding at any one time, and which is determined on a case-by-case basis. Under such revolving credit arrangement, the customer is entitled to delay the payment of our trade receivables to the extent allowed within the predetermined revolving credit limit. The customer may also request for a temporary top-up credit limit for their upcoming purchase with the presence of collateral. Such temporary top-up credit limit is usually granted for one week to one month within which the customer is required to settle our trade receivables to an amount within its predetermined revolving credit limit.

The predetermined revolving credit limits granted to these two customers in respect of payments for purchasing our products were RMB900,000 and RMB400,000, respectively, during the Track Record Period. During the Track Record Period, our Group also granted temporary top-up credit limits ranging from RMB300,000 to RMB800,000 and from RMB50,000 to RMB300,000 to these two customers, respectively. As at 31 December 2013, 31 December 2014 and 30 June 2015, total trade receivables from these two customers amounted to nil, approximately 28.2% and 38.8% of our Group's total trade receivables as at the corresponding year/period end dates. For more details of the revolving credit arrangements with such customers and the corresponding internal control measures, please refer to "Business – Sales and marketing – Payment terms and credit control" of this document.

During the Track Record Period, our Group also granted credit periods ranging from five days upon receipt of invoice from us to three months from receipt of goods or invoice to certain customers. If any of our customers fail to settle their outstanding amounts for their purchases with our Group in a timely manner, or at all, our results of operations and financial condition may be materially and adversely affected.

We require the lease of certain equipment for conducting air-drying work and extraction work ourselves

Since October 2014, we have leased extraction equipment and air-drying facilities to conduct our extraction work and part of the air-drying work ourselves, respectively. If the equipment or facility provided to us is not in good working condition, it may disrupt our extraction and air-drying activities, which may subsequently result in us failing to meet the delivery deadlines of our customers and thus materially and adversely affect our reputation and sales. Further, should we fail to retain suitable equipment providers at a reasonable rent or seek replacements on reasonable terms, or at all, in a timely manner, or should any of our contractors fail to perform their obligations or comply with the relevant laws, rules and regulations, our business and results of operations may be materially and adversely affected.

Our mining operations and demand for our products are subject to weather conditions

Our Huanghu Bentonite Mine is located in an area where the climate is classified as sub-tropical climate, whereby June and July are usually the months with relatively higher precipitation level. Rainfall is a major consideration when planning our work schedule at our Huanghu Bentonite Mine, given that we adopt the open-pit mining method. During the Track Record Period, we had to suspend our mining and air-drying operations for an aggregate of 35 days, 36 days and 25 days, respectively. In addition, the demand for one of our principal products, drilling mud, is also affected by rainfall as most drilling activities are conducted outdoors. There is no guarantee that we will be able to predict or foresee adverse weather conditions in a timely manner, or at all, such that we will be able to make preparations or arrangements in advance, such as extracting additional bentonite ore, in view of impending adverse weather conditions. Any failure to do so may materially and adversely affect our business operations, financial conditions and profitability. For further details, please refer to "Business – Seasonality" of this document.

Failure to retain our management team and other key personnel may materially and adversely affect our business and prospects

Our success is significantly dependent on the continued service of our management team and skilled employees. Our management team comprises three executive Directors, namely Mr. XU Chengyin, Mr. ZHANG Pingwu and Mr. CHEN Gongbao, and three members of our senior management team, namely Mr. CHENG Jiayi, Mr. QIAN Shengli and Mr. CHEN Jiayang, all of whom are critical to the development of our business and our strategic direction. For further details on our management team, please refer to "Directors, senior management and employees" of this document.

Any loss of one or more of our key executives and/or skilled member of the senior management team without immediate and adequate replacements may impede our future competitiveness and growth, and affect our daily business operations and implementation of our business strategies. As competition in the PRC mining industry for experienced personnel in the areas of exploration and development is intense, we may also be required to expend additional financial resources on higher compensation and other employee benefits to attract, recruit and train new personnel, which could be difficult and time-consuming and lead to a significant increase in our operating costs. If we fail to attract or retain the personnel required to achieve our business objectives, our business, financial condition and results of operations could be materially and adversely affected.

Our current insurance may not adequately cover all losses and liabilities arising from our operations

During the Track Record Period, we maintained various types of insurance. Nevertheless, there is no assurance that our existing insurance coverage will fully cover us from all potential risks and losses associated with our operations. In the event that we incur substantial losses or liabilities but are not insured against such losses or liabilities, or that our insurance is unavailable or inadequate to cover such losses or liabilities, our business, financial condition and results of operations could be materially and adversely affected.

Our future capital expenditure and research and development activities may result in increased depreciation expenses and research and development expenses

During the Track Record Period, our Group recorded (i) depreciation on property, plant and equipment of approximately RMB1.9 million, RMB1.4 million and RMB0.6 million, respectively; and (ii) research and development expenses of approximately RMB0.8 million, RMB0.9 million and RMB0.7 million, respectively.

Our future plans comprise of two main categories, namely: (i) improvement of plant and equipment, which includes, among others, the construction of new storage facilities for pelletising clay and the modification, improvement and/or replacement of certain processing equipment crucial for the production of our bentonite products; and (ii) development of production technology for new products. As such, it is anticipated that our depreciation expenses and research and development expenses, all of which will be charged to the combined statements of profit or loss and other comprehensive income, will increase after the Listing and may ultimately result in a material adverse effect on our business, financial position and results of operations in the future.

Our research and development activities, including collaborations with external institutions, may not yield the expected benefits for us

Our Group's continued success depends partly on our ability to maintain our commitment to research and development efforts. During the years ended 31 December 2013 and 2014, and the six months ended 30 June 2015, we expended approximately RMB0.8 million, RMB0.9 million and RMB0.7 million, respectively on research and development activities. As at the Latest Practicable Date, we had entered into collaboration agreements with two universities and one research institution for the development of new technologies and new bentonite products to cater for downstream markets other than iron ore pelletising and civil engineering. For details on our collaborations with external institutions, please refer to "Business – Research and development" of this document. There is no assurance that research and development activities undertaken by us will be successful or yield the anticipated benefits. Even if such activities are successful, we may not be able to apply the new technologies or launch the new products in a timely manner to take advantage of the market opportunities available. Market demand anticipated at the initial stages of the research and development cycle may not materialise by the end of the research, and the benefits that may be reaped from such newly developed technologies or products may be adversely affected and undermined by other competitors' rampant replication of similar technologies or products. Technologies or products developed may also be rendered obsolete by new technologies and new products developed by other competitors in the bentonite industry. In the event that technologies or products developed by us or through collaborations with such external institutions are replicated, replaced or made redundant, our revenues may not be sufficient to offset the costs incurred for such research and development activities and collaborations, which could subsequently affect our Group's business and financial conditions.

Any infringement on our intellectual property rights or by us on the intellectual property rights of others may adversely affect our reputation and profitability

As at the Latest Practicable Date, we were the registered owner of 10 utility model patents in the PRC and one domain name. We have also applied for registration of two trademarks in Hong Kong. There is no guarantee that the steps taken by our Group are sufficient to prevent or deter infringement or misappropriation of our intellectual property rights. Any significant infringement could weaken our competitive position and adversely affect our business operations.

In order to protect our intellectual property rights, we may have to expend large amounts of financial resources to commence legal proceedings against any third party infringement or misappropriation. Conversely, there is also the risk that we may infringe the intellectual property rights of others, thereby incurring costs in either defending or settling any intellectual property disputes alleging infringement or misappropriation. In the event that we are subject to any infringement claims, we may be required to spend a significant amount of financial resources to defend ourselves, to develop non-infringing alternatives or to obtain licences. There is no assurance that we will prevail in litigation or similar proceedings commenced by us or that we will be able to succeed in developing non-infringing alternatives or obtain the relevant licences on

reasonable terms, or at all. The occurrence of any of the foregoing may potentially lead to a material and adverse impact on our business, reputation, financial condition and results of operations.

Failure to compete effectively with our competitors may adversely affect our business and prospects

According to the CRU Report, competition within the PRC bentonite industry is highly intense as the industry is very fragmented and entry barriers are relatively low. Competition is driven by several factors, including but not limited to, the scale of production, quality of bentonite and transportation distance. There is no guarantee that we will have better financial, marketing, distribution and other resources and technological development capabilities as compared to our competitors. Our failure to compete effectively could materially and adversely affect our business, financial condition, results of operations and market position.

Our future growth is partly dependent on our ability to acquire other non-metal mines and businesses in the mining industry

One of our future plans is to expand our business through the selective acquisition of other non-metal mines in the PRC as and when appropriate opportunities arise. Our future growth is partly dependent on our ability to identify and acquire attractive mine reserves and/or businesses at a reasonable price which are complementary to our existing business operations. However, there is no guarantee that we will be able to implement our acquisition plans smoothly without any obstacles or delay. Factors that may delay or adversely affect our acquisition plans include, among others, the failure to obtain the relevant regulatory approvals, the inability to secure sufficient financing to fund our acquisitions, the occurrence of geotechnical difficulties and competition of third parties to acquire the same target. There is also no guarantee that our acquisition plans, even if implemented, will successfully reap the anticipated benefits for our Group.

The interests of our Controlling Shareholders may not be aligned with the interests of our Shareholders

Immediately following completion of the **[REDACTED]**, our Controlling Shareholders will be interested in approximately **[REDACTED]** of our issued share capital. As such, it will have significant influence over our business and operational affairs, including but not limited to, decisions with respect to: (i) mergers or other business combinations; (ii) the timing and amount of dividend payments; (iii) the composition of our senior management; and (iv) the issuance of additional shares or other equity securities.

The interests of our Controlling Shareholders may not be aligned with the interests of the other Shareholders of our Company, and may cause us to, or prevent us from, entering into certain transactions, the result of which might not be in, or may conflict with, the best interests of the other Shareholders. There is no assurance that our Controlling Shareholders will vote on Shareholders' resolutions in a way that will benefit all of our Shareholders.

Figures in relation to our Reserve, Resource and bentonite quality are only estimates based on certain assumptions and may be inaccurate

Our Reserve and Resource estimates are based on a number of assumptions that have been made by our Independent Technical Consultant in accordance with the JORC Code. For details, please refer to the Independent Technical Report in Appendix III to this document. Reserve and Resource estimates stated in this document involve an element of judgement based on industry knowledge, experience and industry practice, while the accuracy of such estimates may be affected by factors such as quality of geological exploration results, drilling and analysis of bentonite samples, and the procedures adopted by and the experience of the person making the estimates.

Although our estimates on Reserve and Resource described in this document are in accordance with standard evaluation methods generally used in the international mining industry and the JORC Code, these estimates may need to be revised from time to time to take into account new information and new interpretations on which the estimates are based on. Should our actual Resource and Reserve levels and quality differ substantially from that predicted by past drilling, sampling and similar examination, our Reserve and Resources estimates may require a downward adjustment which could materially and adversely affect our business, financial condition, results of operations and future prospects.

In addition, the mineralogical and chemical composition, water absorption and other properties of the bentonite ultimately mined may differ from those indicated by drilling results. Should the bentonite ore mined be of a lower quality than expected, the demand for, and the realisable price of our bentonite products may decrease, which could materially and adversely affect our business, financial condition, results of operations and future prospects.

There is no guarantee that the Resource and Reserve disclosed in this document can be economically exploited in the future and nothing contained herein should be interpreted as an assurance of the economic value of our Reserve and Resource or the profitability of our future operations.

Any unforeseeable changes in regulations of the mining industry or any inaccuracy of the information that our Independent Technical Consultant relied on when preparing the Independent Technical Report may materially and adversely affect the findings and conclusions in the Independent Technical Report

There might be unforeseeable changes in regulations of the mining industry or bentonite industry that are not disclosed in the Independent Technical Report, but may potentially have a material and adverse impact on our future operations. In preparing the Independent Technical Report, reference was made to reports compiled by other third parties. As such, the findings made and conclusions drawn in the Independent Technical Report may not be accurate if the information was derived from inaccurate reports or findings by such other third parties. In addition, the Independent Technical Report only reflects the mining and marketing conditions and SRK's interpretation of regulations of the mining industry in China as at the date of the Independent Technical Report, and SRK is not responsible for updating the Independent Technical Report after the effective date of the Independent Technical Report.

RISKS RELATING TO OUR INDUSTRY

Competition in the PRC bentonite industry is intense and there is no assurance that we can compete effectively

The PRC bentonite industry is highly competitive and we compete based on a plethora of factors, including but not limited to bentonite quality and characteristics, stability of supply, cost of transportation, reliability and timeliness of delivery, customer service and price. We face competition primarily from other manufacturers of bentonite products in the east China region. If we are unable to differentiate ourselves from other manufacturers of bentonite products and are unable to compete effectively in attracting and retaining customers, our business, financial condition, results of operations and document would be materially and adversely affected.

Changes to PRC laws, regulations and government policies in relation to environmental protection could adversely impact our business, financial condition and results of operations

Our mining and production operations are subject to various PRC environmental protection laws and regulations relating to a broad range of environmental protection matters, such as land rehabilitation, water and soil preservation, noise control and discharge of wastewater and pollutants. These environmental protection laws and regulations are complex and constantly evolving and have become more stringent in recent years and quantification of the cost incurred in order to comply with such laws and regulations may not always be possible. Any breach of the PRC environmental protection regulations could subject us to a substantial fine, damage our reputation, cause delays in production or result in some or all of our production facilities being temporarily suspended or permanently shut down. There is no assurance that the national or local authorities will not enact additional laws or regulations or amend or enforce new regulations in a more rigorous manner or establish local practice to enforce the laws or regulations in any manner which is unfavourable to our business. We may also need to substantially alter our production

processes to cater for the changes to environmental protection regulations, which could result in increased operating costs and thus adversely affecting our financial condition and results of operations.

Changes to PRC laws, regulations and governmental policies for the mining industry could have an adverse impact on our business, financial condition and results of operations

The PRC local, provincial and central authorities exercise a substantial degree of control over the mining industry in the PRC. A wide range of PRC laws, regulations, policies, standards and requirements in relation to, among other things, mine exploration, production and workplace safety, environmental protection, taxation, labour and foreign investment govern our business operations. Any changes to these laws, regulations, policies, standards and requirements or to the interpretation or implementation or establishment of any local practice in enforcing such laws, regulations, policies, standards and requirements may require us to incur additional expenses, and hence an increase in our operating costs, to ensure on-going compliance. Such additional expenditure to ensure compliance with new laws, regulations, policies, standards and requirements may have an adverse impact on our business, financial condition and results of operations.

Mining companies that fail to comply with the applicable laws and regulations may be subject to fines, penalties or even suspension of operations or revocation of licences. Relevant government authorities also conduct inspections of the mines and facilities of mining enterprises. Failure to pass such inspections may have an adverse impact on our reputation and reflect negatively on the credibility of our management, and ultimately adversely affecting our business, financial condition and results of operations.

There is no assurance that we will be able to fully comply with any new or revised PRC laws, regulations, policies, standards and requirements applicable to the bentonite mining industry, or at all. Additionally, any such new or revised PRC laws, regulations, policies, standards and requirements or any such changes in existing laws, regulations, policies, standards and requirements may also place further constraints on our development plan and adversely affect our future profitability and prospects.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Changes in PRC economic and political conditions, as well as government policies, could have a material adverse effect on our results of operations and document

All of our assets, mining and production operations, customers and suppliers are located in the PRC. As such, our business, financial condition and results of operations and prospects are, to a significant degree, subject to the economic, political and legal developments in the PRC. The PRC economy differs from the economies of other developed countries in various aspects, including but not limited to: (i) the amount and degree of the PRC government's involvement; (ii) the uniformity in implementation and enforcement of laws; (iii) preferential treatment to particular industries or companies; (iv) allocation of resources; and (v) control of foreign exchange.

Although the PRC economy has been transitioning from a planned economy to a more market-oriented economy, the PRC government continues to play a significant role in regulating industries and the economy through policy measures. There is no assurance that such changes in PRC economic, political or social conditions and in PRC laws and regulations will not have an adverse material impact on our current or future business, financial condition or results of operations. In addition, as most of the economic reforms carried out by the PRC government are unprecedented or experimental, we expect them to change from time to time.

Other political, economic and social factors may also result in further adjustments to existing policies. There is no assurance that such changes in the PRC's economic reforms will necessarily have a positive impact on our existing business operations and future developments. Our operations may also be materially and adversely affected by future policies of the PRC government, such as measures to control inflation, taxation methods or imposition of additional restrictions on currency conversion, which may affect the overall level of economic activity in the PRC and hence our business and financial condition.

Uncertainties with respect to the PRC legal system may limit the legal protections available to us

We conduct all of our business operations in the PRC and are subject to PRC laws and regulations. The PRC legal system is a civil law system fundamentally based on written statutes. Although prior court decisions may be cited for reference, they have limited precedential value. Furthermore, written statutes are often principle-based and may require detailed interpretation by enforcement bodies before applying and enforcing such laws. As such, it is possible that different PRC authorities may interpret the PRC laws and regulations differently, which could result in uncertainties regarding our business operations. The PRC government has been promulgating laws and regulations in relation to economic matters such as foreign investment, corporate reorganisation and governance, commerce, taxation and trade, including laws relating to the mining industry. However, as the PRC government is still in the process of developing its legal system, and given that many of the laws, rules and regulations are still relatively new and the limited volume of published decisions, the interpretation and enforcement of these laws, rules and regulations may involve uncertainties and may not be as consistent and predictable as in other more developed jurisdictions. As a result, the legal protections available to us under these laws, rules and regulations may be limited.

Government control on currency conversion may limit our ability to utilise our cash effectively

Our Group's operations are based in the PRC and therefore we receive all of our payments from customers in RMB, which is not a freely convertible currency. The PRC Government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of the PRC. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, normally can be made in foreign currencies without prior approval from SAFE or its local counterpart provided that certain procedural requirements are satisfied.

However, approval from or registration with SAFE or its local counterpart or banks designated by SAFE or its local counterpart is required where RMB is to be converted into foreign currency and remitted out of the PRC to pay capital expenses under certain circumstances such as offshore investment denominated in foreign currencies. The PRC Government may also at its discretion restrict access in the future to foreign currencies for current account transactions. Since a significant amount of our future cash flow from operations will be denominated in RMB, any existing and future restrictions on currency exchange may limit our ability to purchase goods and services outside the PRC or fund our business activities that are conducted in foreign currencies. This could also affect the ability of our subsidiaries in the PRC to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us.

The exchange rate of the RMB against the USD, HKD and other foreign currencies fluctuates and is affected by, among other things, the policies of the PRC Government and changes in the PRC and international political and economic conditions. Any future exchange rate volatility relating to RMB may give rise to uncertainties in the value of our net assets, earnings and dividends.

An appreciation of RMB may result in increased competition from foreign competitors; a devaluation of RMB may adversely affect the value of our net assets, earnings and dividends in foreign currency terms. Moreover, to the extent that we need to convert the net proceeds from the **[REDACTED]** and future financing into RMB for our operations, appreciation of RMB against the relevant foreign currencies would have an adverse effect on the RMB amount we would receive from the conversion. On the other hand, because the dividends on our Shares, if any, will be paid in HKD, any devaluation of the RMB against the HKD could adversely affect the amount of any cash dividends on our Shares in HKD terms.

We may rely on dividends and other distributions on equity paid by our subsidiary in the PRC to fund our cash and financing requirements, and any limitation on the ability of our subsidiary in the PRC to pay dividends or make distributions to us could have a material adverse effect on our liquidity

We are a holding company, and we rely on dividends and other distributions on equity paid by our subsidiary in the PRC for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our Shareholders, service any debt we may incur and pay certain operating expenses. Under the applicable PRC laws, rules and regulations, dividends may be paid only out of distributable profits. We cannot assure you that our subsidiary in the PRC will generate sufficient earnings and cash flow to pay dividends or otherwise distribute sufficient funds to enable us to meet our financial obligations or declare dividends. In particular, our subsidiary in the PRC is required under the applicable laws and regulations to set aside a portion of its after tax profits of each year to fund statutory reserves. These statutory reserves are not distributable as cash dividends and must be made before distribution of dividend to equity owners. As a result, our subsidiary in the PRC is restricted in its ability to transfer a portion of its net assets to its shareholder as dividends. Limitations on the ability of our subsidiary in the PRC to pay dividends or make distributions to us could have a material adverse effect on our liquidity and limit our ability to pay dividends to our Shareholders.

Difficulties in effecting service of process upon us or our executive Directors and enforcement of foreign judgments obtained from non-PRC courts

All of our executive Directors and senior management reside in the PRC, and substantially all of our assets are located in the PRC. Therefore, it may be difficult for investors to effect service of process upon us or those persons in the PRC or to enforce against us or them any foreign judgments made by courts in non-PRC jurisdictions.

China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the Cayman Islands and many other countries and regions. On 14 July 2006, Hong Kong and China entered into the Arrangement on Reciprocal Recognition and Enforcements of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (as amended, supplemented or otherwise modified from time to time) ("**Arrangement**"), pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in the PRC.

Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having the sole jurisdiction for the dispute. As such, it may be difficult to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in the dispute do not agree to enter into a choice of court agreement in writing. In view of the above, it may be difficult or even impossible for investors to effect service of process against us or our Directors in the PRC for the purpose of seeking recognition and enforcement of foreign judgments in the PRC.

In addition, on 18 June 1999, the Supreme People's Court of the PRC and the Government signed the Arrangement Concerning Mutual Enforcement of Arbitral Awards between the Mainland and Hong Kong Special Administrative Region ("**Arbitration Arrangement**"). The Arbitration Arrangement, made in accordance with the spirit of the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council and became effective on 1 February 2000. Under the Arbitration Arrangement, awards that are made by the PRC arbitral authorities recognised under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong, and awards made by Hong Kong arbitral authorities are also enforceable in the PRC. However, there are uncertainties as to the outcome of any action brought in the PRC to enforce an arbitral award made in favour of a holder of shares of a listed company incorporated in the Cayman Islands. Accordingly, we are unable to predict the outcome of any such action.

We may be deemed to be a PRC tax resident under the EIT Law and be subject to PRC taxation on our worldwide income

Under the EIT Law and the EIT Rules, enterprises established under the laws of a foreign country or region whose "de facto management bodies" are located in the PRC are considered "resident enterprises" and will generally be subject to a uniform 25% EIT on their worldwide income. Under the EIT Rules, "de facto management body" is defined as the managing body that has the material and overall management control over the production, business, personnel, accounts and assets of an enterprise.

On 20 April 2009, the SAT issued 關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知 (Notice on Issues Relating to Determination of PRC – Controlled Offshore Enterprises as PRC Resident Enterprises by Applying the "De Facto Management Body" Test*) ("**SAT Circular No. 82**") stipulating certain specific criteria for determining whether the "de facto management body" of a PRC-controlled offshore enterprise is located in the PRC. These criteria include, among others: (i) location where the enterprise's day-to-day operational management is primarily exercised; (ii) whether decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organisations or

personnel in the PRC; (iii) location of the enterprise's primary assets, accounting books and records, company seals, and board and shareholders' meeting minutes; and (iv) whether 50% or more of voting board members or senior executives of the enterprise habitually reside in the PRC.

However, it remains unclear how the tax authorities will treat an overseas company controlled by natural persons such as ours. It cannot be assured that we will not be considered a PRC resident enterprise for PRC enterprise income tax purposes and be subject to the uniform 25% enterprise income tax on our global incomes. In such a case, our profitability and cash flow may be materially and adversely affected as a result of our global income being taxed under EIT Law. In addition, if we are considered a PRC resident enterprise, any dividend received by our non-resident enterprise may be subject to a withholding tax at a rate of up to 10%, as further explained in "Risk factors – Risks relating to conducting business in the PRC – Dividends payable by us to our foreign investors and gain on the sale of our Shares may become subject to withholding taxes under the PRC tax laws" in this section.

Dividends payable by us to our foreign investors and gain on the sales of our Shares may become subject to withholding taxes under the PRC tax laws

Under the EIT Law and the relevant regulations, to the extent such dividends for earnings derived since 1 January 2008 are sourced within the PRC and we are considered a "resident enterprise" for PRC tax law purposes, PRC income tax at the rate of 10% is applicable to dividends payable by us to our investors that are "non-resident enterprises" so long as such "non-resident enterprise" investor does not have an establishment or place of business in the PRC or, despite the existence of such establishment or place of business in the PRC, the relevant income is not effectively connected with such establishment or place of business in the PRC. A lower withholding tax rate may apply if such"non-resident enterprise" is incorporated in a jurisdiction that has entered into an income tax treaty or agreement with China which allows a lower withholding tax rate.

Similarly, any gain realised on the transfer of our Shares by such "non-resident enterprise" investors are also subject to a 10% PRC income tax if such gain is regarded as income derived from sources within the PRC and we are considered a "resident enterprise" in the PRC. If we are required under the relevant tax law to withhold PRC income tax on our dividends payable to our foreign Shareholders who are "non-resident enterprises", or if you are required to pay PRC income tax on the transfer of our Shares, the value of your investment in our Shares may be materially and adversely affected.

There is no assurance that, if we are considered a PRC "resident enterprise", holders of our Shares might be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or regions.

We and our Shareholders may face Enterprise Income Tax risks with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies

Pursuant to 關於加強非居民企業股權轉讓所得企業所得税管理的通知 (Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises*) ("**Circular 698**") issued by SAT on 10 December 2009 with retroactive effect from 1 January 2008, where a non-PRC resident enterprise transfers its indirect equity interests in a PRC resident enterprise by disposing of its equity interests in an overseas holding company, or an "Indirect Transfer", and such overseas holding company is located in a tax jurisdiction that has an effective tax rate less than 12.5% or does not tax foreign income of its residents, the non-PRC resident enterprise, as the transferor, is required to report the Indirect Transfer to the relevant PRC tax authorities. Using a "substance over form" principle, the PRC tax authorities may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of avoiding PRC tax, in which case the gains derived from such "Indirect Transfer" may be subject to PRC withholding tax at a rate of up to 10%. Circular 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant PRC tax authorities have the authority to make reasonable adjustments to the taxable income of the transaction.

關於非居民企業間接轉讓財產企業所得税若干問題的公告 (Announcement of the State Administration of Taxation on Certain Issues Concerning the Enterprise Income Tax on the Indirect Transfer of Properties by Non-resident Enterprises*) ("**Circular 7**") issued by the State Administration of Taxation which came into effect on 3 February 2015 abolishes certain provisions of Circular 698 and also provides more guidance on a number of issues in Circular 698. Circular 7 stipulates that if a non-resident enterprise indirectly transfers its equity interest in the PRC resident enterprises and other properties by implementing arrangements such as transfer of shares in an overseas enterprise, without reasonable commercial purposes but to evade the enterprise income tax, the nature of this indirect transfer shall be re-defined and recognised as a direct transfer of equity interest in a PRC resident enterprise and other properties. Circular 7 specifies a number of factors and conditions that shall be considered in determining whether an indirect transfer of the PRC taxable properties has a reasonable commercial purpose. It also specifies circumstances under which an indirect transfer shall be directly deemed as having no reasonable commercial purpose. The determination shall be made on a case-by-case basis based on specific circumstances.

On 15 May 2015, State Administration of Taxation issued 非居民企業間接轉讓財產企業所得税工作規程(試行) (Enterprise Income Tax on the Indirect Transfer of Properties by Non-resident Enterprises Work Procedures (Trial)*) ("**Work Procedures**"), which intends to clarify the relevant duties and operation procedures of the tax authorities at all levels. If the competent tax authorities determine that the indirect transfer of the PRC taxable properties does not have a reasonable commercial purpose and needs to be examined and adjusted, the case will be reported

through the special tax adjustment case management system and re-checked by the competent tax authorities at the provincial level, and may be placed on file by application to the State Administration of Taxation. However, since Circular 7 and Work Procedures only became effective recently, it is still not clear that how the relevant tax authorities would interpret and define each factor and then determine whether the transfer of our Shares by Shareholders may have a reasonable commercial purpose or not.

As a result, if we and/or our Shareholders are deemed to be conducting any "Indirect Transfer", we and/or our shareholders may become at risk of being taxed under Circular 7 and Circular 698 in the future and we and/or our Shareholders may be required to expend valuable resources to comply with Circular 7 and Circular 698, including but not limited to go through tax filing formalities. If any future "Indirect Transfer" conducted by us and/or our Shareholders constitute an taxable indirect transfer of the PRC taxable properties under Circular 7 and Circular 698 and is subject to the EIT obligation under Circular 7 and Circular 698, the amount of the EIT shall be calculated based on the income from such transfer and in respect of applicable tax rate, a withholding tax rate of 10% may be applicable, unless otherwise provided in the relevant tax treaty or implementing rules of Circular 7 and/or Circular 698. Any failure of us and/or our Shareholders to comply with Circular 7 and Circular 698 may have a material and adverse impact on the reputation, financial conditions and business of us and/or our Shareholders.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may limit our ability to inject capital or distribute profits

SAFE has issued 關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知 (Circular of the State Administration of Foreign Exchange on Issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles*) ("**Circular 37**"), which is effective from 14 July 2014. Circular 37 requires a PRC individual resident ("**PRC Resident**") to register with the local SAFE branch by filing a "Registration Form of Overseas Investments Contributed by Domestic Individual Residents" before he or she contributes assets or acquires equity interests in any special purpose vehicle incorporated outside the PRC ("**SPV**") that is directly established or controlled by the PRC Resident for the purpose of conducting investment or financing. Under Circular 37, after the initial registration with SAFE or its local counterpart, the PRC Resident is also required to register with the local SAFE branch for any major change in respect of the SPV, including, any major change of the SPV's PRC Resident shareholder, name of the SPV, term of operation, or any increase or reduction of the SPV's registered capital, share transfer or swap, and merger or division. Failure to comply with the registration procedures of Circular 37 may result in penalties, including the imposition of restrictions on the ability of the subsidiaries of SPV which are established in the PRC to distribute dividends to the SPV. Pursuant to 國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知 (Notice on Further Simplification and Improvement of Foreign Exchange Administration Policies for Direct Investment*) ("**Circular 13**") issued by SAFE, the abovementioned registration shall be directly reviewed and handled by qualified banks.

Since Circular 37 and Circular 13 only came into effect recently, it remains unclear how the relevant PRC government authorities will interpret, amend and implement them. There is no assurance that all the PRC Shareholders will conduct the abovementioned registration under Circular 37 and Circular 13 or update such registration. If our PRC Shareholders fail to conduct the abovementioned registration and relevant updates, this may result in penalties and our subsidiaries established in the PRC may be prohibited from making payments to us from capital reductions, share transfers or liquidations of our PRC subsidiaries. This may in turn affect our ownership structure, acquisition strategy, business operations and ability to make dividend payments to PRC Shareholders.

We may face PRC regulatory risks relating to the Share Option Scheme

On 15 February 2012, SAFE issued 國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知 (Notice of SAFE on Issues relating to Foreign Exchange Administration for Domestic Individuals Participation on Equity Incentive Plans of Overseas-Listed Companies*) ("**Equity Incentive Plan Notice**"). The Equity Incentive Plan Notice applies to domestic individuals as defined in article 52 of 中華人民共和國外匯管理條例 (Foreign Exchange Administration Regulations of the PRC*), including directors, supervisors, senior management or other employees of a domestic company, either Chinese citizens (including citizens of Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan) or foreign individuals. Such individuals are required to file foreign exchange registrations with the relevant SAFE branches for participation in a company's share option scheme if the domestic company is listed abroad or for participation in the share option scheme of an overseas-listed company, which either invests in or is invested in by a domestic company or controls or is controlled by a domestic company. If we fail to arrange relevant registration procedures for individuals participating in the Share Option Scheme, we may be subject to the relevant regulatory measures or administrative sanctions. We may therefore face regulatory risks relating to the Share Option Scheme if we grant options to domestic individuals provided in the Equity Incentive Plan Notice in the future.

Restrictions on foreign investment in the PRC mining industry could materially and adversely affect our business and results of operations

In China, foreign companies have been, and are currently, required to operate within a framework that differs from that imposed on domestic PRC companies. For example, 外商投資產業指導目錄(2015年修訂) (Guidance Catalogue for Foreign Investment Industries (2015 Version)*) which became effective on 10 April 2015, clearly specifies the encouraged, restricted, and prohibited industries for foreign investment. Industries not listed in this catalogue are generally open to foreign investment unless specifically prohibited or restricted by other PRC laws and regulations, and the industry of bentonite mining and processing is not listed in this catalogue and open to foreign investment. Should the PRC Government imposes greater restrictions on foreign investment in China, or seeks to nationalise our operations in China, our business, financial condition and results of operations could be materially and adversely affected.

RISKS RELATING TO THE [REDACTED] AND OUR SHARES

There has been no prior public market for our Shares and an active trading market for our Shares may not develop

Prior to the Listing, there was no public market for our Shares. There is no assurance that there will be an active trading market of our Shares on GEM upon Listing, or if it exists, that it can be sustained following the completion of the **[REDACTED]**. In addition, the market price of our Shares to be traded on GEM may differ from the **[REDACTED]** and investors should not treat the **[REDACTED]** as an indicator of the market price of our Shares to be traded on GEM. Upon Listing, the trading volume and market price of our Shares may be volatile. Such volatility in the price of our Shares may be caused by factors outside our Group's control and may be unrelated or disproportionate to our Group's operating results. Such factors may include investors' perceptions of us and our business plans, the income, profit and cash follow of our Group, new services and/or investments of our Group, changes of senior management of our Group and general economic conditions. There is no assurance that such factors will or will not occur and it is difficult to quantify the impact on our Group and on the trading volume and market price of our Shares.

The price and trading volume of our Shares may be volatile, which may adversely affect the value of your [REDACTED]

The price and trading volume of our Shares may be highly volatile. The market price of our Shares may fluctuate significantly as a result of the following factors, among others:

- variations of our results of operations;
- loss of major customers or material defaults in payment by our customers;
- announcements of new investments, strategic alliances and/or acquisitions; and
- general economic and stock market conditions.

In addition, stock markets and the shares of other companies listed on the Stock Exchange with significant operations and assets in the PRC may experience price and volume fluctuations from time to time that are not related to the operating performance of any particular company. Such variations may in turn adversely affect the market price of our Shares.

Investors may experience dilution if our Company issues additional Shares or other securities in the future

Our Group may need to raise additional funds in the future to finance business expansion or new development and acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to the existing

Shareholders, the shareholding of such Shareholders in our Company may be reduced or such new securities may confer rights and privileges that take priority over those conferred by the **[REDACTED]**.

Future sales by our existing Shareholders of a substantial number of Shares in the public market could materially and adversely affect the market price of our Shares

Shares beneficially owned by our Controlling Shareholders are subject to certain lock-up periods under the GEM Listing Rules. There is no assurance that our Controlling Shareholders, whose interests may be different from those of our Shareholders, will not dispose of their Shares following expiration of the lock-up periods. The sale of substantial amounts of our Shares in the public market, or the perception that such sale may occur, could adversely affect the market price of our Shares.

You may face difficulties in protecting your interests under Cayman Islands laws or PRC laws, which law may provide different protection to minority shareholders than the laws of Hong Kong and other jurisdictions

Our corporate affairs are governed by our Memorandum and Articles and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differs in some respects from those established under statutes and under judicial precedents in other jurisdictions. As a result, remedies available to the minority Shareholders of our Company may be different from those they would have enjoyed under the laws in other jurisdictions. For further details, please refer to Appendix IV to this document.

RISKS RELATING TO STATEMENTS MADE IN THIS DOCUMENT

Statistics and industry information contained in this document may not be accurate and should not be unduly relied upon

This document contains certain statistics and facts that have been extracted from PRC government official sources and publications or other sources. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics from official government publications referred to or contained in this document may be inaccurate or may not be comparable to statistics produced for other economies and should not be relied upon. While our Directors have taken reasonable care in the selection and reproduction of such information in this document. neither our Company, the Sole Sponsor, the Sole Lead Manager, the Sole Bookrunner, the Underwriter nor any other parties involved in the **[REDACTED]** has independently verified such information, and it may be inaccurate, incomplete or out-of-date. We make no representation as to the accuracy or completeness of such information and there is no assurance that such information contained in this document is prepared to the same standard or level of accuracy and comparable with similar kind of information available in other publications or jurisdictions. Prospective investors should not place undue reliance on such statistics and information.

Our future results could differ materially from those expressed or implied by forward looking statements in this document

This document contains certain forward looking statements relating to the plans, objectives, expectations and intentions of our Directors. Such forward looking statements are based on numerous assumptions as to our present and future business strategies and the development of the environment in which we operate. These statements involve known and unknown risks, uncertainties and other factors which may affect and cause our actual financial results, performance or achievements to be materially different from our anticipated financial results, performance or achievements expressed or implied by these statements. As such, forward looking statements in this document should not be regarded as representations by us, and investors should not place undue reliance on such forward looking statements.

Investors should not rely on any information contained in the press articles or other media regarding us and the [REDACTED]

Prior to the publication of this document, there might have been press articles and media coverage regarding us and the **[REDACTED]** which might include certain financial information, financial projections, and other information about us which do not appear in this document. Such information might not be sourced from or authorised by us, hence, we do not accept any responsibility for the accuracy or completeness of such information. We cannot guarantee and make no representation as to the appropriateness, accuracy, completeness or reliability of such information. Potential investors are therefore cautioned to make their investment decisions based solely on the information contained in this document.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

DIRECTORS

Name	Residential address	Nationality
Executive Directors		
Mr. XU Chengyin (徐承銀)	Flat 1601, Unit 2 Building No. 10, Zone B Zuoan Residential Quarter Caojiashan, Wuhu Anhui Province, PRC	Chinese
Mr. ZHANG Pingwu (張平武)	Flat 401, Unit 1 Building No. 16, Zone B Yangguang Garden South Yanhe Road Fanchang County, Wuhu Anhui Province, PRC	Chinese
Mr. CHEN Gongbao (陳功保)	Flat 8I, Building A5, Yefeng Haian Residential Quarter Taoyuan West Road Nanshan District, Shenzhen Guangdong Province, PRC	Chinese
Independent non-executive Directors		
Mr. CHAN Chiu Hung Alex (陳釗洪)	Flat B, 5th Floor Wang Fung Building 33 Chi Kiang Street To Kwa Wan Kowloon, Hong Kong	Chinese
Mr. ZHENG Shuilin (鄭水林)	Room 301, Gate 1 20th Floor Xianghuang Qicai Huayuan Nongda South Road Haidian District, Beijing PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

Name	Residential address	Nationality
Mr. DUAN Xuechen (段學臣)	District 3, Block 2, No. 905 Sunshine 100 International New Town Stage 1 Yuelu District, Changsha Hunan Province PRC	Chinese

Please refer to "Directors, senior management and employees" for further information on the abovementioned Directors.

PARTIES INVOLVED IN THE [REDACTED]

Sole Sponsor, [REDACTED]

Celestial Capital Limited
21st Floor, Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Legal advisers to our Company

As to Hong Kong law:
Minter Ellison
Level 25
One Pacific Place
88 Queensway
Hong Kong

As to PRC law:
Commerce & Finance Law Offices
6/F, NCI Tower
A12 Jianguomenwai Avenue
Chaoyang District
Beijing
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As to Cayman Islands law:
Conyers Dill & Pearman
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

Legal advisers to the Sole Sponsor [REDACTED]	*As to Hong Kong law:* **Nixon Peabody CWL** **in association with Hylands Law Firm** 50th Floor, Bank of China Tower 1 Garden Road Central Hong Kong *As to PRC law:* **Shu Jin Law Firm** 12/F, Taiping Finance Tower 6001 Yitian Road Shenzhen PRC
Auditors and reporting accountants	**SHINEWING (HK) CPA Limited** *Certified Public Accountants* 43/F, Lee Garden One, 33 Hysan Avenue Causeway Bay Hong Kong
Independent Industry Consultant	**CRU Consulting** 517, Tower 2, Bright China Chang'an Building 7 Jianguomennei Avenue Beijing PRC
Independent Technical Consultant	**SRK Consulting (Hong Kong) Limited** Suite A1, 11/F, One Capital Place 18 Luard Road Wanchai Hong Kong
Compliance adviser	**Celestial Capital Limited** 21st Floor, Low Block, Grand Millennium Plaza 181 Queen's Road Central Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office and principal place of business in the PRC	Xiao Keshan Xingang Town Fanchang County Wuhu Anhui Province, PRC
Principal place of business in Hong Kong	Room 2204, Shun Tak Centre 200 Connaught Road Central Sheung Wan Hong Kong
Company's website	**www.fsnmmaterials.com** *(the contents of this website do not form part of this document)*
Compliance officer	Mr. CHEN Gongbao
Company secretary	Mr. YUE Ming Wai Bonaventure *(FCS, FCPA)* Albany House 9, 9/F, Tower 1 The Balmoral 1 Ma Shing Path, Tai Po New Territories Hong Kong
Authorised representatives (for the purpose of the GEM Listing Rules)	Mr. YUE Ming Wai Bonaventure *(FCS, FCPA)* Albany House 9, 9/F, Tower 1 The Balmoral 1 Ma Shing Path, Tai Po New Territories Hong Kong Mr. CHEN Gongbao Flat 8I, Building A5 Yefeng Haian Residential Quarter Taoyuan West Road Nanshan District, Shenzhen Guangdong Province, PRC

CORPORATE INFORMATION

Audit Committee	Mr. CHAN Chiu Hung Alex *(Chairman)* Mr. DUAN Xuechen Mr. ZHENG Shuilin
Remuneration Committee	Mr. DUAN Xuechen *(Chairman)* Mr. CHAN Chiu Hung Alex Mr. ZHENG Shuilin Mr. XU Chengyin
Nomination Committee	Mr. ZHENG Shuilin *(Chairman)* Mr. CHAN Chiu Hung Alex Mr. DUAN Xuechen Mr. CHEN Gongbao
Principal share registrar and transfer office	**[REDACTED]**
Hong Kong Share Registrar	**[REDACTED]**
Principal bankers	**Industrial and Commercial Bank of China (Fanchang branch)** No. 105 Jine Road, Fanyang Town Fanchang, Wuhu Anhui PRC

We have extracted and derived the information and statistics in the section below, unless otherwise specified, from the CRU Report. We believe that the sources of the information and statistics in this section are appropriate sources for such information and statistics and have taken reasonable care in the extraction and reproduction of such information and statistics. We have no reason to believe that such information and statistics is false or misleading or that any fact has been omitted that would render such information and statistics false or misleading. None of our Company, the Sole Sponsor, the Underwriter, any of our or their respective affiliates, directors or advisers or any other persons or parties involved in the **[REDACTED]** *have independently verified such information and statistics directly or indirectly derived or extracted, or make any representation as to the accuracy of such information or statistics, which may not be consistent with other information and statistics compiled within or outside the PRC. Accordingly, the official and non-official sources contained herein may not be accurate and should not be unduly relied upon.*

SOURCE AND RELIABILITY OF INFORMATION

In connection with the **[REDACTED]**, we have engaged CRU, an Independent Third Party, to conduct research on China's bentonite industry and to provide the CRU Report for use in this document for a total sum of UK£57,500. CRU is a specialist consultancy firm providing independent, exclusive and proprietary advice to metals and mining companies, financial institutions and governments in the world and works with the support and data of its parent company, which is one of the world's leading information providers to the metals and mining industries for the past 40 years. CRU employs over 250 specialists in the commodity sectors from seven offices around the world.

Research methodology

CRU's independent research was undertaken through information obtained from various government publications in the PRC as well as information provided by international organisations and industry sources. In establishing the market size of bentonite in both China and east China, CRU conducted both top-down (i.e. estimating total market size from production and trade data) and bottom-up (i.e. estimating demand from each end-sector) research on the major end-use sectors of bentonite in China. To establish company product-mix data, CRU relied on its extensive contacts within the industry and assistance from the China Bentonite Association. To determine the competitiveness of bentonite producers in China, CRU relied on production or capacity data due to the fragmented bentonite industry in China. CRU has conducted reasonable verification on the information and data which it relied upon, and is satisfied that these information and data are complete and accurate.

In preparing the CRU Report, CRU adopted the following major assumptions: (i) PRC's economy is likely to maintain a steady growth in the next decade; (ii) PRC's social, economic and political environmental is likely to remain stable in the forecast period, which ensures the stable and healthy development of the bentonite industry in China; (iii) there will be no material changes in legislation or regulations or rules in the PRC which will adversely affect the bentonite industry in China; and (iv) there are no external factors such as natural disasters that may affect the demand and supply of bentonite during the forecast period. CRU has confirmed that it is not aware of anything which could lead it to believe that these assumptions are unfair or unreasonable.

Our Directors have no reason to believe that the aforesaid major assumptions are inappropriate, and are satisfied that the disclosure of future projections and industry data in this section is not biased or misleading. Our Directors also confirm that as at the Latest Practicable Date, after taking reasonable care, there was no adverse change in the market information since the date of the CRU Report which may qualify, contradict or have an impact on the information as disclosed in this section.

Unless otherwise specified, all industry data and forecasts contained in this section are derived from the CRU Report.

INTRODUCTION TO BENTONITE

According to the CRU Report, bentonite has many unique features which can be used as an important industrial material, such as water absorption, swelling, binding and stabilising. As such, bentonite is widely applied in various end-use industries, the three key end-use industries in the PRC being: (i) the iron ore pelletising industry; (ii) the drilling industry; and (iii) the foundry industry. The two most commonly-used types of bentonite are calcium bentonite and sodium bentonite, with the latter considered to be superior in terms of end-use value.

CHINA'S BENTONITE RESOURCES AND RESERVES

According to the CRU Report, China has the largest bentonite resources and reserves in the world. Total bentonite resources in China are estimated at approximately 7.0 billion tonnes, and total bentonite reserves are estimated at approximately 5.0 billion tonnes in 2014. According to the CRU Report, over 26 provinces in China possess bentonite resources and reserves, whereby Anhui province, where our Group's business operations are located, is estimated to have bentonite resources of approximately 1,477 Mt in 2014, which accounts for more than 20.0% of the total bentonite resources in China. As such, CRU concludes that Anhui province has a much higher share of bentonite resources than most of the provinces in China.

CHINA'S BENTONITE PRODUCTION

According to the CRU Report, China has dominated global bentonite production levels since 2009. In 2014, it was estimated that China produced approximately 7,708 kt of bentonite, representing a decrease of approximately 3.8% as compared with 2013. As iron ore pelletising is the largest single use of bentonite in China, any fluctuations in demand for iron ore pellets will have a corresponding impact on the overall demand for bentonite and demand for bentonite used in iron ore pelletising. The decrease in demand for bentonite used in iron-ore pelletising in 2014 was due to a decrease in demand for iron ore pellets, which is an essential raw materials component for the production iron in the blast furnace in the iron and steel industry. The table below sets out China's bentonite production levels for 2009 to 2014, and the forecasted bentonite production levels for 2015 to 2019:

China's bentonite production, kt, 2009 to 2019

	2009	**2010**	**2011**	**2012**	**2013**	**2014**
Bentonite production	6,557	7,419	7,462	7,796	8,012	7,708
y-o-y	7.7%	13.1%	0.6%	4.5%	2.8%	-3.8%
	2014	**2015(F)**	**2016(F)**	**2017(F)**	**2018(F)**	**2019(F)**
Bentonite production	7,708	7,735	7,743	7,852	7,954	8,001
y-o-y	-3.8%	0.4%	0.1%	1.4%	1.3%	0.6%

Source: CRU Report

The CAGR for China's bentonite production between 2009 and 2014 is approximately 3.3%, but only approximately 0.7% between 2014 and 2019.

CHINA'S BENTONITE CONSUMPTION

China's total bentonite consumption was approximately 7,558 kt in 2014, representing a decrease of approximately 3.9% as compared to 7,861 kt in 2013. According to the CRU Report, the decrease in bentonite demand in 2014 and hence bentonite consumption was mainly caused by the significant decrease in iron ore pellet production.

During 2009 to 2014, China's economy was boosted by various stimulus measures following the global financial crisis between 2008 to 2009, which led to a significant growth in steel, metals and mining production levels, and ultimately a significant increase in China's bentonite consumption with a CAGR of approximately 3.6% between 2009 and 2014. In 2014, steel, metals and mining production levels slowed down, leading to a decrease in China's overall bentonite demand. China's iron ore pelletising industry is expected to recover from 2017 onwards due to the anticipated increase in the use of iron-ore pellets in blast furnaces for steel production. According

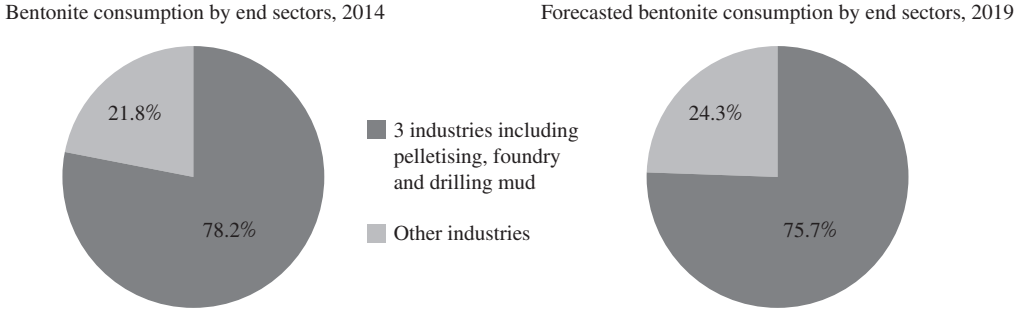
to the CRU Report, the demand for bentonite by other industries such as chemicals, construction, agricultural, environmental and light industries is also expected to grow steadily over the next few years, and the future growth of bentonite demand is expected to be mainly supported by the drilling industry in China. However, the total demand in such other industries is unlikely to fully offset the decrease in demand in the iron-ore pelletising, and consumption is forecasted to have a slow growth rate with a CAGR of approximately 0.8% between 2014 and 2019.

Our business operations are located in the Anhui province of east China, which has a very large concentration of major bentonite-consuming industries such as steel, mining, foundry, construction and chemicals. Accordingly to the CRU Report, total bentonite consumption in east China for 2014 was approximately 3,187 kt. Notwithstanding the slowdown in China's steel metals and mining production levels in 2014, east China was less severely affected as compared to other regions in China due to its diversified structure of end-use sectors for bentonite. According to the CRU Report, total bentonite consumption levels in east China fell by approximately 2.8% in 2014 as compared to the previous year, while bentonite consumption levels in China fell by approximately 3.9% in 2014.

According to the CRU Report, the CAGR for bentonite consumption in east China between 2009 and 2014 was approximately 3.2%, and is forecasted to grow at a CAGR of approximately 1.5% between 2014 and 2019, which is well above China's overall CAGR of approximately 0.8% for the same period.

Bentonite consumption by end sectors

According to the CRU Report, the three main bentonite-consuming industries in China are the iron ore pelletising industry, drilling mud industry and foundry industry, accounting for approximately 28.8%, 22.3% and 27.1% of China's total bentonite consumption in 2014. Other sectors which are expected to have an increase in bentonite consumption include chemical industries, construction and agriculture and environmental uses. The diagrams below set out China's bentonite consumption by industry for 2014 and the forecasted bentonite consumption for 2019:



Source: CRU Report

Iron ore pelletising industry

The iron ore pelletising industry is the largest bentonite-consuming industry in China. Bentonite is used as a binding agent for iron ore pellets which are an essential raw material component for the production of iron in the blast furnace in the iron and steel industry. According to the CRU Report, the key trends occurring within the China's steel industry that may impact on China's total bentonite consumption levels include: (i) slowing demand for steel from the construction industry, low steel prices and environmental issues; (ii) increase in import of iron ore pellets from overseas; and (iii) reduction in the use of bentonite per tonne of iron ore pellet production due to better technology, such as the move from shaft furnaces to rotary kiln furnaces.

As iron ore pellet production is forecasted to decline until 2016, CRU also expects bentonite consumption by the iron ore pelletising industry to have a corresponding reduction until 2016. The CAGR for bentonite consumption by the iron ore pelletising industry was approximately 1.0% between 2009 and 2014, and is forecasted to decrease by approximately 1.5% between 2014 and 2019.

According to the CRU Report, east China is one of the main iron ore pellet producing regions in China. East China accounted for approximately 41.1% of China's total iron ore pellet production, and is expected to grow from approximately 44,781 kt in 2014 to approximately 47,000 kt by 2019. Anhui province is one of the three locations with significant iron ore pellet making capacity in east China.

Although there was an overall downturn in China's iron ore pelletising market, the situation in east China was comparatively better than other parts of China. Total iron ore pellet production in east China was approximately 44.8 Mt in 2014, and is forecasted to reach approximately 47.0 Mt by 2019 and this is partly due to the fact that east China has significant logistical advantages that will assist both merchant pellet producers and downstream steelmakers to expand further into domestic and overseas markets.

Nonetheless, CRU is of the opinion that within the next five years, it is unlikely that east China will be able to fully recover and attain the iron ore pellet production levels that were achieved between 2011 and 2013. It is also forecasted that the steelmakers within the east China region may be required to exit the steel-making industry or reform due to over-saturation of the industry and environmental issues faced by steelmakers, which will in turn affect the regional demand for iron ore pellets. Any changes in regional demand for iron ore pellets will have a corresponding impact on regional demand for bentonite used in iron ore pelletising. According to the CRU report, the bentonite consumption by the iron ore pelletising industry in east China was estimated to be approximately 896 kt in 2014, and is forecasted to be approximately 846 kt in 2019.

Drilling industry

Bentonite is also used as an additive for drilling fluids or "drilling mud" for various kinds of drilling activities, including mineral exploration, oil and gas extraction and trenchless directional drilling in civil engineering for laying new pipelines for urban water supply and drainage, gas, power and telecommunications, as well as rehabilitation and replacement of older pipelines. It aids in the drilling process by stabilising and protecting the walls, preventing deposition, lubricating the drilling bit and mediating the drilling liquid.

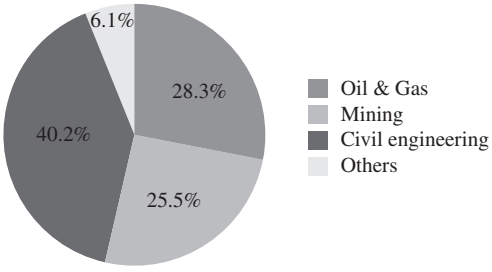
Total bentonite consumption by the drilling industry is directly related to drilling depth and width, as well as geological conditions. The quality of bentonite also needs to be better if the drilling depth is deeper such as in the oil and gas industry, whereby sodium bentonite is generally preferred over calcium bentonite.

Drilling mud used in civil engineering can be used for trenchless directional drilling as mentioned above. The Chinese Bentonite Association estimated total bentonite consumption in 2014 in civil engineering projects to be approximately 677.0 kt. According to the CRU Report, drilling activities in civil engineering projects are expected to increase over the next five years due to urbanisation and infrastructural development in China, and therefore total bentonite consumption in civil engineering projects are also expected to rise in future.

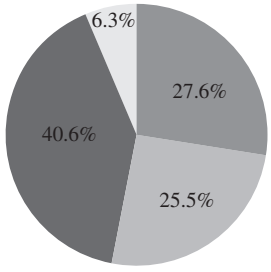
Overall, the growth rate of bentonite consumption for China's drilling mud industry is forecasted to be relatively strong as compared to the iron ore pelletising industry, with sodium bentonite consumption expected to grow more strongly than calcium bentonite consumption due to its comparatively superior qualities.

Civil engineering drilling companies consumed the largest volume of bentonite among all drilling activities, accounting for approximately 40.2% of China's drilling industry's total bentonite consumption in 2014, followed by approximately 28.3% and 25.5% for oil and gas drilling activities and mining drilling activities, respectively. According to the CRU Report, it is anticipated that bentonite consumption in trenchless directional drilling activities will continue to increase in the next five years. The diagrams below set out China's drilling industry's bentonite consumption levels by type of drilling activity for 2014 and forecasted bentonite consumption for 2019:

Bentonite consumption for drilling, 2014



Forecasted bentonite consumption for drilling, 2019



Source: CRU Report

Bentonite is also widely used in east China for drilling activities of various industry sectors such as oil and gas, mining, geological prospecting and civil engineering including non-excavation and tunnelling shields projects. As east China has a smaller proportion of reserves of most minerals as compared to other regions in China, bentonite used in mining and geological prospecting drilling activities account for a smaller portion of the total bentonite consumed by east China for drilling activities. Nevertheless, east China has a very developed construction industry, where bentonite is used in civil engineering for trenchless directional drilling activities including laying of new pipelines as well as rehabilitation and replacement of older pipelines. Bentonite consumption levels by, east China's drilling industry is forecasted to grow by approximately 16.6% from 644 kt in 2014 to approximately 751 kt in 2019.

According to the CRU Report, both the mining and civil engineering industries in east China experienced steady growth from 2009 to 2014, and is expected to further experience steady growth over the next five years. The CAGR for bentonite consumption by the drilling industry between 2009 and 2014 was approximately 5.8%, and is estimated to be approximately 3.1% between 2014 and 2019.

COMPETITIVE LANDSCAPE OF CHINA'S BENTONITE MINING INDUSTRY

According to the CRU Report, China's bentonite mining industry is very fragmented with a number of relatively small-scale players in terms of production capacity. Bentonite producers in China are predominantly local or regional players with relatively conservative strategies towards expanding beyond their local market. There are several hundreds of small companies with relatively low levels of technology producing around or below 10 kt per annum. At the medium-size producer level, there are at least 10 medium sized-players producing around 100 kt per annum. Our Group is classified as a medium-size producer. At the large-size producer level, there are three producers from Xinjiang, Liaoning and Zhejiang provinces, each with production capacities of 200 kt per annum or more.

According to the CRU Report, the entry barriers for the common bentonite market are relatively low. This has resulted in the common bentonite industry being highly competitive with smaller bentonite producers tending to be price-takers. Typically, local agents acting on behalf of drilling buyers or relatively large local steel mills buy directly from common bentonite producers, so the bargaining power of common bentonite producers is relatively weak. The situation is however different for the high-end bentonite market, where technology is a significant differentiator, and buyers have a smaller number of producers to choose from since the entry barriers for the high-end bentonite market are higher.

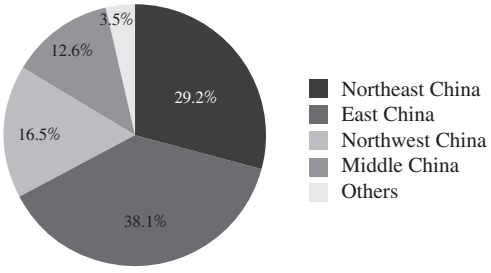
According to the CRU Report, cost of production for common bentonite is relatively similar throughout the common bentonite industry, resulting in a very competitive industry. Actual mining costs are estimated to account for approximately 25.0% of the total production costs of common bentonite. Other variable elements are usually those costs incurred during the processing stages, including labour expenses, raw material (such as sodium carbonate) expenses and utilities

expenses. Packaging and transportation cost are also material factors, depending on the location of the mine and the processing plant, and it may cost more to package and transport bentonite beyond 500 km. Packaging costs have risen in recent years due to environmental considerations in transportation. As a result, common bentonite rarely travels beyond 1000 km. Transportation cost is therefore a barrier to expansion for common bentonite producers in China, since market entry to more distant markets will be more costly and may adversely affect profit margins.

According to the CRU Report, as bentonite markets in China are highly fragmented, there is no apparent dominant producer (or producers) of bentonite that is selling beyond their own regional market, or has consolidated the industry by acquiring local producers in other regional markets. As such, the market is relatively suitable for new entrants given the relatively low entry barriers and it is also national policy to encourage new entrants, as well as movement of existing producers into producing high-end bentonite.

Major bentonite producers in China

According to the CRU Report, the majority of the larger bentonite producers, with capacities above 100 kt per annum are located in three regions, northeast (including Liaoning, Jilin and Heilonjiang provinces), east (including Anhui province) and northwest (including Inner Mongolia and Xinjiang) China. Bentonite production levels from these three regions amounted to approximately 6,467 kt in 2014, accounting for approximately 83.9% of China's total bentonite production level in the same year. East China alone produced approximately 2,938 kt of bentonite in 2014, accounting for approximately 38.1% of China's total bentonite production level in the same year. The diagram below sets out the market share of the three regions in terms of bentonite production levels as compared to other regions in China for 2014:



Source: CRU Report

These producers share several common features that help them to sustain a competitive advantage as compared to smaller producers with production levels below 10 kt per annum, including but not limited to captive bentonite mines, clearly targeted local end-use sectors and their own developed technologies. Bentonite producers are categorised into two main types, namely: (i) common bentonite producers; and (ii) high-end bentonite (such as activated and organic bentonite) producers. Although there are several large producers that sell both common bentonite and high-end bentonite, most of China's bentonite producers tend to focus on either one of the two bentonite markets mentioned above.

The table below sets out the other major bentonite producers in China for 2014 and their estimated bentonite production capacity per annum:

Name of bentonite producer	**Location (province)**	**Major end sectors for bentonite**	**Estimated bentonite production capacity** *(kt per annum)*
Producer A	Liaoning	Iron ore pelletising, drilling, construction and chemical	450
Producer B	Xinjiang	Drilling and construction	300
Producer C	Liaoning	Iron ore pelletising, drilling, foundry, environmental, food and chemical	240
Producer D	Zhejiang	Drilling, metallurgical, construction, painting and chemical	235
Producer E	Inner Mongolia	Chemical, food and feed	200
Producer F	Liaoning	Drilling and foundry	115
Producer G	Jilin	Iron ore pelletising and foundry	110
Producer H	Jiangxi	Oil & gas and chemical	100
Producer I	Henan	Drilling and foundry	100

Source: CRU Report

According to the CRU Report, east China is one of the key bentonite-producing and consuming regions in China. The majority of high-end bentonite is produced in east China and as such, the competitive landscapes for common bentonite and high-end bentonite in east China is quite different from other regions in China.

The table below sets out the other major bentonite producers in east China for 2014 and their estimated bentonite production capacity per annum:

Name of bentonite producer	**Location (province)**	**Estimated bentonite production capacity** *(kt per annum)*
Producer D	Zhejiang	235
Producer H	Jiangxi	100
Producer J	Shandong	100
Producer K	Shandong	95
Producer L	Jiangsu	90
Producer M	Zhejiang	85
Producer N	Jiangsu	75
Producer O	Anhui	70
Producer P	Zhejiang	70

Source: CRU Report

The existing high-end bentonite market in east China is not as competitive as the common bentonite market as new entrants require additional capital investment, technological development and the targeting of a niche market. As a result, the current high-end bentonite producers have created their own competitive advantages and market barriers, and new entrants seeking to enter the high-end bentonite market in east China may require significant investment before they can do so.

Main entry barriers for producers of bentonite in the east China region

According to the CRU Report, the main entry barriers for bentonite producers in east China include:

(i) ***Resources*** – good quality bentonite resources are concentrated in several places in east China. As such, production will be more efficient and less costly, which is a significant advantage as compared to imports from other areas. This also provides feedstock for high-end bentonite which is forecasted to grow more rapidly than low-end or common bentonite markets.

(ii) ***Transportation*** – transportation costs as a proportion of the total costs of bentonite mining are relatively high. This means that local bentonite production is protected from outside competition, unless more producers located further away are prepared to forego their profit margins. Bentonite should also be protected from water during storage and transportation, which increases the difficulty and operating costs of distributing bentonite to customers located further away.

(iii) ***Logistics*** – bentonite is usually transported by ships and trucks in east China. As such, proximity to well-established transportation networks including roads and shipping lanes will be a significant advantage to bentonite producers. As mentioned above, special storage facilities may also be required and those with such facilities will have an advantage.

(iv) ***Technology and availability of skilled labour*** – in east China, only a limited number of producers possess the technologies to produce high-end bentonite. Most other companies can only produce common sodium-based or calcium-based bentonite.

(v) ***Scale of production*** – the size of a company is an important advantage, since larger companies have lower operating costs and are usually price leaders. There are also other entry barriers, such as capital investment and industrial regulations, which usually favour larger producers.

Future outlook of the bentonite mining market in east China

According to the CRU Report, although the bentonite market in east China is currently fragmented, it may gradually consolidate in the future as a result of government policy and market forces. According to the Independent Technical Report, the PRC government is concerned about the proliferation of smaller and inefficient industrial minerals producers and has therefore imposed stricter conditions on new producers as well as encouraged mergers and acquisitions of bentonite producers within the bentonite industry. Such policies tend to favour larger and more established bentonite producers like our Group. The market is forecasted to continue declining in the short to medium term as traditional downstream sectors are either growing slowly or declining. As such, smaller producers may be forced to exit the bentonite industry in east China.

According to the CRU Report, producers with the following characteristics are likely to fare better and expand in future, including: (i) better quality and more abundant resources; (ii) logistical advantages; (iii) superior technology; (iv) economies of scale; (v) low operating costs. More merger and acquisition activity is also anticipated in future and smaller bentonite producers which lack competitiveness may be forced to leave the market. Nevertheless, it may take several years for the industry to consolidate and competition is likely to remain strong from local producers.

According to the CRU Report, the main structural changes over the next five years for the bentonite market in east China are expected to occur in common bentonite producers serving the foundry, drilling mud and iron ore pelletising industries. Current competition is fierce among local producers with only a few having a production scale significant enough to influence the market. The market for high-end bentonite is expected to grow much faster than that for other sectors, thereby presenting opportunities for local bentonite producers to supply the larger supply shortfall in the future. Although profit margins are higher for high-end bentonite, only bentonite producers with better quality resources can successfully enter the high-end bentonite market, otherwise the higher prices obtained in such market will be unable to offset the increase in operating costs and capital investment.

Our competitive advantages

Our competitive advantages, as compared to other industry players within the east China region include, among others, the following:

(i) the location of our Huanghu Bentonite Mine. The road network surrounding our Huanghu Bentonite Mine is well-established and we are of relatively close proximity to the Yangtze River and therefore have the potential to further extend the geographical coverage of our business; and

(ii) our research and development capabilities. As at the Latest Practicable Date, we have obtained 10 patents in the PRC in respect of our mining production technologies and products, and have also entered into collaborations agreements with external institutions for the development of new technologies and new bentonite products to cater for other downstream markets.

For details on our competitive strengths, please refer to "Business – Our competitive strengths".

BENTONITE PRICES IN EAST CHINA

Due to the relatively opaque and fragmented nature of China's bentonite market, there is no clear national benchmark price for bentonite. Most of China's bentonite is sold locally, and is rarely sold to customers located more than 1,000 km away from the bentonite producer's location. As a result, region-specific bentonite prices have developed for the various bentonite producing regions in China. The area within 1,000 km of our Group's Huanghu Bentonite Mine covers east

China and certain parts of middle China. In east China, there are several large scale bentonite-producing areas where there are clusters of bentonite producers. These representative areas include the Weifang area in Shandong province, the southern part of Anhui province, the Anji area in Zhejiang province and the Yutian area in Jiangxi province. According to the CRU Report, the historical bentonite prices from these bentonite-producing areas are considered to be most representative of the market prices of bentonite in east China.

Bentonite prices for east China's iron ore pelletising industry roughly follow the fluctuations in demand for iron ore pellets. As mentioned above, the iron ore pelletising market is expected to slow down for the next five years. The table below sets out the historical price index of bentonite for east China's iron ore pelletising industry for 2009 to 2014, and the forecasted price index for 2015 to 2019:

Price index of bentonite for east China's iron ore pelletising industry

	2009	**2010**	**2011**	**2012**	**2013**	**2014**
Price index	100.00	122.05	112.83	107.79	114.75	111.51
y-o-y	–	22.1%	-7.6%	-4.5%	6.5%	-2.8%
	2014	**2015(F)**	**2016(F)**	**2017(F)**	**2018(F)**	**2019(F)**
Price index	111.51	109.61	108.65	110.01	110.33	112.46
y-o-y	-2.8%	-1.7%	-0.9%	1.3%	0.3%	1.9%

Note: 2009 is used as the base year for comparison purposes and the average price in 2009 is equal to 100 in the index series.

Source: CRU Report

Bentonite prices for east China's drilling industry maintained a positive growth between 2009 and 2014. According to the CRU Report, bentonite prices for east China's drilling industry are expected to continue increasing until 2019. The table below sets out the historical price index of bentonite for east China's drilling industry for 2009 to 2014, and the forecasted price index for 2015 to 2019:

Price index of bentonite for east China's drilling mud industry

	2009	**2010**	**2011**	**2012**	**2013**	**2014**
Price index	100.00	107.93	117.33	130.56	132.52	143.16
y-o-y	–	7.9%	8.7%	11.3%	1.5%	8.0%
	2014	**2015(F)**	**2016(F)**	**2017(F)**	**2018(F)**	**2019(F)**
Price index	143.16	148.47	153.42	157.51	160.61	163.49
y-o-y	8.0%	3.7%	3.3%	2.7%	2.0%	1.8%

Note: 2009 is used as the base year for comparison purposes and the average price is equal to 100 in the index series.

Source: CRU Report

PRICES OF RAW MATERIALS

The key materials and supplies for processing extracted bentonite ore into drilling mud and pelletising clay include coal, sodium carbonate and other consumables. The table below sets out the historical prices of key materials and supplies in China for 2009 to 2014, and the forecasted prices for 2015 to 2019:

	Units	2009	2010	2011	2012	2013	2014
Prices of sodium carbonate	RMB/t	1,350	1,400	1,710	1,250	1,350	1,400
Effective prices of steam coal	RMB/gigajoule	17.3	19.2	20.1	19.3	17.5	15.8
Labour cost	RMB/hour	24.8	27.5	30.0	33.2	36.4	39.9
Electricity price	RMB/megawatt-hour	711.7	748.3	755.8	776.7	776.7	784.2
Fuel price (diesel)	RMB/litre	5.3	6.1	6.9	7.1	7.0	6.7

	Units	2014	2015(F)	2016(F)	2017(F)	2018(F)	2019(F)
Prices of sodium carbonate	RMB/t	1,400	1,178	1,224	1,266	1,294	1,319
Effective prices of steam coal	RMB/gigajoule	15.8	13.2	13.5	14.1	14.7	15.0
Labour cost	RMB/hour	39.9	41.2	43.0	45.1	46.7	48.3
Electricity price	RMB/megawatt-hour	784.2	780.0	780.5	780.0	789.7	801.8
Fuel price (diesel)	RMB/litre	6.7	5.5	5.4	5.3	5.2	5.3

Source: CRU Report

According to the CRU Report, the prices of sodium carbonate and coal fell significantly in 2015 due to a surplus in supply of coal and sodium carbonate and a decrease in downstream demand. Prices of power and fuel also decreased in 2015 as a result of the significant drop in prices of other materials and supplies. Labour costs on the other hand are expected to increase the fastest as compared to other costs over the next five years due to continued growth of the PRC economy. Power and fuel prices also fell in 2015 and are expected to remain at approximately the same levels for the next few years. For details on the risk in relation to price increases, please refer to "Risk factors – Risks relating to our business and operations – There may be disruptions to the supply of, or an increase in prices of, among others, electricity and materials and supplies". For details on measures to minimise our exposure to price fluctuations of key materials and supplies, please refer to "Business – Utilities, procurement of materials and supplies and suppliers – Materials and supplies and price fluctuations" of this document.

NEW PRC INDUSTRY GUIDELINES IN RELATION TO MINERAL SUPPLY CHAIN DUE DILIGENCE

中國負責任礦產供應鏈盡責管理指南 (Chinese Due Diligence Guidelines for Responsible Mineral Supply Chains*) (the "**Guidelines**") is a set of guidelines recently published by 中國五礦化工進出口商會 (The China Chamber of Commerce of Metals, Minerals and Chemicals Importers & Exporters*) ("**CCCMC**"). The objective of the Guidelines is to operationalise and provide details to 中國對外礦業投資行業社會責任指引 (Guidelines for Social Responsibility in Outbound Mining Investments*) issued by CCCMC on 24 October 2014 by providing guidance to all Chinese companies that are involved in extracting activities and/or using mineral resources and their related products and are engaging in any point in the supply chain of minerals to identify, prevent and mitigate their risks of contributing to conflict, serious human rights abuses and risks of serious misconduct.

The Guidelines have recently been launched on 2 December 2015. According to the Guidelines, the Guidelines are voluntary at initial launch. The Guidelines initially provide due diligence guidance covering the supply chains of the following minerals and related products: (i) gold; (ii) cassiterite; (iii) wolframite; and (iv) coltan. Under the Guidelines, a relevant Chinese company has an individual responsibility to carry out its supply chain due diligence and conduct a third party audit thereof according to the Guidelines.

Having considered that (i) the Guidelines are voluntary at initial launch; and (ii) the bentonite products of our Group do not fall within the initial due diligence guidance coverage of the Guidelines, our Directors consider that the launch of the Guidelines will not have any material adverse impact on our Group.

OVERVIEW

We are principally engaged in the development of our Huanghu Bentonite Mine in Anhui province, the PRC which is an open-pit bentonite mine located in Fanchang county of Wuhu city, Anhui province, the PRC and the production and sale of bentonite products in the PRC. This section sets out summaries of certain aspects of the principal PRC laws, rules, regulations, government and industry policies and requirements relating to our Group's operation and business in PRC.

PRC LAWS RELATING TO THE ESTABLISHMENT, OPERATION AND MANAGEMENT OF A WHOLLY FOREIGN-OWNED ENTERPRISE IN THE PRC

The establishment, operation and management of corporation entities in the PRC are governed by 中華人民共和國公司法 (Company Law of the PRC*) ("**Company Law**"), which was promulgated by the SCNPC on 29 December 1993 and became effective on 1 July 1994. It was subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013 respectively. Pursuant to the Company Law, companies are classified into two categories: limited liability companies and limited companies by shares, and the Company Law shall also apply to foreign-invested limited liability companies. Where laws on foreign investment have other stipulations, such stipulations shall apply.

The establishment procedures, approval procedures, registered capital requirements, foreign exchange, accounting practices, taxation and labour matters of a wholly foreign-owned enterprise are regulated by the 中華人民共和國外資企業法 (Wholly Foreign-owned Enterprise Law of the PRC*) which was promulgated on 12 April 1986 and amended on 31 October 2000, and the 中華人民共和國外資企業法實施細則 (Implementation Rules to the Wholly Foreign-owned Enterprise Law of the PRC*) which was promulgated on 12 December 1990 and amended on 12 April 2001 and 19 February 2014, respectively.

PRC LAW RELATING TO THE BENTONITE INDUSTRY

Investment in the PRC conducted by foreign investors and foreign-owned enterprises shall comply with 外商投資產業指導目錄(2015年修訂) (Guidance Catalogue of Industries for Foreign Investment (2015 Version)*) ("**Foreign Investment Catalogue**"), which was jointly amended and promulgated by MOFCOM and NDRC on 10 March 2015 and became effective on 10 April 2015. The Foreign Investment Catalogue contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories of encouraged foreign-invested industries, restricted foreign invested industries and prohibited foreign investment industries. Any industry not listed in the Catalogue is a permitted industry. The business engaged by our Group falls within a permitted foreign-invested industry.

PRC LAWS RELATING TO THE MINERAL INDUSTRY

Pursuant to 中華人民共和國礦產資源法 (Mineral Resource Law of the PRC*) promulgated on 19 March 1986, effective on 1 October 1986 and amended on 29 August 1996 and 27 August 2009, and 中華人民共和國礦產資源法實施細則 (Rules for the Implementation of the Mineral Resources Law*) promulgated and effective on 26 March 1994, (i) mineral resources are owned by the State with the State Council exercising ownership over such resources on behalf of the State; (ii) the department in charge of geology and mineral resources under the State Council is to supervise and administer the exploration and exploitation of mineral resources nationwide. The department in charge of geology and mineral resources of each province, autonomous region or municipality directly under the PRC government is responsible for the supervision and administration of the exploration and exploitation of mineral resources within its respective administrative regions; and (iii) exploration rights and mining rights may be acquired with consideration. Enterprises engaged in the mining or exploration of mineral resources must pay a certain amount of money for obtaining mining rights and exploration rights; (iv) an enterprise that intends to explore and exploit mineral resources shall apply for each exploration and mining rights separately according to the relevant PRC laws, regulations and policies, and is required to undergo the registration process for each of the exploration and mining rights, unless the mining enterprise which intends to conduct exploration operations for its own production within the defined mining areas has previously obtained mining rights.

礦產資源開採登記管理辦法 (Administrative Measures for the Registration of Mineral Resources Exploitation*) ("**Administrative Measures**") was promulgated by the State Council on 12 February 1998 and was amended on 29 July 2014. Under the Administrative Measures, anyone or any enterprise with mining rights shall file an application for registration of change(s) with the appropriate registration administration authority within the duration of the mining licence term if there is any change in the scope of the mining area, the main exploited mineral categories, the exploitation mode, the name of the mining enterprise and/or the transfer of the mining right according to the relevant laws. The validity period of a mining licence shall be determined according to the scale of the mine. The maximum validity period of the initial term of a mining licence for a big-scale mine, medium-scale mine and small-scale mine shall be 30 years, 20 years and 10 years, respectively. If continuation of mining is necessary after the expiration of the mining licence, the holder of a mining licence shall apply for an extension with the registration authority within 30 days prior to the expiration of the term of the mining licence. If the holder of a mining licence fails to apply for an extension prior to the expiration of the term, the mining licence shall terminate automatically.

PRC LAWS RELATING TO ENVIRONMENTAL PROTECTION

General

The PRC laws and regulations on environmental protection include 中華人民共和國環境保護法 (Environmental Protection Law of the PRC*) promulgated on 26 December 1989 which was then amended on 24 April 2014 and effective on 1 January 2015; 中華人民共和國大氣污染防治法 (Air Pollution Prevention and Control of the PRC*) revised on 29 April 2000 and 29 August 2015; 中華人民共和國環境噪聲污染防治法 (Law of the PRC on Prevention and Control of Environmental Noise Pollution*) with effect from 1 March 1997; 中華人民共和國水污染防治法 (Law of the PRC on the Prevention and Control of Water Pollution*) revised on 28 February 2008 and effective on 1 June 2008 and 中華人民共和國水污染防治法實施細則 (Implementation Regulations on the Law of the PRC on The Prevention and Control of Environmental Noise Pollution*) promulgated and effective on 20 March 2000; 中華人民共和國固體廢物污染環境防治法 (Law on Prevention and Control of Environmental Pollution Caused by Solid Waste of the PRC*), amended and effective on 24 April 2015; 建設項目環境保護管理條例 (Rules on the Administration concerning Environmental Protection of Construction Projects*) promulgated and effective on 29 November 1998 and 建設項目竣工環境保護驗收管理辦法 (Regulations on Administration concerning the Environmental Protection Acceptance Check on Construction Projects*) promulgated on 27 December 2001 and effective on 1 February 2002 and amended on 22 December 2010.

Pursuant to the laws and regulations stated above, an enterprise that discharges and dispenses toxic and hazardous materials including waste water, solid waste and waste gases, shall comply with the applicable national and local standards, as well as report to and register with the applicable environmental protection authority. Failure to comply can result in a warning, an order, or a penalty against the enterprise. Before commencing a construction project, an environmental impact assessment report must be submitted by an enterprise to the relevant environmental protection authority for approval. An acceptance inspection by the relevant environmental protection authority is required before the completed project can commence its operations.

Provisions on the Protection of the Geological Environment of Mines

Pursuant to 礦山地質環境保護規定 (Provisions on the Protection of the Geologic Environment of Mines*) promulgated on 2 March 2009 and effective on 1 May 2009 and amended on 11 May 2015, a mining licence applicant is required to submit a plan relating to the protection and restoration of the mine's geological environment to the competent land and resources authorities for approval. In addition, a mining licence holder is required to pay a security deposit for the restoration of the geological environment of mines and must be responsible for restoration of the mine's geological environment.

Regulations on Land Rehabilitation and its Implementing Measures

Pursuant to 土地復墾條例 (Regulations on Land Rehabilitation*), which became effective on 5 March 2011 and 土地復墾條例實施辦法 (Implementing Measures of Regulations on Land Rehabilitation*), which became effective on 1 March 2013, the mining enterprise must take measures to restore the land that is damaged due to its mining operations. The reclaimed land may be put into use only after the rehabilitation requirements are fulfilled and the examination and acceptance is completed by the relevant land administration authorities. Failure to comply with the reclamation requirements or restore the land in the mining areas may subject the mining enterprise to fines, land rehabilitation fee, rejection of the application for land use right, revocation of the mining licence or, in serious cases, criminal liability. Further, a production or construction entity or individual ("**Land User**") shall be responsible for the rehabilitation of the land damaged in its production or construction activities. When the Land User applies for the mining licence and/or the land use right, it shall submit a land rehabilitation plan (土地復墾方案), together with other required documents, to the MLR or its local branch for examination, and will obtain an examination opinion on land rehabilitation plan (土地復墾方案審查意見書) if the Land Rehabilitation Plan passes the examination. Where there is any material change, such as the change of the position or scale of the construction project and the change of the mining area, the Land User shall revise the land rehabilitation plan within 3 months and submit the revised plan to the original examining authority for its examination. The Land User shall carry out the land rehabilitation according to the land rehabilitation plan, and apply for the overall inspection or phasic inspection conducted by the MLR or its local branch when it completes the whole land rehabilitation or phasic land rehabilitation (if applicable). If the whole or phasic land rehabilitation completed by the Land User passes the inspection, the relevant authority will issue overall or phasic inspection confirmation, as the case may be, to the Land User. According to the Regulations on Land Rehabilitation and its implementation measures, the Land User shall establish a bank account specially for the deposit of fund for the land rehabilitation ("**Land Rehabilitation Fund**") with the bank agreed by the Land User and the local MLR branch at county level, and shall deposit and withdraw the Land Rehabilitation Fund in compliance with the relevant requirements. Moreover, a supervision agreement with respect to such account among the Land User, the local MLR branch at county level and the relevant bank is also required and is binding on the Land User.

PRC LAWS RELATING TO PRODUCTION SAFETY

Pursuant to 中華人民共和國安全生產法 (Production Safety Law of the PRC*) promulgated on 29 June 2002, revised on 31 August 2014 and effective on 1 December 2014 and 中華人民共和國礦山安全法 (Law of the PRC on Safety in Mines*) promulgated on 7 November 1992 and amended on 27 August 2009 and its related implementation rules promulgated and effective on 30 October 1996, (i) safety facilities in mine construction projects must be designed, constructed and put into operation at the same time as the commencement of the principal parts of the projects; (ii) the design of a mine shall comply with the safety rules and technological standards of the mining industry and shall be approved by the relevant authorities; and (iii) such mines may start production or operations only after they have passed the safety check and approval process as required by the relevant PRC laws and administrative regulations.

安全生產許可證條例 (Regulation on Work Safety Licences*) was promulgated and became effective on 13 January 2004 and was amended on 29 July 2014. 非煤礦礦山企業安全生產許可證實施辦法 (Measures for the Implementation of Work Safety Licences for Non-coal Mine Enterprises*) was promulgated on 8 June 2009 and amended on 26 May 2015, and effective from 1 July 2015. Pursuant to such regulation and measures, (i) the work safety licensing system is applicable to any enterprise engaging in non-coal mining and such enterprise may not produce any products without obtaining a work safety licence; (ii) prior to producing any products, the non-coal mining enterprise shall apply for a work safety licence, which is valid for three years; (iii) the work safety bureau at or above provincial level are in charge of issuing the work safety licence for non-coal mining enterprise; and (iv) if a work safety licence needs to be extended, the enterprise must apply for an extension with the administrative authority who issued the original licence three months prior to the expiration of the original licence; and (v) mining enterprises which have obtained the production safety licence may not lower their production safety standards, are subject to supervision and inspection by the licensing authorities. If the authorities are of the opinion that the mining enterprises do not fulfil the safety requirements, the safety licence may be withheld on a temporary basis or revoked.

建設項目安全設施"三同時"監督管理辦法 (Measures for the Supervision and Administration of "Three Simultaneities" for the Safety Facilities of Construction Projects*) were promulgated by the State Administration of Work Safety of the PRC on 14 December 2010 and became effective on 1 February 2011, and were amended on 2 April 2015 and became effective on 1 May 2015. According to the above measures, the safety facilities in a newly built, reconstructed or expanded construction project must be designed, constructed and put to use in production simultaneously with the body of the project. If an enterprise violates the relevant requirements, it may be warned and be ordered to make corrections within a specified time limit. Failure to make corrections within the specified time limit may result in it being ordered to discontinue the construction process or suspend its production and business operation for rectification, and being imposed a fine.

PRC LAWS RELATING TO TAXATION AND FEE

Enterprise Income Tax

According to the EIT Law which took effect as at 1 January 2008 and the EIT Rules, a unified enterprise income tax rate of 25% is applied equally to both resident enterprises and non-resident enterprises. And the rate of enterprise income tax on high and new technological enterprises needing special support of the State shall be reduced to 15%.

Pursuant to 高新技術企業認定管理辦法 (Administrative Measures for Certification of High Technology Enterprises*) ("**Administrative Measures**") with effective from 1 January 2008, the high and new technology enterprises, which are recognised in accordance with the Administrative Measures, may apply for the tax preferential policy in accordance with the EIT Law and the Administrative Measures thereof, 中華人民共和國税收徵收管理法 (Law of PRC Concerning the Administration of Tax Collection*) and 中華人民共和國税收徵收管理法實施細則 (Implementation Rules of the Law of the PRC Concerning the Administration of Tax Collection*). The validity period of high technology enterprises shall be three years from the date of issuance of the certificate of high technology enterprise. The enterprise shall apply for re-examination three months before the expiration of the qualification; where an enterprise fails to apply for re-examination or where an enterprise fails in the reexamination, its qualification as high and new technology enterprise shall be null and void automatically at the expiration of its valid period.

Value-added Tax

Pursuant to 中華人民共和國增值税暫行條例 (Interim Regulations of the PRC on Value-added Tax*), promulgated on 13 December 1993 and amended on 10 November 2008 and its implementation rules, entities or individuals in the PRC engaged in the sale of goods, provision of processing, repairs and replacement services and importation of goods are required to pay a value-added tax, on the value added during the course of the sale of goods or provision of services. Unless otherwise specified, the applicable value-added tax rate for the sale or importation of goods and provision of processing, repair and replacing services is 17%.

Pursuant to 財政部、國家税務總局關於金屬礦、非金屬礦採選產品增值税税率的通知 (Notice of the Ministry of Finance and the State Administration of the Taxation for Value-added Tax Rate in Metal and Non-metal Mineral Dressing Products*) promulgated by the Ministry of Finance and the State Administration of the Taxation on 19 December 2008 and effective on 1 January 2009, the value-added tax rate for metal and non-metal mineral dressing products is adjusted from 13% to 17%.

Resource Tax

Pursuant to 中華人民共和國資源税暫行條例 (Interim Regulations of the PRC on Resource Tax*) promulgated on 25 December 1993, effective on 1 January 1994 and amended on 30 September 2011, any enterprise engaged in the exploitation of mineral products prescribed in the Interim Regulations of the PRC on Resource Tax is subject to pay a resource tax.

According to 中華人民共和國資源税暫行條例實施細則 (Implementing Rules for the Provisional Regulations on Resources Tax of the PRC*), which became effective on 30 December 1993 and was amended on 28 October 2011, resources tax is levied according to the grade of mines and the applicable amount of tax per ton of ore produced as provided in the schedules attached to such implementing rules. The tax payable for resources tax applicable to bentonite is RMB10 per tonne.

Mineral Resources Compensation Fee

Pursuant to 礦產資源補償費徵收管理規定 (Provisions on Administration of Collection of Mineral Resources Compensation Fees*) promulgated on 27 February 1994, effective on 1 April 1994 and amended on 3 July 1997, mineral resources compensation shall be paid by the holder of the mining licence if such holder decides to exploit mineral resources within the PRC territory, unless such PRC laws or administrative regulations provide otherwise. The mineral resources compensation fee is levied based on a certain percentage of the revenue from sale of mineral products. The mineral resources compensation fee is calculated and collected by the departments of land and resources together with the departments of finance according to the above provisions.

PRC LAWS RELATING TO LAND

Pursuant to 中華人民共和國土地管理法 (Land Administration Law of the PRC*) promulgated on 25 June 1986 and effective on 1 January 1987 and amended on 29 December 1988, 29 August 1998 and 28 August 2004, and 中華人民共和國土地管理法實施條例 (Regulations for the Implementation of the Land Administration Law of the PRC*) promulgated on 27 December 1998 and amended on 8 January 2011 and 29 July 2014, all land in the PRC is either state-owned or collectively owned, depending on the location of the land. Land collectively owned by rural residents is contracted to and operated by the members of respective collective economic entities for uses such as plantation, forestry, livestock husbandry or fishery production. The land use rights of collectively owned land must not be granted, assigned or leased to any party for any non-agricultural uses. All land in the urban areas of a city or town is state-owned, and all land in the rural areas of a city or town and all rural land is, unless otherwise specified by law, collectively owned. The state has the right to reclaim land in accordance with law if required for public interest. Land owned by the State and land collectively-owned by rural collective

economic entities may be allocated and used by units or individuals according to law. In the case of temporary use of State-owned land or land collectively-owned by rural collective economic entities for construction projects or for geological exploration purposes, approval shall be obtained from the competent land administrative department of local government at or above the county level. Land users shall sign contracts with the relevant competent land administrative departments or rural collective economic entities or villager committees for the temporary use of land, and shall pay land compensation fees as stipulated in the contracts for the temporary use of land. The term for the temporary use of land shall not exceed two years in general.

Pursuant to 中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例 (Interim Regulations of the PRC on Grant and Transfer of the Right to Use State-owned Urban Land*) ("**Interim Regulations**") promulgated and effective on 19 May 1990, local governments at or above county level have the power to grant land use rights for specific purposes and for a definite period to a land user pursuant to a contract for the grant of land use rights against payment of a grant premium. All local and foreign enterprises are permitted to acquire land use rights unless the law provides otherwise. The state may not reclaim lawfully granted land use rights prior to expiration of the term of grant. A land grantee may lawfully transfer, mortgage or lease its land use rights to a third party for the remainder of the term of grant, and after land use rights relating to a particular area of land have been granted by the state, unless any restriction is imposed, the party to whom such land use rights have been granted may transfer, lease or mortgage such land use rights for a term not exceeding the term which has been granted by the state.

According to 中華人民共和國森林法實施條例 (Implementing Regulations of the Forestry Law of the PRC*) promulgated and effective on 29 January 2000 and amended on 8 January 2011, and 建設項目使用林地審核審批管理辦法 (Administrative Measures for Examination and Approval of Forest Land Used for Construction Project*) issued by State Forestry Administration on 31 March 2015 and effective on 1 May 2015, it shall be subject to the approval of the competent forestry administrative department of the people's government if a construction unit requests for the temporary use of any forestland. The term for the temporary use of forestland shall not exceed two years.

PRC LAWS RELATING TO PREVENTION AND CONTROL OF OCCUPATIONAL DISEASES

Pursuant to 中華人民共和國職業病防治法 (Prevention and Control of Occupational Diseases Law of the PRC*) promulgated on 27 October 2001, effective on 1 May 2002 and amended on 31 December 2011, for construction projects, including projects to be constructed, expanded or reconstructed, and projects for technical renovation and introduction which may incur occupational disease hazards, the unit responsible for the construction project shall: (i) during the period of feasibility study, submit to the health administrative department a preliminary assessment report on such hazards; (ii) assess the effect of the control on occupational disease hazards before the construction project is completed for inspection and acceptance; and (iii) adopt protective facilities against occupational diseases. The protective facilities may be put into formal operation and use only after they have passed the inspection by the public health administration department.

Pursuant to the Prevention and Control of Occupational Diseases Law of the PRC, an employing unit shall: (i) establish and improve the responsibility system of occupational disease prevention and treatment, strengthen the administration and improve the level of occupational disease prevention and treatment, and bear responsibility for the harm of occupational diseases engendered therefrom; (ii) purchase social insurance for industrial injury; (iii) adopt effective protective facilities against occupational diseases, and provide protective articles to the labour for personal use against occupational diseases; (iv) set up alarm equipment, allocate on-spot emergency treatment articles, washing equipment, emergency safety exits and safety zones for poisonous and harmful work places where acute occupational injuries are likely to take place; and (v) inform the employees, according to the facts, of the potential harm of occupational disease as well as the consequences thereof and the protective measures and treatment against occupational diseases when signing a labour contract with employees.

PRC LAWS RELATING TO LABOUR

Pursuant to 中華人民共和國勞動法 (PRC Labour Law*) promulgated on 5 July 1994 and effective on 1 January 1995, and amended on 27 August 2009 and 中華人民共和國勞動合同法 (PRC Labour Contract Law*) promulgated on 29 June 2007, amended on 28 December 2012 and effective on 1 July 2013, if an employment relationship is established between an entity and its employees, written labour contracts shall be prepared. The relevant laws stipulate the maximum number of working hours per day and per week, respectively. Furthermore, the relevant laws also set forth the minimum wages. The entities shall establish and develop systems for occupational safety and sanitation, implement the rules and standards of the State on occupational safety and sanitation, educate employees on occupational safety and sanitation, prevent accidents at work and reduce occupational hazards.

Pursuant to 社會保險費徵繳暫行條例 (Interim Regulations on the Collection and Payment of Social Insurance Premiums*) promulgated and effective on 22 January 1999, 社會保險登記管理暫行辦法 (Interim Measures concerning the Administration of the Registration of Social Insurance*) promulgated and effective on 19 March 1999, 失業保險條例 (Regulations on Unemployment Insurance*) promulgated and effective on 22 January 1999, 工傷保險條例 (Regulations on Occupational Injury Insurance*) promulgated on 27 April 2003 and effective on 1 January 2004, as amended on 20 December 2010, and 企業職工生育保險試行辦法 (Interim Measures concerning the Maternity Insurance for Enterprise Employees*) promulgated on 14 December 1994 and effective on 1 January 1995, employers are required to register with the competent social insurance authorities and provide their employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance.

Pursuant to 中華人民共和國社會保險法 (Social Insurance Law of the PRC*), which became effective on 1 July 2011, all employees are required to participate in basic pension insurance, basic medical insurance schemes and unemployment insurance, which must be contributed by both the employers and the employees. All employees are required to participate in work-related injury insurance and maternity insurance schemes, which must be contributed by the employers. Employers are required to complete registrations with local social insurance authorities. Moreover, the employers must timely make all social insurance contributions. Except for mandatory exceptions such as force majeure, social insurance premiums may not be paid late, reduced or be exempted.

Pursuant to 住房公積金管理條例 (Regulations on the Administration of Housing Fund*) promulgated and effective on 3 April 1999, and amended on 24 March 2002, enterprises are required to register with the competent administrative centres of housing fund and open bank accounts for housing funds for their employees. Employers are also required to timely pay all housing fund contributions for their employees.

PRC LAWS RELATING TO FOREIGN EXCHANGE

Pursuant to 中華人民共和國外匯管理條例 (Regulations on Foreign Exchange Control of the PRC*) promulgated on 29 January 1996, effective on 1 April 1996 and amended on 5 August 2008, payments made in foreign currencies for international transactions, such as the sale or purchase of goods, are not subject to PRC governmental control or restrictions. Certain organisations in the PRC, including foreign-invested enterprises, may purchase, sell and/or remit foreign currencies at certain banks authorised to conduct foreign exchange business upon providing valid commercial documents to such banks. However, approvals are required for the relevant capital account transactions.

Pursuant to 國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知 (Circular of the State Administration of Foreign Exchange on Issues Concerning the Administration of Foreign Exchange in Offshore Investments and Financing and Return Investments by Domestic Residents through Special Purpose Vehicles*) ("**Circular 37**"), which was promulgated by SAFE and became effective from 14 July 2014, where the PRC individual residents conduct investment to the offshore Special Purpose Vehicles ("**SPVs**") with their legitimate onshore enterprises' assets or equities and offshore assets or equities, they must register with local SAFE branches. The Circular 37 also requires the PRC individual residents to file changes to their registration where the registered offshore SPVs undergo the change of basic information including the change of PRC individual residence shareholder, name and operation period, as well as material events such as capital increase or decrease, share transfer or exchange, merger or division. In accordance with the Circular 37, failure to comply with the registration procedures set forth in the Circular 37 may result in various punishments stipulated in the foreign exchange regulations of the PRC.

Pursuant to 關於進一步簡化和改進直接投資外匯管理政策的通知 (Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies*) ("**Circular 13**"), which was promulgated on 13 February 2015 and became effective from 1 June 2015, the foreign exchange registration under domestic direct investment and the foreign exchange registration under overseas direct investment will be directly reviewed and handled by qualified banks in accordance with Circular 13, and SAFE and its branches shall perform indirect regulation over the foreign exchange registration via qualified banks.

On 30 March 2015, SAFE promulgated 國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知 (Circular on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises*) ("**Circular 19**"), which came into effect from 1 June 2015. According to Circular 19, the foreign exchange capital of foreign-invested enterprises ("**FIE**") shall be subject to discretional foreign exchange settlement ("**Discretional Foreign Exchange Settlement**"). The Discretional Foreign Exchange Settlement refers to the foreign exchange capital in the capital account of an FIE for which the rights and interests of monetary contribution has been confirmed by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) can be settled at the banks based on the actual operational needs of the FIE. The proportion of Discretional Foreign Exchange Settlement of the foreign exchange capital of an FIE is temporarily determined as 100%. The Renminbi converted from the foreign exchange capital will be kept in a designated account and if an FIE needs to make further payment from such account, it still needs to provide supporting documents and go through the review process with the banks.

Furthermore, Circular 19 stipulates that the use of capital by foreign-invested enterprises shall follow the principles of authenticity and self-use within the business scope of enterprises. The capital of an FIE and capital in Renminbi obtained by the FIE from foreign exchange settlement shall not be used for the following purposes:

1. directly or indirectly used for the payment beyond the business scope of the enterprises or the payment prohibited by relevant laws and regulations;

2. directly or indirectly used for investment in securities unless otherwise provided by relevant laws and regulations;

3. directly or indirectly used for granting the entrust loans in Renminbi (unless permitted by the scope of business), repaying the inter-enterprise borrowings (including advances by the third party) or repaying the bank loans in Renminbi that have been sub-lent to the third party; and

4. paying the expenses related to the purchase of real estate that is not for self-use (except for the foreign-invested real estate enterprises).

PRC LAWS RELATING TO INTELLECTUAL PROPERTY RIGHTS

Pursuant to 中華人民共和國專利法 (Patent Law of the PRC*) ("**Patent Law**") promulgated on 12 March 1984, and amended on 25 August 2000 and 27 December 2008, and the Rules for the Implementation of the Patent Law of the PRC (中華人民共和國專利法實施細則) promulgated on 15 June 2001 and amended on 28 December 2002 and 9 January 2010, respectively, an inventor or a designer may apply to the patent administration department under the State Council for the grant of an invention patent, a utility patent or a design patent. According to the Patent Law, the right to apply for a patent (a patent application) and registered patent rights can be transferred upon completion of registration with the competent patent administration department. The patent term for invention patent is 20 years and for utility or design patents is 10 years, in each case commencing from the application date of the patent. Patent holders are obligated to pay annual fees commencing from the year in which the patent right is granted. Failure to pay the annual fees may result in the termination of the patent.

PRC LAWS RELATING TO QUALITY

中華人民共和國產品質量法 (Product Quality Law of the PRC*) was promulgated on 22 February 1993 and amended on 8 July 2000 and 27 August 2009, respectively. The State Council's product quality supervision authority is in charge of the nationwide supervision of product quality, while the local product quality supervision authority at or above the county level is responsible for supervising the product quality within its respective administrative region. Producers and sellers shall establish internal quality management systems, implement strict job quality specifications, quality responsibility system and corresponding quality evaluation procedures. The State encourages enterprises to ensure that the quality of their products achieve and surpass the industrial, national and international standards.

HISTORY AND DEVELOPMENT

Our Company was incorporated in the Cayman Islands on 15 July 2015 in anticipation of the Listing. As at the latest Practicable Date, our Company had three subsidiaries, namely Feishang International, Feishang Material and Zhuorui. Feishang International is an investment holding company incorporated in the BVI. Feishang Material is our principal operating subsidiary established in the PRC which owns and operates our Huanghu Bentonite Mine. Zhuorui is a subsidiary of a wholly foreign-owned enterprise with limited liability established by Feishang Material for the purpose of providing management and consultancy services to other companies within our Group.

Our Group's history can be traced back to mid-2002 when our founder, Mr. Li, through Feishang International, acquired certain assets of 繁昌縣鋅鐵礦 (Fanchang County Iron-zinc Ore Mine*) from 繁昌縣國有資產管理局 (State-owned Assets Administration Bureau of Fanchang County*) which was an Independent Third Party, at a consideration of RMB5,655,000 using his personal funds. The consideration was determined based on negotiation with reference to the then appraised asset value of 繁昌縣鋅鐵礦 (Fanchang County Iron-zinc Ore Mine*). The assets acquired by Feishang International included, among others, the exploration right of bentonite resources in the area where our Huanghu Bentonite Mine is located ("**Exploration Area**"). On 21 June 2002, Feishang International established Feishang Material as our operating subsidiary to hold the mining assets acquired by Feishang International. Feishang Material subsequently applied for the conversion of the exploration licence previously issued to 繁昌縣鋅鐵礦 (Fanchang County Iron-zinc Ore Mine*) into a mining licence. On 21 February 2004, Anhui Land and Resources Department granted Feishang Material the mining licence in the Mining Area, with a validity period from February 2004 to February 2019. On 30 December 2010, Anhui Land and Resources Department renewed the mining licence of Feishang Material in the Mining Area due to changes in PRC laws which required the mandatory renewal of all mining licences issued prior to 30 June 2009, with a validity period from 30 December 2010 to 21 February 2019 and which superseded the mining licence issued on 21 February 2004. On 9 September 2015, Anhui Land and Resources Department renewed the mining licence of Feishang Material in the Mining Area with a validity period from 9 September 2015 to 9 March 2019, which superseded the mining licence issued on 30 December 2010.

We commenced our mining operations in August 2004 after the issuance of our mining licence with a permitted production capacity of 230,000 m^3 per annum (equivalent to approximately 400,000 tpa). Our products were activated bentonite and pelletising clay. Due to the increasing cost of production for activated bentonite, we ceased production of activated bentonite in December 2005. Thereafter, we modified the production line previously used for the production of activated bentonite for the production of other bentonite products. Upon completion of such modification, we commenced commercial production of drilling mud in January 2010.

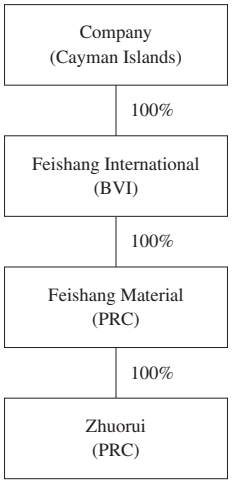
Milestones of our Group

Below are the milestones in our business development from the commencement of our mining operations in 2004 and up to the Latest Practicable Date:

Time	Event
2004	Issuance of our mining licence for our Huanghu Bentonite Mine with a mining area of approximately 7.2982 km^2 and a permitted production capacity of 230,000 m^3 per annum (equivalent to approximately 400,000 tpa).
	Commencement of commercial production of pelletising clay.
2010	Commencement of commercial production of drilling mud.
2014	Awarded 高新技術企業證書 (High Technology Enterprise Certificate*) by 安徽省科學技術廳 (Science Technology Department of Anhui Province*), 安徽省財政廳 (Anhui Provincial Department of Finance*), 安徽省國家税務局 (Administration of Tax of Anhui Province*) and 安徽省地方税務局 (Local Tax Bureau of Anhui Province*).

OUR GROUP STRUCTURE AND CORPORATE HISTORY

The following chart sets forth the corporate structure of our Group immediately following completion of the **[REDACTED]**:



The following describes the corporate history of our Company and our subsidiaries.

Our Company

Our Company was incorporated in the Cayman Islands on 15 July 2015 in anticipation of the Listing, with one subscriber Share allotted and issued fully paid at par to the initial subscriber, an Independent Third Party. On the same day, such subscriber Share was transferred to Feishang at a nominal value of HK$0.01.

On 17 September 2015, the authorised share capital of our Company was increased from HK$100,000 divided into 10,000,000 Shares to HK$100,000,000 divided into 10,000,000,000 Shares by the creation of an additional 9,990,000,000 Shares, ranking pari passu in all respects with the then existing Shares.

On 17 September 2015, as part of the Reorganisation, our Company acquired the entire issued share capital of Feishang International from Feishang and in consideration and exchange, our Company allotted and issued 374,999,999 fully paid Shares to Feishang, credited as fully paid up at par on the same day.

As a result of the Reorganisation, our Company holds the entire shareholding of Feisheng International which in turn holds the entire shareholding of Feishang Material which wholly owns Zhuorui. Our Company is principally engaged in the investment holding of Feishang International.

Feishang International

Feishang International was incorporated in the BVI on 5 February 2002 with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each, and one share of which was allotted and issued to Mr. Li, for a consideration of US$1.00. On 26 April 2002, Mr. Li transferred such one share, representing the entire issued share capital of Feishang International, to Feishang for a consideration of US$1.00.

On 17 September 2015, as part of the Reorganisation, the entire issued share capital of Feishang International was transferred from Feishang to our Company; and in consideration and exchange, our Company alloted and issued 374,999,999 Shares, credited as fully paid up at par, to Feishang on the same day.

As a result of the Reorganisation, Feishang International became a direct subsidiary of our Company. Feishang International is principally engaged in the investment holding of Feishang Material.

Feishang Material

Feishang Material was established in the PRC on 21 June 2002 as a wholly-foreign owned enterprise with a registered capital of HK$25,000,000 entirely held by Feishang International. On 17 December 2004, the entire equity interest of Feishang Material was transferred by Feishang International to Feishang Mining for a consideration of HK$25,000,000, which was transferred back to Feishang International on 1 December 2005 for a consideration of HK$25,000,000. The consideration for each of the two equity transfers represented the registered capital of Feishang Material. The respective considerations payable for the two equity transfers offset each other. At the time of the aforementioned two equity transfers, both Feishang International and Feishang Mining were indirectly wholly-owned by Mr. Li, our founder and Controlling Shareholder, and the two equity transfers were carried out as a result of certain corporate reorganisation among the businesses controlled by Mr. Li. Our PRC Legal Advisers have advised that each of the two aforementioned equity transfers has been completed in accordance with the applicable PRC laws and regulations and all material governmental approvals for each of the two aforementioned equity transfers as required under the PRC laws and regulations have been obtained.

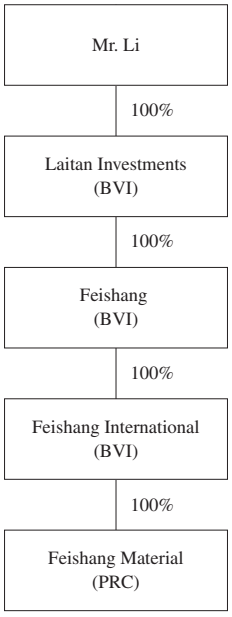
As a result of the subsequent transfer stated in the paragraph above, Feishang Material became a direct wholly-owned subsidiary of Feishang International. Feishang Material is our operating subsidiary principally engaged in the mining operation of Huanghu Bentonite Mine. On 7 January 2008, Feishang Material established its Huanghu Branch, Wuhu Feishang Non-metallic Material Co., Ltd (蕪湖飛尚非金屬材料有限公司黃澭分公司).

Zhuorui

Zhuorui was established in the PRC on 19 June 2015 as a subsidiary of a wholly foreign-owned enterprise with limited liability and with a registered capital of RMB1,000,000. Zhuorui is wholly-owned by Feishang Material and was established for the purpose of providing management and consultancy services to other companies within our Group.

REORGANISATION

The following chart sets forth the shareholding and corporate structure of our Group immediately prior to the Reorganisation:



In preparation for the Listing, our Group underwent the Reorganisation. The main steps of the Reorganisation were:

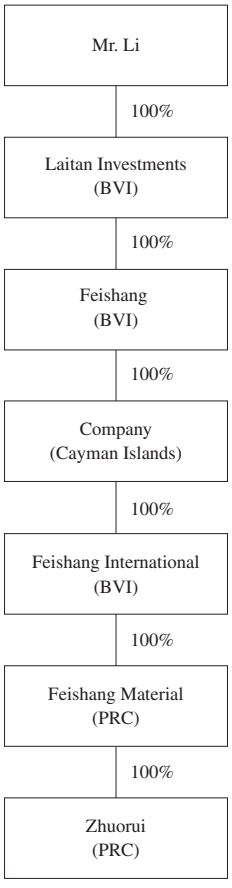
(a) On 19 June 2015, Zhuorui was established in the PRC by Feishang Material as a subsidiary of a wholly foreign-owned enterprise with limited liability with a registered capital of RMB1,000,000.

(b) On 15 July 2015, our Company was incorporated in the Cayman Islands with an authorised share capital of HK$100,000 divided into 10,000,000 Shares, with one subscriber Share allotted and issued fully paid at par to the initial subscriber, an Independent Third Party. On the same day, such subscriber Share was transferred to Feishang at a nominal value of HK$0.01.

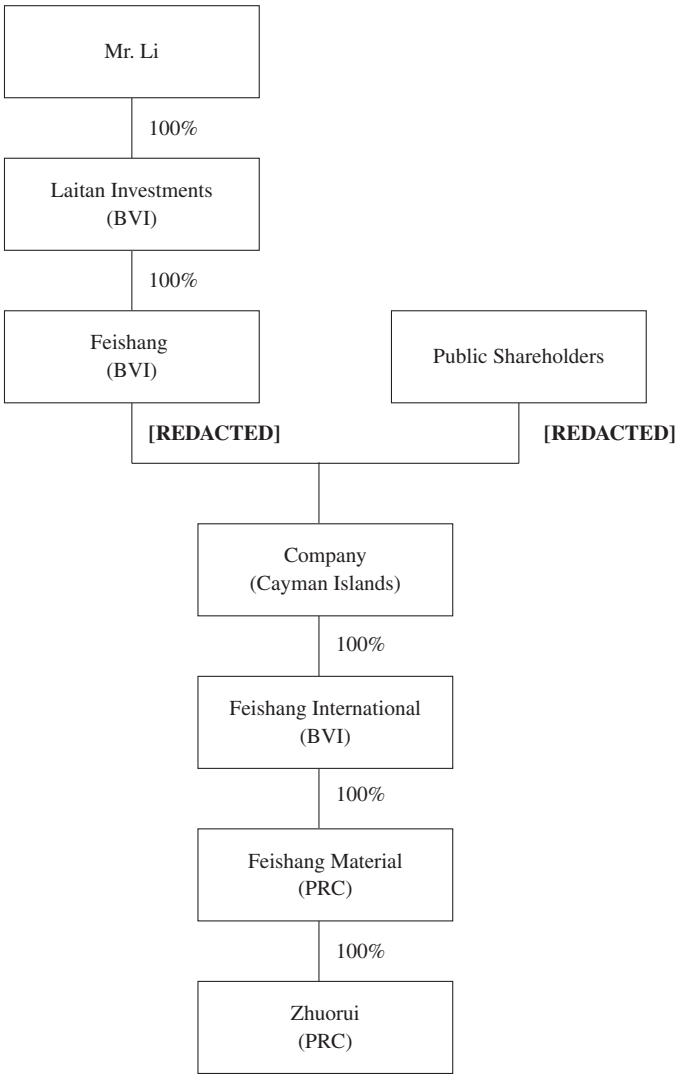
(c) On 17 September 2015, our Company acquired one share of par value US$1.00, being the entire issued share capital of Feishang International from Feishang and in consideration and exchange, our Company allotted and issued 374,999,999 Shares to Feishang, credited as fully paid up on the same day.

As a result of our Reorganisation, our Company became the holding company of our Group, holding through our intermediate holding company, Feishang International, which in turn holds our operating subsidiary, Feishang Material, which is principally engaged in the mining operation of Huanghu Bentonite Mine. Feishang Material wholly owns Zhuorui, which is principally engaged in the provision of management and consultancy services to other companies within our Group.

The following chart sets forth the shareholding and corporate structure of our Group immediately upon the completion of the Reorganisation but immediately before the **[REDACTED]**:



The following chart sets forth our shareholding and corporate structure immediately following completion of the **[REDACTED]**, taking no account of any Shares to be issued pursuant to the exercise of the **[REDACTED]** or options that may be granted under the Share Option Scheme:



LEGAL COMPLIANCE

M&A Rules

關於外國投資者併購境內企業的規定 (According to the Rules on the Acquisition of Domestic Enterprises by Foreign Investors*) ("**M&A Rules**") which were promulgated by the Ministry of Commerce, the State-owned Assets Supervision and Administration Commission, the CSRC, the State Administration of Taxation, the State Administration for Industry and Commerce and the SAFE and took effect on 8 September 2006 and modified on 22 June 2009, where a domestic natural person intends to acquire his/her related domestic company through an offshore company which he/she lawfully established or controls, the acquisition shall be subject to the examination and approval of the Ministry of Commerce; and where a domestic natural person holds equity interest in a domestic company through an offshore special purpose company, any transaction involving the overseas listing of that special purpose company shall be subject to approval by the CSRC.

Our PRC Legal Advisers have advised that given Feishang Material was established before 8 September 2006, the effective date of the M&A Rules, as a foreign-invested enterprise and did not undergo any acquisition as defined in the M&A Rules, we are not required to submit an application to the CSRC for its approval of the Listing and trading of our shares on the Stock Exchange.

Circular No. 37

關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知 (Circular of the State Administration of Foreign Exchange on Issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles*) ("**Circular 37**") and 返程投資外匯管理所涉業務操作指引 (Operating Guideline for Relevant Business of Foreign Exchange Administration over Round-trip Investment*) ("**Operating Guideline**"), the annexure of Circular 37 were promulgated by SAFE on 14 July 2014 and took effect on the same day. According to Circular 37 and the Operating Guideline, a domestic resident shall, before contributing lawful domestic and overseas assets or interests to a special purpose vehicle, apply to SAFE or its local branch to effect foreign exchange registration.

On 13 February 2015, SAFE issued the 國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知 (Notice on Further Simplification and Improvement of Foreign Exchange Administration Policies for Direct Investment*) ("**Circular 13**"), which came into effect on 1 June 2015. Pursuant to Circular 13, a domestic resident who makes capital contribution to a special purpose vehicle using his or her legitimate domestic or offshore assets or interests is no longer required to apply to SAFE or its local counterpart for foreign exchange registration of overseas investments. Instead, he or she shall apply to banks in the place where the assets or interests of such domestic enterprise are located (in case such domestic resident individually makes capital contribution to the special purpose vehicles using his or her legitimate domestic assets or interests) or banks in the place where his or her permanent residence is registered (in case such domestic resident individually makes capital contribution to the special purpose vehicles using his or her legitimate offshore assets or interests) to go through foreign exchange registration of overseas investments.

According to a written confirmation issued by Wuhu branch of Industrial and Commercial Bank of China, Mr. Li, who is our Controlling Shareholder, is not subject to the abovementioned foreign exchange registration of overseas investments due to the fact that Mr. Li holds permanent residence in the Macao Special Administrative Region of the PRC ("**Macao**") and Mr. Li had used its offshore assets to make investments in offshore special purpose vehicles. In addition, according to an interview conducted with Wuhu Foreign Exchange Center Office of SAFE ("**Wuhu Center Office**") by our PRC Legal Advisers on 14 September 2015, Wuhu Center Office confirmed that the responsibility of conducting foreign exchange registration of overseas investments has been delegated to banks since the implementation of the Circular 13 and based on Mr. Li's circumstances, Wuhu Center Office explained that as a regulatory policy, a person holding foreign identity (including Macao permanent residence) who uses its offshore assets to make investments to offshore special purpose vehicles is not subject to the foreign exchange registration of overseas investments. Based on Circular 13 and an interview conducted with the Anhui Branch of SAFE by our PRC Legal Advisers on 15 October 2015, our PRC Legal Advisers have advised that Wuhu Center Office is the competent authority for confirming the aforementioned.

OVERVIEW

We are principally engaged in the development of our Huanghu Bentonite Mine in Anhui province, the PRC and the production and sale of bentonite products in the PRC. Huanghu Bentonite Mine is an open-pit bentonite mine located in Fanchang county of Wuhu city, Anhui province, the PRC. We commenced our bentonite mining operation in 2004. Our current principal products include (i) drilling mud; and (ii) pelletising clay. We also sell unprocessed clay to our customers. Our commercial production of pelletising clay commenced in 2004 while our commercial production of drilling mud commenced in 2010. Unlike drilling mud and pelletising clay, unprocessed clay is sold in its original form. The drilling mud produced by our Group is mainly for trenchless directional drilling activities in civil engineering, such as laying new pipelines as well as rehabilitation and replacement of older pipelines. The pelletising clay produced by our Group can be used as a binder for the production of iron ore pellets, which is in turn used for the production of iron and steel products for use in other industries such as the construction industry. Unprocessed clay sold to our customers can be further processed by such customers depending on their own needs.

According to the Resource estimate prepared in accordance with the JORC Code for our Huanghu Bentonite Mine presented in the Independent Technical Report, our estimated Resource in terms of dry metric tonnes was approximately 14,788,000 tonnes as at 1 July 2015, comprising 1,781,000 tonnes of Measured Resource, 5,467,000 tonnes of Indicated Resource, and 7,540,000 tonnes of Inferred Resource.

According to the Reserve estimate prepared in accordance with the JORC Code for our Huanghu Bentonite Mine presented in the Independent Technical Report, our estimated Reserve in terms of dry metric tonne was approximately 6,444,000 tonnes as at 1 July 2015, comprising 1,720,000 tonnes of Proved Reserve and 4,724,000 tonnes of Probable Reserve.

According to the Independent Technical Report, the estimated remaining mine life of Huanghu Bentonite Mine was 79 years as at 1 July 2015, after taking into account our current production rates and our estimated annual production rate going forward.

During the Track Record Period, we produced (i) approximately 53,753 tonnes, 39,959 tonnes and 23,634 tonnes of drilling mud; (ii) approximately 39,030 tonnes, 33,995 tonnes and 15,112 tonnes of pelletising clay; and (iii) nil, approximately 17,953 tonnes and 8,695 tonnes of unprocessed clay, respectively.

Sale of drilling mud generated the majority of our revenue during the Track Record Period, accounting for approximately 61.1%, 62.8% and 67.0% of our total revenue for the relevant periods, respectively, pelletising clay accounted for approximately 38.9%, 34.0% and 29.9% of our total revenue for the relevant periods, respectively, while unprocessed clay accounted for nil, approximately 3.2% and 3.1% of our total revenue for the relevant periods, respectively.

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths distinguish us from our competitors:

Our Huanghu Bentonite Mine has abundant Resources and Reserves for future development

We have abundant Resources and Reserves for our business operations. According to the Independent Technical Report, as at 1 July 2015, we had approximately JORC-compliant Resources of approximately 14,788,000 tonnes and JORC-compliant Reserves of approximately 6,444,000 tonnes. According to the Independent Technical Report, the estimated mine life of the Huanghu Bentonite Mine was 79 years as at 1 July 2015, after taking into account our current production rates and our estimated annual production rate going forward. We believe that our abundant Resources and Reserves will help to ensure our sustainability and growth in the long-term, thus enabling us to compete effectively with our competitors.

Our open-pit mining method is more cost-effective, environmental-friendly and safer as compared to underground mining methods

Since the open-pit mining method generally does not require the extensive use of explosive material or hazardous chemicals, workplace safety and environmental pollution concerns are significantly reduced. We adopt the open-pit mining method at our Huanghu Bentonite Mine and do not require the use of any explosive materials or hazardous chemicals in our mining operations. As such, we can dispense with the use of machinery, equipment or supporting structures that specially cater for underground mining. Such mining method has resulted in lower operating costs and improved the efficiency of our operations as compared to underground mining methods. In addition, our open-pit mining method also reduces the risk of workplace accidents caused by collapsed mine roofs, mine floods and leakage of harmful gases.

We possess expertise in production technology and strong research and development capabilities

Our Group has strong research and development capabilities. We believe that, through our expertise in production technology, we have reduced our mining and production costs and have enhanced our mining technologies and production efficiency and thereby our overall operations. Since our inception, we have successfully obtained 10 patents in the PRC in respect of our production technologies. As at the Latest Practicable Date, we had also entered into collaboration agreements with two universities and one research institution in the PRC for the development of new technologies and new bentonite products to cater for downstream markets other than iron ore pelletising and civil engineering. We believe that we are capable of developing products and producing new and improved variations of our existing products to satisfy the needs of our customers and the demands of the ever-evolving bentonite products industry. We also believe that our continuing commitment to research and development will enable us to further reduce our mining and production costs, expand our product coverage and increase our competitiveness in the future.

Our Huanghu Bentonite Mine and our major facilities including the processing plant and air-drying facilities are strategically located and easily accessible by road

According to the CRU Report, transportation costs as a proportion of the total costs of bentonite mining are relatively high. As such, proximity to well-established transportation networks, including roads and shipping lanes, will place us in a more advantageous situation as compared with other bentonite producers located in more remote and less developed areas. Our Huanghu Bentonite Mine, processing plant and air-drying facilities are all connected with major highways or provincial paved roads. According to the Independent Technical Report, our Huanghu Bentonite Mine is located approximately 40 km southwest of Wuhu city, the nearest major regional centre whereby most of our supplies are sourced from, and approximately 10 km south of the Yangtze River. Given our relatively close proximity to the Yangtze River, the Independent Technical Consultant is of the view that our Group has the potential to ship bentonite along the Yangtze River, thereby extending the geographical coverage of our business. We believe that the favourable locations of our Huanghu Bentonite Mine, processing plant and air-drying facilities will allow us to further enhance the price competitiveness of our products, as well as help us to capture growth opportunities by expanding our customer base to customers located in more distant areas. For more details on the transportation infrastructure surrounding Huanghu Bentonite Mine and our major facilities, please refer to "Business – Our business model – Geographical location and access to our Huanghu Bentonite Mine and major facilities" of this document.

Our senior management team consists of experienced personnel with the requisite industry and management experience

Our senior management team consists of a group of experienced personnel with experience in various aspects of the mining industry, including but not limited to, corporate management, accounting and financial management, mine safety management and human resources. In addition, most members of our senior management team have more than 10 years of experience in the mining industry. We believe that, as a result of their accumulated years of experience, our management team possess profound technical knowledge in the mining industry, as well as a combination of strong analytical, observation, communication and management skills. We believe that our management is capable of seizing market opportunities, formulating and implementing sound business strategies and managing risks adequately, which as a whole would enable our Group to achieve sustainable business growth.

We have proven operating track record in the mining and processing of bentonite

Our Group has a proven track record in both bentonite mining and processing operations for more than ten years. We commenced our mining operations in 2004 while commercial production of our pelletising clay and drilling mud commenced in 2004 and 2010, respectively. Our Directors confirm that, since the founding of our Group, we have not encountered any material quality issues that have adversely affected our business reputation and/or operations. As such, we believe we are one of the better-positioned bentonite producers, particularly in east China, given our relatively long presence, which we believe will provide us with strong leverage to take advantage of numerous growth opportunities.

OUR BUSINESS STRATEGIES

We aim to strengthen our market position in the PRC. In order to achieve this objective, we intend to pursue the following strategies:

Broaden our customer base and develop product recognition

We believe that building up our customer base and maintaining and enhancing recognition of our products among the industry players on an on-going basis is crucial to our future development and success. We intend to broaden our customer base and increase the exposure of our products through the following means: (i) collaborating with external institutions in the PRC for the development of new technologies and new bentonite products to cater for downstream markets other than iron ore pelletising and civil engineering; and (ii) attending and participating in industry forums and events to network with other industry professionals and potential customers; and (iii) expanding our sales and marketing team to further enhance our sales and marketing activities. In doing so, not only are we able to broaden our customer base and product range, we are also able to keep abreast of industry trends which will further enhance our corporate profile as well as recognition of our products among industry players and end-use customers.

Enhance our research and development capabilities, including the development of new production technologies and new products

We believe that our ability to develop new products or produce new and improved variations of our existing products enables us to satisfy the needs of our customers and the demands of the bentonite industry. As at the Latest Practicable Date, we had entered into collaboration agreements with two universities and one research institution in the PRC, namely 安徽工程大學科技開發部 (Anhui Polytechnic University Department of Science and Technology*), 西南科技大學 (Southwest University of Science and Technology*) and 蘇州中材非金屬礦工業設計研究院有限公司 (Suzhou Sinoma Non-metallic Minerals industry Design and Research Institute Co., Ltd.*), for the development of new technologies and new bentonite products to cater for downstream markets other than iron ore pelletising and civil engineering. For more details on our research and development work, please refer to "Research and development" in this section. We

believe that there will be a rising demand from our diversified customers for higher quality products as well as products with new or improved features. In order to be able to respond quickly to market changes, increase our competitiveness, further expand our market share and customer base and enhance our development capabilities, we intend to employ more research and development personnel and allocate more human and financial resources towards improving our current production technologies and product development. We believe that improved production technologies will help us to control our costs more effectively and product development will serve to increase the competitiveness of our products, thereby expanding our market share in the bentonite industry.

Recruit more talents

We believe that having experienced personnel with established industry expertise is critical to the success of our operations and future growth. We aim and intend to recruit more experienced personnel who possess abundant knowledge and rich experience in various aspects of our business, including mine design and construction, mining, processing, sales and marketing and research and development of our principal products. We believe that having a team with the requisite skills, foresight and industry knowledge is necessary for the formulation of sound business strategies in order to sustain our business and capture market opportunities so as to ensure our continued success.

Expand our business through selective acquisition of other non-metal mines

We intend to expand our business through the selective acquisition of other non-metal mines in the PRC as and when appropriate opportunities arise. Such non-metal mines will be selected based on various factors, including but not limited to: (i) the degree of exploration work undertaken and the possibility of obtaining a mining licence; (ii) the volume of reserves available; (iii) the estimated mining life; (iv) scale of the mine; and (v) quality of the mineral deposits. We believe that with the extensive experience of our management team in the mining industry, we will be able to identify and capture acquisition opportunities that are appropriate and compatible with our current business, thereby expanding our mineral resources. Potential acquisition targets will be further evaluated based on certain criteria, including but not limited to the geographic location of the mine, the quality and quantity of the particular non-metal mineral resource, the stage of development of the mine, mining conditions and compatibility with our existing business operations. As at the Latest Practicable Date, we had not identified any of such acquisition targets.

Upgrade our current processing plant and processing machinery and equipment

According to the Independent Technical Consultant, one of our risks is our ageing processing equipment, which may compromise the quality of our products and/or result in equipment breakdowns. As such, we intend to upgrade our current processing plant by purchasing new processing equipment such as Raymond mill, modifying our rotary drum dryer and construction of new storage bins for storing pelletising clay, all of which will enhance our overall processing efficiency as well as allow us to have better control over our operating costs, and ultimately increase our profitability.

OUR BUSINESS MODEL

We are principally engaged in the development of our only mine, that is, the Huanghu Bentonite Mine and the production and sale of bentonite products in the PRC. Our principal PRC operating subsidiary, Feishang Material, is responsible for the extraction and processing of the bentonite ore into drilling mud and pelletising clay and their subsequent sales, as well as the sale of unprocessed clay. Our drilling mud and pelletising clay can be applied for various uses, which includes, among others, binder for the production of iron ore pellets, and in civil engineering for trenchless directional drilling activities such as pipeline-laying. Unprocessed clay is also sold to customers who may further process it depending on their own needs. According to the Independent Technical Report, the current production capacity of the processing plant is approximately 115,000 tpa, and actual production rates are generally based on various factors including the number of purchase orders received from our customers.

Huanghu Bentonite Mine

Huanghu Bentonite Mine is an open-pit bentonite mine with a permitted mining area of approximately 7.2982 km^2.

According to the Resource estimate prepared in accordance with the JORC Code for our Huanghu Bentonite Mine presented in the Independent Technical Report, our estimated Resource in terms of dry metric tonnes was approximately 14,788,000 tonnes as at 1 July 2015, comprising 1,781,000 tonnes of Measured Resource, 5,467,000 tonnes of Indicated Resource, and 7,540,000 tonnes of Inferred Resource.

According to the Reserve estimate prepared in accordance with the JORC Code for our Huanghu Bentonite Mine presented in the Independent Technical Report, our estimated Reserve in terms of dry metric tonnes was approximately 6,444,000 tonnes as at 1 July 2015, comprising 1,720,000 tonnes of Proved Reserve and 4,724,000 tonnes of Probable Reserve.

According to the Independent Technical Report, the estimated remaining mine life of Huanghu Bentonite Mine was 79 years as at 1 July 2015, after taking into account our current production rates and our estimated annual production rate going forward.

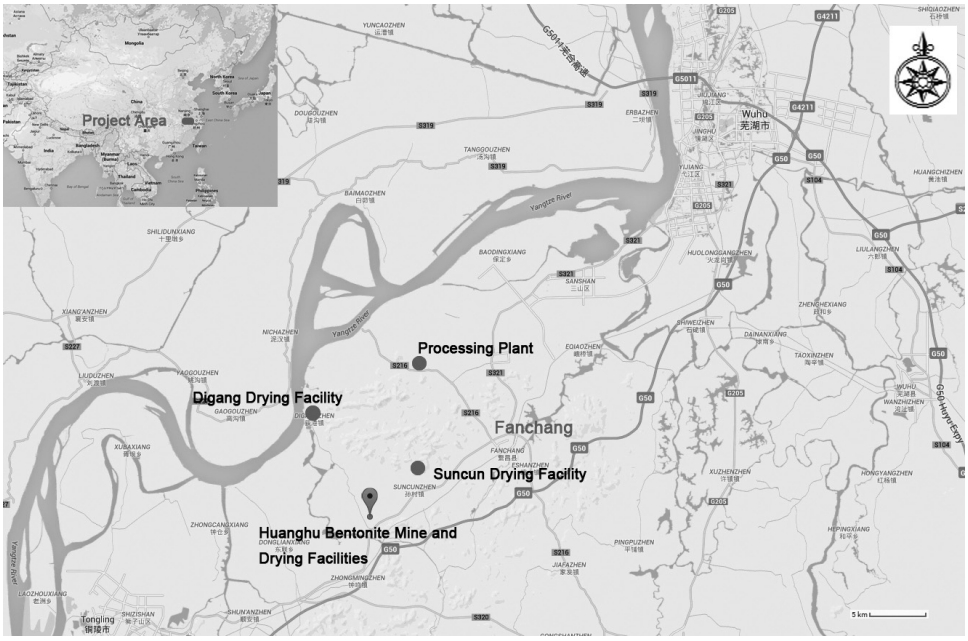
Geographical location and access to our Huanghu Bentonite Mine

Huanghu Bentonite Mine is located in Fanchang county of Wuhu city, Anhui province, the PRC, which is approximately 130 km to the southwest of Nanjing, the capital of Jiangsu province and 40 km to the southwest of Wuhu city. The mining area can be accessed from Nanjing via freeway G4211 for approximately 132 km, and then by a paved provincial road for approximately 7 km.

The major facilities required for our business operations include: (i) Huanghu Bentonite Mine; (ii) our processing plant; and (iii) the two air-drying facilities located at the site of our Huanghu Bentonite Mine, the air-drying facility located in Digang town and the air-drying facility located in Suncun town, whereby the extracted bentonite ore is naturally air-dried before it is transported to the processing plant for further processing. Huanghu Bentonite Mine is connected to the air-drying facilities located at Digang town and Suncun town by paved roads of approximately 13 km and 5.5 km, respectively while the air-drying facilities located at Digang town and Suncun town are located approximately 18 km and 25 km from the processing plant, respectively. According to the Independent Technical Report, our Huanghu Bentonite Mine is located approximately 40 km southwest of Wuhu city, the nearest major regional centre whereby most of our suppliers are sourced from, and approximately 10 km south of the Yangtze River.

According to the Independent Technical Report, the current infrastructure of the area surrounding the Huanghu Bentonite Mine is considered adequate for the current volumes of bentonite ore and products to be transported between the Huanghu Bentonite Mine, the processing plant, the air-drying facilities and our customers and suppliers. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material shortage in transportation capacity for our bentonite ore products.

The following map sets out the approximate geographical location of our Huanghu Bentonite Mine and the surrounding major facilities:



OUR RESOURCES, RESERVES AND MINING RIGHTS

Mining Right

We currently hold the mining rights to Huanghu Bentonite Mine. The following table sets out certain important information of Huanghu Bentonite Mine and the particulars of our current mining licence:

Licence holder	:	Feishang Material
Permitted mining right area	:	7.2982 km^2
Licence number	:	C3400002010127120099654
Validity period of current licence	:	9 September 2015 – 9 March 2019
Mining depth/Elevation limit	:	From 57 mASL to -23 mASL
Mining method	:	Open-pit

Permitted production capacity	:	230,000 m^3 per annum (equivalent to approximately 400,000 tpa)
Type of mineral	:	Bentonite

During the Track Record Period and up to the Latest Practicable Date, we have produced within the permitted production capacity under the mining licence for our Huanghu Bentonite Mine.

We first obtained our mining licence in February 2004, which was subsequently renewed on two separate occasions in December 2010 and in September 2015. According to 土地復墾條例 (Regulations on Land Rehabilitation*) of the PRC, which became effective on 5 March 2011, and 土地復墾條例實施辦法 (Implementing Measures of Regulations on Land Rehabilitation*), which became effective on 1 March 2013, when a production or construction entity or individual responsible for the rehabilitation of the land damaged in its production or construction activities ("**Relevant Land User**") applies for the mining licence and/or the land use right, it shall submit a land rehabilitation plan (土地復墾方案), together with other required documents, to the MLR or its local branch for examination, and will obtain an examination opinion on land rehabilitation plan (土地復墾方案審查意見書) if the land rehabilitation plan passes the examination. For details of the relevant PRC laws and regulations on land rehabilitation, please refer to "Regulations – PRC laws relating to environmental protection – Regulations on land rehabilitation and its implementing measures" in this document.

Our principal PRC operating subsidiary, Feishang Material, however, failed to timely compile and obtain approval from Anhui Land and Resources Department for such land rehabilitation plan in accordance with the applicable PRC laws and regulation. For details of our non-compliance in respect of land rehabilitation, please refer to "Business – Legal proceedings and regulatory compliance – Regulatory non-compliance – 1. Non-compliance relating to land rehabilitation" in this document. Notwithstanding the abovementioned non-compliance, Feishang Material was still able to first obtain its mining licence in 2004 and subsequently renew it in December 2010 and September 2015 due to the following circumstances:

(a) when Feishang Material first obtained its mining licence in 2004, it was not mandatory to compile and submit a land rehabilitation plan under the relevant PRC laws and regulations before being granted a mining licence;

(b) our PRC Legal Advisers conducted an interview with Anhui Land and Resources Department on 19 October 2015 ("**Interview**"). During the Interview, Anhui Land and Resources Department confirmed that in respect of a company such as Feishang Material which had already obtained a mining licence prior to the implementation of 土地復墾條例 (Regulations on Land Rehabilitation*) in March 2011, such company would be allowed to renew its mining licence with an approved geological environment protection and comprehensive treatment plan ("**Geological Environment Plan**") that is compiled in accordance with 礦山地質環境保護規定 (Mine Geological Environment Protection Provisions*), which became effective on 1 May 2009, as such plan would encompass, among other things, information relating to land rehabilitation. In December 2009, Feishang Material compiled a Geological Environment Plan which contained a chapter relating to land rehabilitation, and such Geological Environment Plan was subsequently approved by Anhui Land and Resources Department in January 2010. Due to the foregoing, Feishang Material was able to renew its mining licence in December 2010; and

(c) pursuant to 土地復墾條例 (Regulations on Land Rehabilitation*) and its implementation measures, where a mining licence has been granted prior to the enforcement of 土地復墾條例 (Regulations on Land Rehabilitation*) in March 2011, the Relevant Land User is obliged to compile and submit a land rehabilitation plan to the relevant land and resources authority before 1 March 2014. Although Feishang Material did not submit any land rehabilitation plan within the abovementioned statutory time limit, a land rehabilitation plan was compiled and submitted by Feishang Material to the relevant land and resources authority in July 2015 before the second renewal of its mining licence in September 2015. Feishang Material subsequently obtained the written approval for the land rehabilitation plan from Anhui Land and Resources Department on 10 September 2015. Even though Feishang Material obtained its latest mining licence on 9 September 2015 pursuant to its second renewal, Anhui Land and Resources Department confirmed in the Interview that the land rehabilitation plan submitted by Feishang Material had already been reviewed and passed by Anhui Land and Resources Department on 2 September 2015. Save as disclosed above, since the implementation of 土地復墾條例 (Regulations on Land Rehabilitation*), Feishang Material has not obtained or renewed any mining licence before the relevant land rehabilitation plan was submitted to and approved by the relevant land and resources authority.

Anhui Land and Resources Department have also confirmed in the Interview that Feishang Material had obtained and renewed its mining licence without illegal or improper means and our PRC Legal Advisers are of the view that Anhui Land and Resources Department is a competent authority to confirm as such.

Resource and Reserve estimates prepared in accordance with JORC Code

In estimating our Resources and Reserves, the Independent Technical Consultant separated the bentonite deposits at Huanghu Bentonite Mine into three main domains, namely V1, V2 and V3, with V1 being the largest orebody. Our Reserves were estimated based on the estimated Measured Resource and Indicated Resource, and refer to that portion of the in-situ material that can be mined based on certain assumptions and after taking into account Modifying Factors such as: (i) dilution anticipated from a minor amount of overburden inadvertently or purposely included with the extracted unprocessed clay; (ii) ore losses anticipated in the overburden removal stage; and (iii) ore loss or ore left on the pit floor during mining. For more details on our Resources and Reserve estimates, please refer to the Independent Technical Report set out in Appendix III to this document.

Huanghu Bentonite Mine Resource estimate statement as at 1 July 2015

Domain	**Category** *(Note 1)*	**DMT** *(Note 2)*	**Active montmorillonite** *%*	**Colloid index** *(ml/15g)*	**Swelling capacity** *(ml/g)*
V1	Measured	1,781,000	45.2	54.9	7.6
	Indicated	5,467,000	47.7	63.9	9.1
	Inferred	4,388,000	48.7	69.9	10.2
V2	Inferred	2,317,000	50.8	51.4	6.1
V3	Inferred	835,000	56.7	57.9	7.2
Subtotal *(Note 3)*	Measured + Indicated	7,248,000	47.0	61.7	8.8
	Inferred	7,540,000	50.2	62.9	8.6
Total *(Note 3)*	Measured + Indicated + Inferred	14,788,000	48.7	62.3	8.7

Notes:

(1) 35% active montmorillonite cut-off grade applied. Cut-off grade refers to the level of active montmorillonite in the bentonite ore, below which it is not economically feasible to extract it.

(2) Dry metric tonnes

(3) For the columns headed "DMT" and "WMT", the figures represent subtotals. For the columns headed "Active montmorillonite", "Colloid index" and "Swelling capacity", the figures represent the weighted average.

Huanghu Bentonite Reserve estimate statement as at 1 July 2015

Ore Reserve category (Note 1)	Marketable category	DMT (Note 2)	WMT (Note 3)	Active montmorillonite %	Colloid index ml/15 g	Swelling capacity ml/g
Proved	Unprocessed clay	165,000	206,000	38.7	47.3	5.8
	Drilling mud	673,000	842,000	47.6	66.6	9.5
	Pelletising clay	882,000	1,103,000	44.9	48.0	6.6
	Subtotal proved ore (Note 4)	**1,720,000**	**2,151,000**	**45.4**	**55.2**	**7.7**
Probable	Unprocessed clay	203,000	254,000	39.4	48.4	6.8
	Drilling mud	3,388,000	4,239,000	48.8	69.4	10.0
	Pelletising clay	1,133,000	1,417,000	45.6	47.3	6.7
	Subtotal probable ore (Note 4)	**4,724,000**	**5,910,000**	**47.6**	**63.2**	**9.1**
Total	Unprocessed clay	368,000	460,000	39.1	47.9	6.4
	Drilling mud	4,061,000	5,081,000	48.6	68.9	9.9
	Pelletising clay	2,014,000	2,520,000	45.3	47.6	6.7
	Total ore (Note 4)	**6,444,000**	**8,061,000**	**47.0**	**61.1**	**8.7**

Notes:

(1) Reserve levels based on the estimated Measured Resource and Indicated Resource levels, and after taking into account certain assumptions and Modifying Factors.

(2) Dry metric tonnes

(3) Wet metric tonnes

(4) For the columns headed "DMT" and "WMT", the figures represent subtotals. For the columns headed "Active montmorillonite", "Colloid index" and "Swelling capacity", the figures represent the weighted average.

According to the Independent Technical Consultant, up to the Latest Practicable Date, there were no material changes in the Resource and Reserve estimates of Huanghu Bentonite Mine since 1 July 2015, being the effective date of the Independent Technical Report.

Exploration and data verification work

The first systematic exploration programme on bentonite in the Mining Area was conducted by Team 322, whereby: (i) a total of 35 vertical diamond holes were drilled; and (ii) a total of 172 samples were taken for chemical and physical properties analysis, including methylene blue test to estimate the quantity of active montmorillonite in the sample based on the amount of dye absorbed by the sample, colloid index to determine the capacity of forming thick gels when mixed with water or other fluids, swelling capacity to determine the degree of swelling in the presence of water or other fluids, and natural whiteness. Although the data collected from such exploration programme were documented, the drill cores were no longer available for inspection. As such, in order to validate the historical data, the Independent Technical Consultant recommended additional drilling and surface sampling around the open-pit. We engaged Team 322 again to undertake the data validation work whereby one historical hole was twinned and four additional

new holes were drilled within or in the proximity of Huanghu Bentonite Mine between December 2014 and January 2015 and the laboratory analytical results were available in March 2015. The Independent Technical Consultant is of the opinion that the validation drill hole analyses show that the drilling results in 2002 are adequate and reliable for Resource estimation. For more details on the exploration programme in 2002 and the data verification work, please refer to the Independent Technical Report set out in Appendix III to this document.

Major licences, permits and approvals obtained

The table below summarises the material licences and permits required by our Group for our current business operations:

Name of licence/permit	Authority granting licence/permit	Date of issue	Validity period	Particulars
Business licences				
營業執照(開採) (Business licence (mining)*)	蕪湖市工商行政管理局 (Wuhu City Industry and Commerce Administration Bureau*)	10 June 2015	7 January 2008 – 7 June 2018	Licensed business activity: bentonite open-pit mining
營業執照(生產和銷售) (Business licence (production and sales)*)	蕪湖市工商行政管理局 (Wuhu City Industry and Commerce Administration Bureau*)	10 June 2015	21 June 2002 – 21 June 2022	Licensed business activity: bentonite products production and sales
Mining licence				
採礦許可證 (Mining licence*)	Anhui Land and Resources Department	9 September 2015	9 September 2015 – 9 March 2019	Mining area: 7.2982 km^2 Mining type: open-pit Permitted production capacity: 230,000 m^3 per annum (equivalent to approximately 400,000 tpa)
Site discharge permit				
污染物排放許可證 (Site discharge permit*)	繁昌縣環境保護局 (Fanchang County Environmental Protection Bureau*)	13 March 2015	13 March 2015 – 13 March 2016	Pollutant discharge type: COD, NH_3-Nm SO_2, NO_x, and industrial dust
Safety production permit				
安全生產許可證 (Safety production permit*)	安徽省安全生產監督管理局 (Anhui Province Safety Production Supervision Bureau*)	8 June 2015	8 June 2015 – 7 June 2018	–

The table below summarises the material environmental, social, health and safety reports and approvals that our Group obtained in the PRC for Huanghu Bentonite Mine and our business operations:

Name/details of report	Issuing party	Issue date	Approving authority	Approval date
Environmental impact assessment ("EIA") report and approval				
關於蕪湖飛尚非金屬材料有限公司年產5萬噸活性白土生產線及原料基地膨潤土礦開發項目環境影響報告書審查意見的覆函 (Activated Bentonite Technical Transformation (50,000 tpa) and Bentonite Mine Development Project*)	蕪湖市環境保護科學研究所 (Wuhu Environmental Protection Science Institute*)	July 2003	繁昌縣環境保護局 (Fanchang County Environmental Protection Bureau*)	14 August 2003
關於蕪湖飛尚非金屬材料有限公司年產5萬噸活性白土技改生產線項目及原料基地膨潤土礦開發項目環境影響變更報告的批覆 (EIA Alteration Report for Activated Bentonite Technical Transformation (50,000 tpa) and Bentonite Mine Development Project*)	蘇州市環境科學研究所 (Suzhou Environmental Protection Science Institute*)	October 2014	繁昌縣環境保護局 (Fanchang County Environmental Protection Bureau*)	26 November 2014
Final check and acceptance ("FCA") report and approval				
Huanghu Bentonite Mine	繁昌縣環境保護監測站 (Fanchang County Environmental Monitoring Station*)	June 2013	繁昌縣環境保護局 (Fanchang County Environmental Protection Bureau*)	16 September 2013
	繁昌縣環境保護監測站 (Fanchang County Environmental Monitoring Station*)	April 2014	繁昌縣環境保護局 (Fanchang County Environmental Protection Bureau*)	30 December 2014
Water and soil conservation plan ("WSCP") report and approval				
Huanghu Bentonite Mine	安徽水苑工程設計咨詢有限公司 (Anhui Shuiyang Engineering Design Co., Ltd*)	–	蕪湖市水務局 (Wuhu City Water Bureau*)	30 April 2015

The Independent Technical Consultant is of the view that the above reports have been compiled in accordance with the relevant PRC laws and regulations, and that the Huanghu Bentonite Mine was generally being developed and operated in accordance with the environmental management and approval conditions at the time of its site visit.

As advised by our PRC Legal Advisers, save for the non-compliance incidents disclosed in this document, (i) we have obtained all licences, permits and approvals in all material respects for our mine operations and production processes in the PRC during the Track Record Period and up to the Latest Practicable Date; (ii) based on the licences, permits, approvals and confirmations obtained or issued to us by the relevant PRC government authorities as disclosed in this document, our business operations were generally carried out in compliance with the relevant PRC laws and regulations in all material aspects during the Track Record Period and up to the Latest Practicable Date; and (iii) based on the current applicable PRC laws and regulations, there will not be any material legal impediment for us to renew our existing licences, permits and approvals so long as we meet all the substantive and procedural requirements and conditions under the relevant PRC laws and regulations as well as the requests of the competent authorities from time to time.

OUR PRODUCTS

Our current principal products include: (i) drilling mud; and (ii) pelletising clay. In addition to our principal products, we also sell unprocessed clay. Our commercial production of drilling mud commenced in 2010 while commercial production of pelletising clay commenced in 2004. Unlike drilling mud and pelletising clay, unprocessed clay does not require any processing on our part and is sold directly to our customers in its original form. Sale of drilling mud generated the majority of our revenue during the Track Record Period, accounting for approximately 61.1%, 62.8% and 67.0% of our total revenue, respectively. Pelletising clay accounted for approximately 38.9%, 34.0% and 29.9% of our total revenue for the relevant periods, respectively, while unprocessed clay accounted for nil, approximately 3.2% and 3.1% of our total revenue for the relevant periods, respectively. To the best knowledge of our Directors, only certain artificial complex polymers and some relatively rare naturally-occurring clays possess similar properties to bentonite. However: (i) such artificial complex polymers are generally not environmentally friendly and/or economically viable; and (ii) such other potential naturally-occurring clays are not considered as close substitutes in terms of functionality and/or economic viability. As such, our Directors do not consider such artificial complex polymers or naturally-occurring clays as close commercial substitutes for bentonite and/or our products.

Drilling mud

The drilling mud produced by our Group is mainly used for trenchless directional drilling activities in civil engineering and is not used for ordinary geological or petroleum exploration drilling. Trenchless directional drilling is a type of subsurface construction work that requires few trenches or no continuous trenches, and causes minimal disruption of surface traffic, business and other activities. The applications of trenchless directional drilling mud include laying new pipelines for urban water supply and drainage, gas, power and telecommunications, as well as rehabilitation and replacement of older pipelines. The quality requirements generally stipulated by customers include viscometer 600 r/min reading, moisture content and sieving rate. For details on the production process of our drilling mud, please refer to "Our mining and processing operations – Processing operations" in this section. Commercial production of our drilling mud commenced in 2010.

For the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, the sales revenue attributable to drilling mud sold by us accounted for approximately 61.1%, 62.8% and 67.0% of our total revenue, respectively.

During the Track Record Period, the average selling price per tonne of our drilling mud was approximately RMB383.6, RMB415.7 and RMB455.9, respectively. The selling price of our drilling mud is generally influenced by factors such as production costs and product specifications required by our customers.

Pelletising clay

The pelletising clay produced by our Group is used as a binder for the production of iron ore pellets, which is an essential raw material for the production of iron in the blast furnace in the iron and steel industries. The quality requirements generally stipulated by customers include water absorption, colloid index, montmorillonite and moisture content. For details on the production process of our pelletising clay, please refer to "Our mining and processing operations – Processing operations" in this section. Commercial production of our pelletising clay commenced in 2004.

For the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, the sales revenue attributable to pelletising clay sold by us accounted for approximately 38.9%, 34.0% and 29.9% of our total revenue, respectively.

During the Track Record Period, the average selling price per tonne of our pelletising clay was approximately RMB305.5, RMB292.2 and RMB307.5, respectively. The selling price of our pelletising clay is also generally influenced by factors such as production costs and product specifications required by our customers.

Unprocessed clay

Unprocessed clay refers to the extracted bentonite ore that cannot be processed into drilling mud or pelletising clay, and is directly sold to customers in its original form who may further process it according to their own needs.

For the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, the sales revenue attributable to unprocessed clay sold by us accounted for nil, approximately 3.2% and 3.1% of our total reveune, respectively.

During the Track Record Period, the average selling price of unprocessed clay remained stable at approximately RMB54.7 per tonne.

OUR MINING AND PROCESSING OPERATIONS

The major facilities required for our business operations include: (i) Huanghu Bentonite Mine; (ii) our processing plant; and (iii) the four air-drying facilities, two of which are located at the site of our Huanghu Bentonite Mine, one located in Digang town and one located in Suncun town.

Mining operations

We commenced our mining operations in 2004. Our mining at our Huanghu Bentonite Mine is conducted using the open-pit mining method. The Independent Technical Consultant considers that the open-pit mining method is suitable for the type of mineral deposit at our Huanghu Bentonite Mine, that is, bentonite.

According to the Independent Technical Report, our Huanghu Bentonite Mine adopts a top-down horizontal bench cutting approach and mining benches have been cut at various depths ranging from approximately 9 mASL to 32 mASL. Our Huanghu Bentonite Mine was developed using road transport due to the local topographic conditions, whereby 8m wide single-lane roads have been constructed in the open-pit so as to cater for the 30-tonne capacity trucks used in Huanghu Bentonite Mine. The Independent Technical Consultant considers the road development at Huanghu Bentonite Mine to be reasonable for our current operations.

During the Track Record Period, we extracted approximately 110,022 tonnes, 87,206 tonnes and 46,665 tonnes of bentonite ore, respectively. Subsequent to the Track Record Period and up to the Latest Practicable Date, we extracted approximately 33,890 tonnes of bentonite ore.

Open-pit mining involves various phases, including: (i) land clearing, overburden stripping and storage for rehabilitation; extracting; stockpiling and air-drying, transport and waste disposal.

The main steps involved in open-pit mining are further explained below:

- ***Land clearing and overburden removal (stripping)*** – this step is carried out by excavators which will then load the waste into dump trucks. The waste is then transported to a temporary waste dump located at the site of our Huanghu Bentonite Mine or to a mined out area. A series of mining benches are established after the removal of the overburden.

- ***Extracting*** – this step is carried out on mining benches approximately 8m high and 4m wide. As bentonite is a relatively soft mineral, it can be excavated directly by excavators digging and loading it directly into dump trucks.

- ***Stockpiling and drying*** – this step is carried out either at the air-drying facilities or at the processing plant due to the limited capacity of the air-drying facilities, whereby the extracted bentonite ore is dried by the rotary drum dryer. Air-drying activities are either carried out by ourselves or by contractors engaged by our Group. Air-drying of extracted bentonite ore is either carried out at the air-drying facilities located at Huanghu Bentonite Mine or transported to the air-drying facilities at Digang town or Suncun town, which is located approximately 13 km and 5.5 km from Huanghu Bentonite Mine, and approximately 18 km and 25 km from the processing plant, respectively. Such air-drying facilities serve as a staging area for the extracted bentonite ore to be naturally air-dried before it is transported to the processing plant. The bentonite ore at the air-drying facilities is separated by their montmorillonite grade and the moisture content of such bentonite ore are monitored throughout the air-drying process. Bentonite ore with montmorillonite grade and swelling capacity suitable for production of drilling mud is air-dried until the moisture content of the bentonite ore is in the range of approximately 11% to 16%. Bentonite ore with montmorillonite grade and swelling capacity suitable for production of pelletising clay is air-dried until the moisture content of the bentonite ore is in the range of approximately 8% to 13%. The air-dried bentonite ore is then transported to the processing plant for further processing. During the Track Record Period, approximately 40.0%, 67.6% and 56.5% of unprocessed bentonite ore was air-dried and approximately 60.0%, 32.4% and 43.5% of unprocessed bentonite ore was dried by the rotary drum dryer.

- ***Transportation*** – this step refers to the act of transporting (i) the air-dried bentonite ore from the air-drying facilities located at our Huanghu Bentonite Mine to the processing plant; or (ii) the extracted bentonite ore from our Huanghu Bentonite Mine to the air-drying facilities at Digang town and Suncun town, and from the air-drying facilities at Digang town and Suncun town, to the processing plant. Road-and-truck transportation is the adopted form of transportation and all transportation services are provided by contractors engaged by our Group.

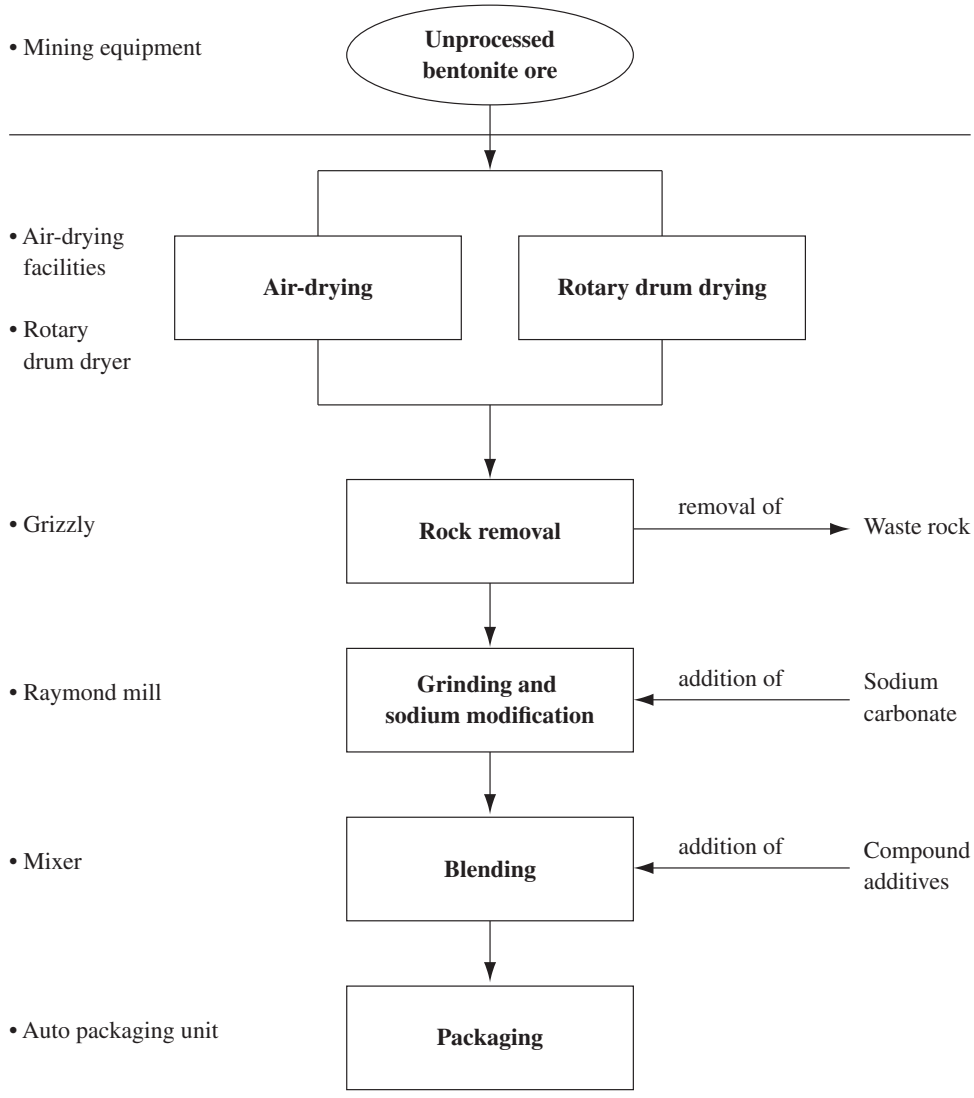
- ***Waste dumping*** – this step refers to the act of transporting waste rock, that is, overburden and bentonite ore that do not fulfil the montmorillonite grade for the production of drilling mud or pelletising clay and cannot be sold directly to customers as unprocessed clay to temporary waste dumps or stockpile.

Processing operations

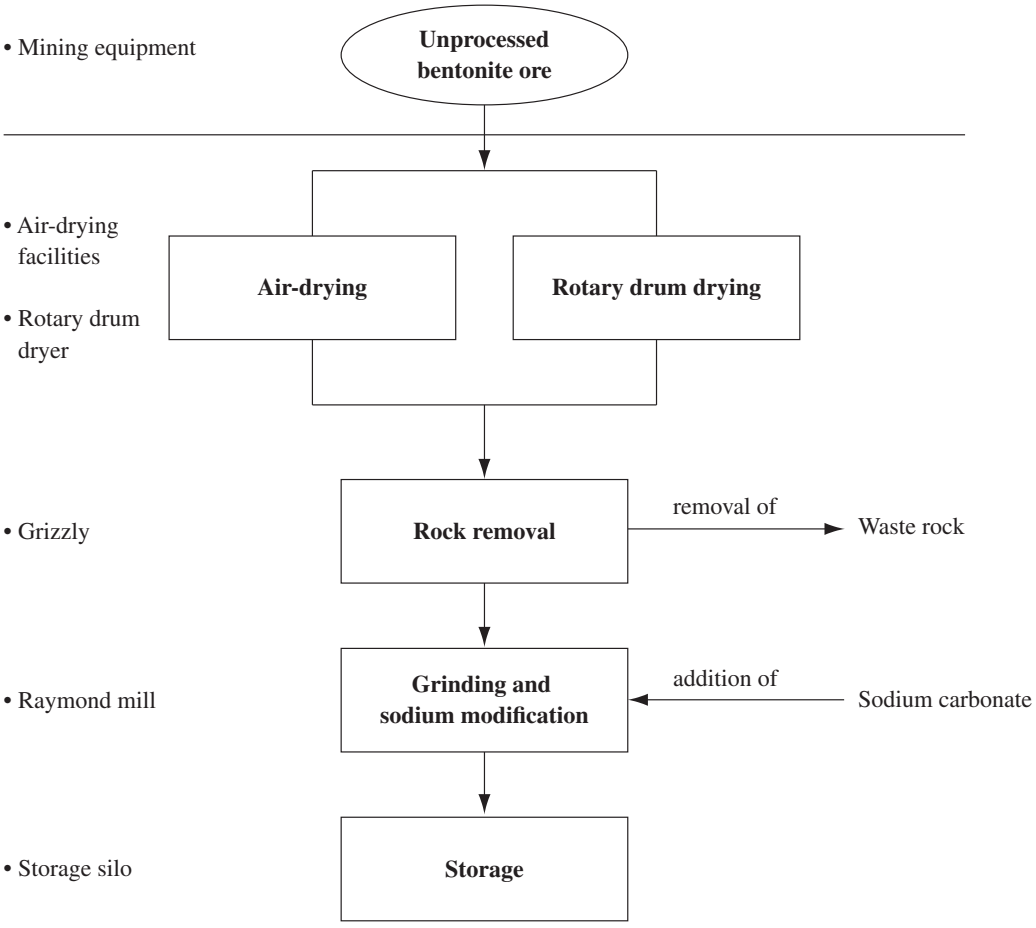
According to the Independent Technical Report, bentonite deposits can be broadly categorised into two main types: (i) sodium bentonite; and (ii) calcium bentonite. The bentonite at Huanghu Bentonite Mine is classified as calcium bentonite, which is then treated and/or modified with certain chemical additives at our processing plant to produce sodium bentonite. Sodium bentonite, including the sodium-treated bentonite produced by our Group, is the preferred form of bentonite for most downstream industries such as the iron ore pelletising and steel-making as it possesses certain useful properties such as superior swelling capability as compared to calcium bentonite, good adhesive ability, stability under high pressure and more cost-effective performance. According to the CRU Report, sodium bentonite accounts for the majority of the world's bentonite consumption due to its superior features as compared with calcium bentonite. Nevertheless, as mentioned above natural calcium bentonite may be modified by interaction with sodium chemicals, such as sodium carbonate, to convert it into sodium bentonite through a process known as "sodium modification".

During the Track Record Period, we produced: (i) approximately 53,753 tonnes, 39,959 tonnes and 23,634 tonnes of drilling mud; (ii) approximately 39,030 tonnes, 33,995 tonnes and 15,112 tonnes of pelletising clay; and (iii) nil, approximately 17,953 tonnes and 8,695 tonnes of unprocessed clay, respectively.

Our production process of drilling mud is summarised in the flow chart below:



Our production process of pelletising clay is summarised in the flow chart below:



Details of the key steps involved in the production of drilling mud and pelletising clay are set out in the table below:

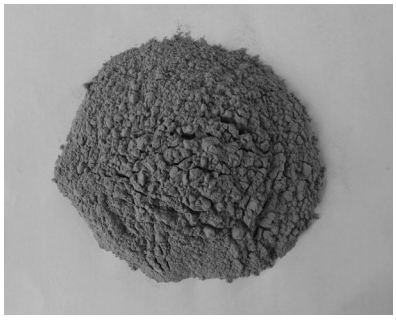
Key steps	Main equipment/machinery	Drilling mud	Pelletising clay
Air-drying/rotary drum drying	• Air-drying facilities • Rotary drum dryer 	• The moisture content of the extracted bentonite ore is reduced to the level required for the production of drilling mud or pelletising clay by either one of the two drying methods: (i) air-drying at one of the four air-drying facilities; or (ii) rotary-drum drying using a rotary drum dryer and coal-heat air.	

Key steps	Main equipment/machinery	Drilling mud	Pelletising clay
Rock removal	• Grizzly	• The dried bentonite ore is screened by a grizzly to remove larger pieces of gangue (i.e. waste rock), after which it is transported to bins for storage by a scraper conveyor and bucket elevator.	
Grinding and sodium modification	• Raymond mill 	• Generally same as pelletising clay. The only difference is that compound additives are only added after sodium modification has been completed.	• After the rock removal process, sodium carbonate is added to the dried bentonite ore, which is then grounded by a Raymond mill. The Raymond milling system consists of a conveyer, Raymond mill, cyclone classifier and dust collector. The dried bentonite ore is fed from the storage bin to the Raymond mill through a vibrating feeder, scraper conveyer, bucket elevator and receiving hopper. The Raymond mill and cyclone classifier form a closed circuit, with oversized material being returned to the Raymond mill for regrinding. Sodium carbonate, the modification reagent, is added to the bentonite ore while it is being conveyed from the storage bin to the Raymond mill.

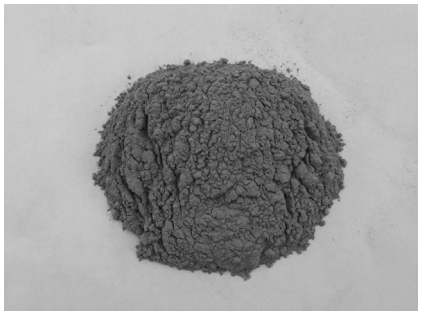
Key steps	Main equipment/machinery	Drilling mud	Pelletising clay
Blending	• Mixer 	• Compound additives are added to the sodium-modified bentonite and blended together in the mixer.	• Not applicable for pelletising clay.
Packaging/Storage	• Storage silo (for storage of pelletising clay) 	• ***Packaging*** – the final product is tested to ensure that it meets the product specifications required by the customer, after which it is packed into plastic woven bags.	• ***Storage*** – the final product is tested to ensure that it meets the product specifications required by the customer, after which it is delivered to a storage silo through a pneumatic pipeline.

The final products are set out in the diagrams below:

Drilling mud



Pelletising clay



The air-drying process generally requires approximately three days in summer and approximately five days in winter. The rotary drum-drying process generally requires approximately 40 minutes. The entire production process of drilling mud from the rock removal stage to the packaging stage generally requires approximately 40 minutes, whereas the entire production process of pelletising clay from the rock removal stage to the storage stage generally requires approximately 20 minutes.

Machinery and equipment

The major mining equipment fleet used for our mining operation consists of equipment such as excavators, dump trucks and front-end loaders. Prior to October 2014, we engaged a third party contractor for the provision of extraction services. From October 2014 onwards, our Group conducted the extraction operations ourselves and leased the major mining equipment from the same third party contractor that previously provided extraction services to our Group instead. For further details on the third party contractor that provided extraction services/leased mining equipment to our Group during the Track Record Period, please refer to "Third party contractors – Extraction services" in this section.

The major processing equipment fleet used for our processing operation is owned by our Group and includes, among others, equipment such as Raymond mill, rotary drum dryer and bucket elevator.

As at the Latest Practicable Date, the average age of the major processing equipment owned by our Group was approximately nine years, and our Directors estimate that the remaining number of years before replacement ranged from approximately six to 11 years. We conduct regular maintenance for our machinery and equipment so as to ensure that our business operations will not be disrupted unnecessarily.

According to the Independent Technical Consultant, although the processing equipment at our processing plant is relatively old, nevertheless, the final products produced, that is, drilling mud and pelletising clay, are considered to be of good marketable quality. It is among our future plans to upgrade our current processing plant and processing machinery and equipment. Please refer to "Future plans and use of proceeds" of this document for more information on plant and equipment improvement.

For the years ended 31 December 2013 and 2014, and the six months ended 30 June 2015, we spent approximately RMB0.4 million, RMB0.7 million and RMB0.6 million, respectively, on purchases of machinery and equipment, and nil, approximately RMB0.5 million and RMB0.6 million, respectively, on rental of equipment and facilities.

During the Track Record Period and up to the Latest Practicable Date, our Group did not encounter any material machinery and/or equipment breakdown that had a material adverse impact on our business operations.

Mine work schedule, production plan, production capacity and utilisation rate

Huanghu Bentonite Mine

As Huanghu Bentonite Mine is an open-pit mine and is located in an area with sub-tropical climate, its mining operation and the air-drying activities may be affected by heavy rainfall. The daily work at Huanghu Bentonite Mine is therefore scheduled based on the daily weather conditions. The table below sets out the total number of working days and suspended days at Huanghu Bentonite Mine for the relevant periods of the Track Record Period:

	Year ended 31 December		Six months ended 30
	2013	**2014**	**June 2015**
	(days)	*(days)*	*(days)*
Stripping/extraction/ancillary works	315	318	145
Suspended days due to unfavourable weather conditions	35	36	25
Holidays/non-working days	15	11	11
Total	365	365	181

The mining work schedule of our Huanghu Bentonite Mine is generally prepared based on various factors, including but not limited to: (i) historical consumption rate of bentonite ore for processing into drilling mud and pelletising clay; (ii) our extraction capacity; (iii) storage capacity of our warehouse; and (iv) weather conditions.

Processing plant

As at the Latest Practicable Date, we had three and two production lines for our drilling mud and pelletising clay, respectively, each product with an aggregate designed production capacity of approximately 57,500 tpa. As unprocessed clay is directly sold to customers in its original form and does not require processing, it is excluded from the calculation of the utilisation rate of the processing plant. The table below sets out our designed production capacity, actual production volume and our utilisation rate of our production lines for drilling mud and pelletising clay for the relevant periods of the Track Record Period:

	Year ended 31 December 2013			Year ended 31 December 2014			Six months ended 30 June 2015		
	Designed production capacity *(kt)* *(Note 1)*	Actual production volume *(kt)*	Utilisation rate *(%)* *(Note 2)*	Designed production capacity *(kt)* *(Note 1)*	Actual production volume *(kt)*	Utilisation rate *(%)* *(Note 2)*	Designed production capacity *(kt)* *(Note 1)*	Annualised actual production volume *(kt)*	Utilisation rate *(%)* *(Note 3)*
Drilling mud	57.5	53.8	93.6%	57.5	40.0	69.6%	57.5	47.2	82.1%
Pelletising clay	57.5	39.0	67.8%	57.5	34.0	59.1%	57.5	30.2	52.5%

Notes:

(1) The designed production capacity represents the maximum annual production output at the bottleneck of the production process assuming: (i) sufficient labour is available at all times; (ii) approximately 300 working days per year for drilling mud and pelletising clay, respectively; (iii) three eight-hour shifts per working day; and (iv) no major equipment breakdown.

(2) The utilisation rate for each of the years ended 31 December 2013 and 2014 is calculated based on the actual production volume for the relevant year divided by to the annual designed production capacity.

(3) The utilisation rate for the six months ended 30 June 2015 is calculated based on the annualised actual production volume for the period divided by the annual designed capacity.

The utilisation rate of our drilling mud production lines decreased from approximately 93.6% for the year ended 31 December 2013 to approximately 69.6% for the year ended 31 December 2014. The high utilisation rate for our drilling mud production lines during the year ended 31 December 2013 was due to our largest customer placing a large purchase order in the last quarter of 2013 for use in the first quarter of 2014, that had to be fulfilled within a relatively short timeframe which subsequently led to a relatively significant drop in the utilisation rate for the year ended 31 December 2014.

The utilisation rate of our pelletising clay production lines decreased from approximately 67.8% for the year ended 31 December 2013 to approximately 59.1% for the year ended 31 December 2014. The utilisation rate of our pelletising clay then further decreased to approximately 52.5% (annualised) for the six months ended 30 June 2015. The decreasing trend in the utilisation rate of our pelletising clay production lines was generally in line with the decreases in our sales volume and production volume of pelletising clay during the Track Record Period. Moreover, the limited storage capacity of our current storage silo for pelletising clay has also resulted in the decrease in the utilisation rate. In order to improve the utilisation rate of our pelletising clay production lines, we intend to construct new storage facilities so as to increase our storage capacity to cater for higher production levels. For further details, please refer to "Future plans and use of proceeds – Implementation plans" of this document.

The production plan of our processing plant is generally prepared based on various factors, including but not limited to: (i) the delivery dates and volumes of our products stipulated in purchase orders from our customers; (ii) historical sales demand; and (iii) our production capacity.

Risks associated with our mining and processing activities

The Independent Technical Consultant carried out a risk assessment of our mining and processing activities. The table below sets out the initial assessment result, recommendations by the Independent Technical Consultant, our responses to the recommendations by the Independent Technical Consultant, implementation status of the recommendations by the Independent Technical Consultant and risk rating:

Factor	Potential risk	Control recommendation	Our response	Implementation status of control recommendation as at the Latest Practicable Date	Risk rating
Geology and Resources					
Internal waste	Internal waste layers are larger than modelled	Pit mapping and additional drilling to ensure the extent and distribution of waste rock layers	We will continue to closely monitor the deviations of geometry of the deposit from the model and will consider conducting pit mapping and additional drilling if any material deviation is identified.	We have considered and agree with the applicable control recommendations from the Independent Technical Consultant. However, as there was no material deviation identified during the Track Record Period and up to the Latest Practicable Date, and given that our current production volumes do not require exploration of additional mining areas in the short run, no pit-mapping or additional drilling has been conducted.	Medium

Factor	Potential risk	Control recommendation	Our response	Implementation status of control recommendation as at the Latest Practicable Date	Risk rating
				The Independent Technical Consultant is of the view that the risk is likely to be reduced with continued monitoring and additional pit-mapping and/or drilling as and when appropriate.	
Physio-chemical properties	Quality lower than expected, resulting in lower quality products, may lead to product rejection, loss of sales	Strengthen quality control testing and careful selective mining. Waste should be eliminated during mining and processing	We will continue to closely monitor our quality control measures and explore better practices to improve our existing quality control measures.	We have considered and agree with the applicable control recommendations from the Independent Technical Consultant. The control recommendation was already in place in September 2015. We have improved the quality control measures of our products by: (i) implementing additional testing procedures for certain quality parameters, namely the 75μm residue on sieve indicator and yield value/plastic viscosity; and (ii) enhancing the testing procedures for filtrate loss and viscometer reading. Our Directors believe that such additional or enhanced testing procedures, although not required by our customers, will further strengthen the quality control of our products.	Low

Factor	Potential risk	Control recommendation	Our response	Implementation status of control recommendation as at the Latest Practicable Date	Risk rating
Mining					
Geotechnical conditions	Geotechnical conditions not as ideal as anticipated, resulting in greater potential for pit slope failures, lower production	Conduct more detailed geotechnical analysis to identify potential issues. Monitor slope stability regularly and implement slope support measures as needed	We will continue to regularly monitor and assess the slope stability so as to allow for timely rectification of any potential geotechnical issues identified.	We have considered and agree with the applicable control recommendations from the Independent Technical Consultant. However, as there was no material geotechnical issue identified based on our regular monitoring during the Track Record Period and up to the Latest Practicable Date, other than continued monitoring, no other slope support measures have been implemented. The Independent Technical Consultant is of the view that the risk is likely to be reduced with continued monitoring.	Medium
Mine plan/ management	Failure to meet production targets	Monitor production progress and revise mine plan as necessary	We will continue to regularly review our production data so as to allow for timely modification of our mine plan to cater for our current needs.	We have considered and agree with the applicable control recommendations from the Independent Technical Consultant. The control recommendation regarding production progress monitoring was already in place in September 2015. However, as there was no material failure in meeting production targets during the Track Record Period and up to the Latest Practicable Date, no major changes have been made to our current mine plan. The Independent Technical Consultant is of the view that the risk is likely to be reduced with regular reviews.	Low

Factor	Potential risk	Control recommendation	Our response	Implementation status of control recommendation as at the Latest Practicable Date	Risk rating
Hydrological conditions	Siltation and/or contamination of drainage	Conduct a more detailed hydrogeological analysis to identify and address potential issues	Our Directors are of the view that our water drainage system is currently operating normally. We will continue to regularly inspect and monitor the condition of our ditches and settling ponds to identify and rectify any potential issue in a timely manner.	We have considered and agree with the applicable control recommendations from the Independent Technical Consultant. However, as there was no material hydrological issue identified during the Track Record Period and up to the Latest Practicable Date, other than regular inspection and monitoring, no detailed hydrological analysis has been conducted. In relation to siltation and/or contamination of drainage, the Independent Technical Consultant is of the view that regular inspection and monitoring will reduce the risk of flooding.	Low
Waste rock management	Not enough space for waste rock backfilling	Temporary waste dump should be planned	Our Directors are of the view that we still have sufficient space for waste rock backfilling. We will design and build a temporary waste dump when the need arises.	We have considered and agree with the applicable control recommendations from the Independent Technical Consultant. However, as there is still sufficient space for waste rock backfilling, there are no current plans for construction of a temporary waste dump. Notwithstanding the above, as at the Latest Practicable Date, we have identified potential areas suitable for the construction of a temporary waste dump.	Low

Factor	Potential risk	Control recommendation	Our response	Implementation status of control recommendation as at the Latest Practicable Date	Risk rating
Costs					
Increase in transportation costs	Reduced profit margins, increase vulnerability to competitors	Streamline the current transportation process from our Huanghu Bentonite Mine to our processing plant and off-site air-drying facilities with the aim of increasing productivity and lowering costs. Explore the feasibility of moving our processing plant nearer to our Huanghu Bentonite Mine and eliminating off-site air-drying	We will continue to closely monitor our transportation costs and explore ways to better coordinate our transportation schedules between: (i) our Huanghu Bentonite Mine; (ii) off-site air-drying facilities at Digang town and Suncun town and (iii) our processing plant. We will also explore the feasibility of relocating our processing plant nearer to our Huanghu Bentonite Mine.	We have considered and agree with the applicable control recommendations from the Independent Technical Consultant. The control recommendation in relation to streamlining our transportation processes was already in place in September 2015. There are no current plans for relocating our processing plant in the short run based on the feasibility study conducted by us in September 2015.	Medium
General increase in operating expenses/ capital expenses	Reduced profit margins	Secure long term contracts with contractors, confirm procurement orders with suppliers in advance and monitor capital expenditure regularly	We will continue to closely monitor our operating expenses and capital expenditure and will incur additional capital expenditure only after taking into consideration sufficiency of our funds as well as our operational needs.	We have considered and agree with the applicable control recommendations from the Independent Technical Consultant. The control recommendation in relation to monitoring capital expenditure regularly was already in place in September 2015. As at the Latest Practicable Date, we were in the process of negotiating with certain suppliers and contractors with the aim of securing long-term contracts that may be beneficial to our Group. The Independent Technical Consultant is of the view that the risk is likely to be reduced with continued monitoring.	Low

Factor	Potential risk	Control recommendation	Our response	Implementation status of control recommendation as at the Latest Practicable Date	Risk rating
Market					
Increased competition	Loss of sales, or reduced sales price	Build up relationship with customers, acquire potential competitors	We intend to further enhance our business relationships with existing customers as well as broaden our customer base. For details, please refer to "Business – Our business strategies – Broaden our customer base and develop product recognition".	We have considered and agree with the applicable control recommendations from the Independent Technical Consultant. The control recommendation was already in place in September 2015. The Independent Technical Consultant is of the view that the risk is likely to be reduced with the implementation of the proposed measures.	Medium
Reduced market	Loss of sales	Market research, develop new products or product uses	We intend to enhance our research and development capabilities. For details, please refer to "Business – Our business strategies – Enhance our research and development capabilities, including the development of new production technologies, in order to improve our product quality and develop new products".	We have considered and agree with the applicable control recommendations from the Independent Technical Consultant. The control recommendation was already in place in September 2015. We have entered into collaboration agreements with external institutions for the development of new technologies and new products to cater for downstream markets other than iron ore pelletising and civil engineering. For more details, please refer to "Research and development – Our collaboration with external institutions" in this section. The Independent Technical Consultant is of the view that the proposed measures will further reduce this risk.	Low

Factor	Potential risk	Control recommendation	Our response	Implementation status of control recommendation as at the Latest Practicable Date	Risk rating
Processing					
Processing equipment	Equipment configuration can be further optimised. Ageing of equipment will influence the production of high quality products, breakdowns may lead to loss of production.	Current equipment is a mixture of new and old machines, and production lines are not well laid out; both equipment and layout require significant upgrades. Alternatively, a new modern processing plant could be built near our Huanghu Bentonite Mine to replace the current plant. Large-scale equipment should be installed and automation should be used	We intend to upgrade our current processing plant and processing machinery and equipment. Please refer to "Future plans and use of proceeds" for details on plant and equipment improvement.	We have considered and agree with the applicable control recommendations from the Independent Technical Consultant. There are plans in place to implement the control recommendation in relation to upgrading our current equipment since September 2015. We will also consider implementing other control recommendations as and when appropriate based on our operational needs. The Independent Technical Consultant is of the view that the risk will be further reduced once proposed measures are implemented.	Medium
Processing technology	High quality product can only be produced using appropriate processing technology	The current processing technology should be maintained. The addition of modification reagents should be fully automated and volumes should be strictly controlled	We intend to upgrade our current processing plant and processing machinery and equipment. Please refer to "Future plans and use of proceeds" for details on plant and equipment improvement.	We have considered and agree with the applicable control recommendations from the Independent Technical Consultant. The control recommendation was already in place in September 2015. We will also consider implementing other control recommendations as and when appropriate based on our operational needs. The Independent Technical Consultant is of the view that the risk will be further reduced with the implementation of the proposed measures.	Low

Factor	Potential risk	Control recommendation	Our response	Implementation status of control recommendation as at the Latest Practicable Date	Risk rating
Environmental					
Water management and discharges	Pollution of the surface water and ground water, flooding of open pit	Construct well-designed surface water drainage/ flood collection system for our Huanghu Bentonite Mine. Develop fully functioning water monitoring programme	Our Directors are of the view that our water drainage system is currently operating normally. We will regularly inspect and monitor the condition of our ditches and settling ponds so as to ensure that any potential issue is identified and rectified in a timely manner. In addition, we will explore the feasibility of constructing a well-designed surface water drainage/flood collection system and developing an optimal water monitoring system.	We have considered and agree with the applicable control recommendations from the Independent Technical Consultant. The control recommendation in relation to continued monitoring was already in place in September 2015. There was no material water pollution or flooding issue identified during the Track Record Period and up to the Latest Practicable Date, and our current water drainage system is operating normally. Notwithstanding the above, we are in the process of exploring the feasibility of constructing a new water drainage/flood collection system for our Huanghu Bentonite Mine. The Independent Technical Consultant is of the view that with regular monitoring of current ditches and ponds, the possibility of flooding will be less likely to materialise and the risk will be further reduced.	Low

Factor	Potential risk	Control recommendation	Our response	Implementation status of control recommendation as at the Latest Practicable Date	Risk rating
Dust emission	Fugitive dust pollution	Use appropriate measures to reduce dust emission at our Huanghu Bentonite Mine	We have a water truck that is currently used to control dust emissions. We will also closely monitor dust emission levels on an on-going basis.	We have considered and agree with the applicable control recommendations from the Independent Technical Consultant. The control recommendation was already in place in September 2015. The Independent Technical Consultant is of the view that the risk will be further reduced with the implementation of the proposed measures.	Low
Noise emission	Noise emission by machineries at our Huanghu Bentonite Mine	Use of equipment with mufflers and shock absorbers. Enclosures for noisy equipment where appropriate at our Huanghu Bentonite Mine	We have provided our employees working at our Huanghu Bentonite Mine with hearing protection gear such as earplugs/earmuffs and will request them to wear when operating noisy equipment.	We have considered and agree with all the applicable control recommendations from the Independent Technical Consultant. The control recommendation was already in place in September 2015. The Independent Technical Consultant is of the view that the risk will be further reduced with the implementation of the proposed measures.	Low

The Independent Technical Consultant is of the opinion that the above risks are generally manageable if our Company (i) conducts regular risk assessments; (ii) properly implements the relevant control procedures; and (iii) strictly adheres to the standards and regulatory requirements in the PRC.

SALES AND MARKETING

Marketing and promotion

We market our products through our sales and marketing team. We mainly promote our products through the following marketing channels and methods, which include, among others: (i) customer visits; (ii) internet advertising; (iii) source and contact potential customers; and (iv) attend events organised by industry associations which our Group has joined as a member. Our marketing activities serve to promote our products as well as increase awareness of our Group and our products. For the years ended 31 December 2013 and 2014, and the six months ended 30 June 2015, we expended approximately RMB99,000, RMB114,000 and RMB22,000, respectively, on marketing and promotional activities.

Sales and customers

Details of the top five customers of our Group for the year ended 31 December 2013 are as follows:

Ranking	Name of customer	Background	Location	Product sold during the year	Year of commencement of business relationship	Revenue *(RMB'000)*	Percentage to total revenue *(%)*
1	杭州捷高膨潤土技術開發有限公司 (Hangzhou Jiegao Bentonite Technology Development Company Limited*) ("**Hangzhou Jiegao**")	Principally engaged in bentonite technology development and services, and bentonite product development and sales.	Zhejiang province, PRC	Drilling mud	2009	8,096	27.0
2	南京惠利通膨潤土科技有限公司 (Nanjing Huilitong Bentonite Technology Company Limited*) ("**Nanjing Huilitong**")	Principally engaged in bentonite technology development and adoption study, drilling mud development, bentonite products sales and technical supporting services.	Jiangsu province, PRC	Drilling mud	2006	5,729	19.1
3	Customer X	Principally engaged in the manufacture and sale of iron and steel products and related by-products. Customer X is listed in both Hong Kong and Shanghai.	Anhui province, PRC	Pelletising clay	2010	5,717	19.1

Ranking	Name of customer	Background	Location	Product sold during the year	Year of commencement of business relationship	Revenue *(RMB'000)*	Percentage to total revenue *(%)*
4	繁昌縣金豐礦業有限公司 (Fanchang Jinfeng Mining Company Limited*) ("**Fanchang Jinfeng**")	Principally engaged in pelletising clay sintering and iron ore processing and sales.	Anhui province, PRC	Pelletising clay	2007	3,300	11.0
5	蕪湖市兆信爐料有限公司 (Wuhu Zhaoxin Raw Material Company Limited*) ("**Wuhu Zhaoxin**")	Principally engaged in furnace charge processing, pelletising clay and iron powder sales.	Anhui province, PRC	Pelletising clay	2010	2,466	8.2
Total						**25,308**	**84.4**

Details of the top five customers of our Group for the year ended 31 December 2014 are as follows:

Ranking	Name of customer	Background	Location	Product sold during the year	Year of commencement of business relationship	Revenue *(RMB'000)*	Percentage to total revenue *(%)*
1	Hangzhou Jiegao	Principally engaged in bentonite technology development and services, and bentonite product development and sales.	Zhejiang province, PRC	Drilling mud	2009	9,040	29.7
2	Nanjing Huilitong	Principally engaged in bentonite technology development and adoption study, drilling mud development, bentonite products sales and technical supporting services.	Jiangsu province, PRC	Drilling mud	2006	6.944	22.8
3	Customer X	Principally engaged in the manufacture and sale of iron and steel roducts and related by-products. Customer X is listed in both Hong Kong and Shanghai.	Anhui province, PRC	Pelletising clay	2010	3,555	11.7
4	安徽省繁昌縣飛達非金屬有限公司 (Anhui Fanchang Feida Non-metal Company Limited*) ("**Anhui Feida**")	Principally engaged in bentonite processing and non-metal mine processing and sales.	Anhui province, PRC	Drilling mud, pelletising clay and unprocessed clay	2012	3,304	10.9
5	Fanchang Jinfeng	Principally engaged in pelletising clay sintering and iron ore processing and sales.	Anhui province, PRC	Pelletising clay	2007	1,977	6.5
Total						**24,820**	**81.6**

Details of the top five customers of our Group for the six months ended 30 June 2015 are as follows:

Ranking	Name of customer	Background	Location	Product sold during the period	Year of commencement of business relationship	Revenue *(RMB'000)*	Percentage to total revenue *(%)*
1	Hangzhou Jiegao	Principally engaged in bentonite technology development and services, and bentonite product development and sales.	Zhejiang province, PRC	Drilling mud	2009	4,672	30.6
2	Nanjing Huilitong	Principally engaged in bentonite technology development and adoption study, drilling mud development, bentonite products sales and technical supporting services.	Jiangsu province, PRC	Drilling mud	2006	4,382	28.7
3	Customer X	Principally engaged in the manufacture and sale of iron and steel roducts and related by-products. Customer X is listed in both Hong Kong and Shanghai.	Anhui province, PRC	Pelletising clay	2010	2,210	14.5
4	Wuhu Zhaoxin	Principally engaged in furnace charge processing, pelletising clay and iron powder sales.	Anhui province, PRC	Pelletising clay	2010	1,156	7.6
5	Fanchang Jinfeng	Principally engaged in pelletising clay sintering and iron ore processing and sales.	Anhui province, PRC	Pelletising clay	2007	916	6.0
Total						**13,336**	**87.4**

All of our top five customers during the Track Record Period were Independent Third Parties. During the Track Record Period, all of our Group's revenue was derived from customers based in the PRC, and we sold our products to a total of 17, 18 and 16 customers, respectively, most of which are corporate customers. During the Track Record Period, our top five customers collectively accounted for approximately 84.4%, 81.6% and 87.4% of our total revenue, respectively. Our largest customer for each of the same periods accounted for approximately 27.0%, 29.7% and 30.6% of our total revenue, respectively.

Our Directors believe that perceived quality and reputation are of paramount importance for the sales of our products. While we have not entered into any long-term sales agreement exceeding a term of one year with our existing customers, we believe that our business relationships with our major customers are well-established and that our commitment to product quality will enable us to further attract new customers to diversify our customer base.

The table below sets out the breakdown of our total revenue during the Track Record Period by customer type and their corresponding percentage of revenue:

	Year ended 31 December				Six months ended	
Type of customer	**2013**		**2014**		**30 June 2015**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Traders *(Note 1)*	16,982	56.6	20,451	67.2	10,008	65.6
Manufacturers *(Note 2)*	13,005	43.4	9,996	32.8	5,239	34.4
Total	29,987	100.0	30,447	100.0	15,247	100.0

Notes:

1. Traders refer to customers who buy our products for resale.

2. Manufacturers are customers who buy our products for use in their own production processes.

During the Track Record Period, we did not enter into any long-term sales agreement exceeding a term of one year with any of our customers.

During the Track Record Period and up to the Latest Practicable Date, none of our Directors, their respective close associates or any of our Shareholders who, to the knowledge of our Directors, owned more than 5% of our share capital had any interest in any of our top five customers.

Concentration and counter-party risk

During the Track Record Period, we had one customer with revenue derived from which accounted for more than 25% of our total revenue for the years ended 31 December 2013 and 2014, and two customers with revenue derived from which accounted for more than 25% of our total revenue for the six months ended 30 June 2015. Revenue derived from our largest customer, Hangzhou Jiegao, accounted for approximately 27.0%, 29.7% and 30.6% of our total revenue for each of the years ended 31 December 2013 and 2014 and the six months ended 2015, respectively, while revenue derived from our second largest customer, Nanjing Huilitong, accounted for approximately 28.7% of our total revenue for the six months ended 30 June 2015. Nevertheless, our Group aims to continue to broaden our customer base and product range which may eventually reduce the concentration and counter-party risk arising from both customers in future. Please refer to "Risk factors – Risks relating to our business and operations – We rely on a limited number of customers for a substantial portion of our revenue" of this document for details on concentration and counter-party risks.

Salient terms of our framework agreements with our major customers

During the Track Record Period, we entered into legally binding framework agreements with most of our major customers. Such customers generally place individual purchase orders in accordance with the terms stipulated in the framework agreements. The typical salient terms of a framework agreement for the drilling mud customers among our top five customers for the Track Record Period are set out below:

Major clauses in framework agreement (Hangzhou Jiegao, Nanjing Huilitong and Anhui Feida)	**Description**
Term of framework agreement	Approximately three months to one year.
Quantity and price	An indicative and adjustable annual quantity and the price per tonne is generally stipulated.
Quality requirements	Parameters include moisture content, granularity and montmorillonite content.

Responsibilities of parties, packaging and transportation	**Hangzhou Jiegao and Nanjing Huilitong:** we will be responsible for producing the drilling mud, whereas Hangzhou Jiegao and Nanjing Huilitong will be responsible for providing the chemical additives for our processing and the packaging bags. If there are any issues with the chemical additives and packaging bags, including quality and timeliness of delivery, Hangzhou Jiegao and Nanjing Huilitong will be responsible for any losses incurred. For Nanjing Huilitong, if the drilling mud does not meet the quality requirements, we will be responsible for the losses incurred and will be required to compensate Nanjing Huilitong in accordance with the framework agreement. Packaging for both Hangzhou Jiegao and Nanjing Huilitong are generally required to be in accordance with national standards. Both Hangzhou Jiegao and Nanjing Huilitong will arrange for collection and transportation of the drilling mud and will be responsible for the transportation costs incurred. **Anhui Feida**: we will be responsible for producing the drilling mud. Anhui Feida may choose to use either its own packaging bags or our packaging bags.
Payment term	**Hangzhou Jiegao and Nanjing Huilitong**: during the Track Record Period, we offered revolving credit limits to Hangzhou Jiegao and Nanjing Huilitong in respect of payments for purchasing our products. For more details, please refer to "Sales and marketing – Payment terms and credit control" in this section. **Anhui Feida**: full payment before delivery of the final products.
Termination	**Hangzhou Jiegao and Anhui Feida**: there is no termination clause for Hangzhou Jiegao and Anhui Feida. **Nanjing Huilitong**: the party wishing to terminate is required to give at least one month's notice in writing to the other party.

The typical salient terms of a framework agreement for the pelletising clay/unprocessed clay customers among our top five customers for the Track Record Period are set out below:

Major clauses in framework agreement (customer X, Fanchang Jinfeng, Wuhu Zhaoxin and Anhui Feida)	**Description**
Term of framework agreement	Approximately one month to one year.
Quantity and price	An indicative and adjustable annual quantity and the price per tonne is generally stipulated. The price per tonne may differ depending on the method of packaging.
Quality requirements	Parameters include moisture content, swelling capacity, colloid index and montmorillonite content.
Storage	The customers will be responsible for providing the barrels for storage of the final products.
Payment team	**Customer X**: settlement of outstanding amounts within 50 days upon receipt of invoice from us. **Fanchang Jinfeng and Wuhu Zhaoxin**: monthly settlement of outstanding amounts within five working days upon receipt of invoice from us. **Anhui Feida**: settlement of outstanding amounts within three months from receipt of final products for 2014. Full payment before delivery of final products for 2015.

Payment terms and credit control

During the Track Record Period, we offered revolving credit limits to Hangzhou Jiegao and Nanjing Huilitong in respect of payments for purchasing our products. The revolving credit limit provides for a predetermined credit limit that may be outstanding at any one time, and which is determined on a case-by-case basis after taking into account various factors, among others, background of customers, credit history of customers, length of business relationship and historical transaction amount with the customers. Under such revolving credit arrangement, the customer is entitled to delay the payment of our trade receivables to the extent allowed within the predetermined revolving credit limit. Any further utilisation of available credit limit by the customer as a result of further purchase from our Group, together with the utilised amount of the credit limit, shall not exceed the predetermined credit limit granted. Our Group evaluates the predetermined revolving credit limit granted to the customers annually. The customer is also required to fully settle our trade receivables (including those within the credit limit) once a year usually before the Chinese New Year. The customer may also request for a temporary top-up credit limit for its upcoming purchase with the presence of collateral. Such request will be reviewed by the deputy general manager (finance) of Feishang Material and approved by the general manager of Feishang Material by taking into consideration our credit assessment on such customer and the collateral provided. Such temporary top-up credit limit is usually granted for one week to one month within which the customer is required to settle our trade receivables to an amount within its predetermined revolving credit limit.

At the requests of Hangzhou Jiegao and Nanjing Huilitong, and in view of their good credit history, long established business relationships and significant transaction amounts with our Group, our Group granted Hangzhou Jiegao and Nanjing Huilitong predetermined revolving credit limits in respect of payments for purchasing our products of RMB900,000 and RMB400,000, respectively, during the Track Record Period. During the Track Record Period, our Group also granted temporary top-up credit limits ranging from RMB300,000 to RMB800,000 and from RMB50,000 to RMB300,000 to Hangzhou Jiegao and Nanjing Huilitong, respectively.

As at 31 December 2013, 31 December 2014 and 30 June 2015, total trade receivables from Hangzhou Jiegao and Nanjing Huilitong amounted to nil, approximately RMB0.9 million and RMB1.5 million, respectively, representing nil, approximately 28.2% and 38.8% of our Group's total trade receivables as at the corresponding year/period end dates. As at 31 December 2014 and 30 June 2015, our Group held charges on two building properties and two motor vehicles of Hangzhou Jiegao and Nanjing Huilitong as collaterals over our trade receivables from Hangzhou Jiegao and Nanjing Huilitong of approximately RMB0.9 million and RMB1.5 million as at 31 December 2014 and 30 June 2015, respectively.

To the best knowledge of our Directors, although it might not be an industry norm for bentonite producers to grant revolving credit limit to their customers, it is not an uncommon type of credit arrangement for PRC companies involved in the manufacturing and sale of products. Notwithstanding that, given the established business relationships and significant transaction amounts with Hangzhou Jiegao and Nanjing Huilitong, as well as their good credit history, our Directors believe that the flexibility to grant such revolving credit arrangement will facilitate our transactions with Hangzhou Jiegao and Nanjing Huilitong as well as the business operations of our Group as a whole. In addition, our Group has internal control measures in place to mitigate the credit risk that may arise from such revolving credit arrangement.

For other customers that are not offered revolving credit limit during the Track Record Period, our Group generally required full payment before delivery of goods or granted credit periods ranging from five days upon receipt of invoice from us to three months from receipt of goods or invoice, depending on factors such as background of customers, credit history of customers, length of business relationship and historical transaction amount with the customers.

In order to minimise the credit risk that may potentially arise due to the grant of revolving credit limits to such customers, our Group has implemented internal control measures to monitor the revolving credit arrangement and outstanding balances/trade receivables of our customers include, among others:

- conducting initial review on customers' application for revolving credit limit based on the factors such as the background of customers, credit history of customers and historical transaction amounts with the customers by our sales and marketing team to determine whether any revolving credit limit to be granted. Any proposed revolving credit limit is then subject to further review and approval by the deputy general manager (finance) and general manager of Feishang Material;

- reviewing the status of each customer's outstanding trade receivables from each customer periodically by our sales and marketing team and finance and accounting department;

- reviewing the predetermined revolving credit limits granted to customers annually by our sales and marketing team and finance and accounting department, whereby factors such as prevailing market conditions, repayment history and the individual circumstances of each customer are taken into consideration;

- designating staff from the sales and marketing team to (i) monitor customers' payment status and credit status, especially customers that have been granted revolving credit; and (ii) follow up with and collect long outstanding trade receivables from customers; and

- reviewing the recoverability of the outstanding trade receivables from customers and assessing whether there is any indication for impairment by our finance and accounting department and sales and marketing team at the end of each financial year.

Pricing

During the Track Record Period, the average selling price was approximately RMB383.6, RMB415.7 and RMB455.9 per tonne for drilling mud, and approximately RMB305.5, RMB292.2 and RMB307.5 per tonne for pelletising clay, respectively. The average selling price per tonne of unprocessed clay remained stable at RMB54.7 per tonne during the Track Record Period. We normally set the prices for our products on a cost-plus basis and we take into account a variety of factors, including but not limited to, production costs and the product specifications required by our customers.

Product returns and warranty

Our framework agreements do not provide for product returns and warranty periods. As our customers check the test report of the products supplied to them by us before acknowledging acceptance, we generally do not accept any return of our products nor do we accept any warranty claims once the customer has acknowledged acceptance of the products sold. Nevertheless, if we do receive a complaint regarding the quality of our products, we may take certain steps, including but not limited to: (i) communicating with the customer to understand the nature of their complaint; and (ii) obtaining a sample of the alleged sub-standard product for testing or appoint a representative of our Group to the customer's site to analyse the situation. During the Track Record Period we did not: (i) incur any expenses as a result of return of our products; or (ii) receive any material complaints or product liability claims from our customers.

THIRD PARTY CONTRACTORS

During the Track Record Period, we engaged contractors for the provision of: (i) air-drying services; (ii) extraction services; and (iii) transportation services. During the Track Record Period, we also engaged contractors for the provision of processing services on an ad-hoc basis. Our Directors believe that engaging contractors allowed us to have better cost control during the Track Record Period as it reduced the need for equipment investment and management time such as staff training, hence lowering our overall operating costs. Our Directors also believe that engaging contractors with the requisite experience and expertise will ensure that the contracted works are carried out efficiently, hence increasing our overall efficiency and reducing our overall operating costs. During the Track Record Period, we ceased the engagement of our only contractor providing extraction services and one contractor providing air-drying services, the reasons of which are explained in "Air-drying services" and "Extraction services" in this section. Our Directors have confirmed that all contractors that provided services to our Group during the Track Record Period were Independent Third Parties. We will continue to engage contractors for the provision of air-drying, transportation and processing services.

The table below sets out the number of contractors for each year/period of the Track Record Period by the type of services provided:

Type of service provided	Year ended 31 December 2013	2014	Six months ended 30 June 2015
Air-drying	4	3	2
Extraction	1	1	–
Transportation	2	3	2
Processing	–	1	1
Total	7	8	5

In selecting our contractors and/or equipment suppliers, we will take into account various factors, including but not limited to: (i) quality of services; (ii) contracting costs; (iii) safety management; and (iv) relevant qualifications (if applicable). Mr. CHENG Jiayi, the bentonite mine manager of Feishang Material and a member of our senior management, is responsible for the selection of air-drying and transportation contractors, whereas our executive Director, Mr. ZHANG Pingwu is responsible for the selection of processing contractors. During the selection of potential contractors, we will request for, among others, their business licences and tax registration certificates, and check (i) whether they possess, among others, the relevant licences, certificates, permits or qualifications under the relevant PRC laws and regulations; and (ii) whether the scope of business in such licences permits and/or certificates cover the services to be provided by such contractors to our Group. We will keep a copy of all documents, including among others, licences, permits and certificates provided to us by such potential contractors for our own records. If any issues with the licences, permits and/or certificates provided by such potential contractors are identified, we will either check with such contractors directly or with our PRC legal advisers. For potential contractors whereby we have identified authenticity issues with, among other, their licences, permits and/or certificates, we will maintain a list of such questionable contractors and will refrain from outsourcing work to them in future. We require our contractors to maintain a high standard of quality for the services provided, and to comply with and have in place adequate occupational health and safety and environmental protection procedures in accordance with the applicable laws and regulations and safety requirements imposed by the relevant PRC government authorities. Our production department is responsible for monitoring the performance of our contractors by conducting on-site inspections and supervision while the outsourced services are being carried out by our contractors. Our production department is also responsible for evaluating our contractors on a periodical basis based on various aspects, including but not limited to, service fees, ability to fulfil our production needs, and safety management. If any non-compliance incident arises, the relevant contractors will be required to undertake the necessary remedial actions at their own costs. All losses caused by or incurred as a result of their failure to maintain proper quality, occupational health and safety and environmental protection standards will be borne by the contractors themselves.

We engaged more than one contractor for the provision of air-drying services and transportation services during the Track Record Period to reduce the risks associated with the outsourcing arrangement and over-reliance on any one contractor. Although we only had one contractor for the provision of extraction services during the Track Record Period, we maintained contact with other potential contractors for the provision of extraction services so that we have an alternative contractor for the provision of extraction services should the need arise. Since October 2014, we changed our mode of cooperation with the contractor that provided extraction services and leased extraction equipment from that same contractor to conduct the extraction work ourselves. Our Directors are of the view that alternative contractors on similar terms are readily available in the market in the event we are required to hire or replace any contractors for the provision of air-drying, transportation or processing services.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date we did not encounter any material dispute with any contractor that provided services to our Group.

Air-drying services

During the Track Record Period, we engaged four, three and two contractors for the provision of air-drying services to our Group, respectively. We subsequently ceased the engagement of one of the contractors that provided air-drying services during the year ended 31 December 2014 and leased the relevant air-drying facilities from such contractor from October 2014 onwards to carry out the air-drying work ourselves. The reason for the change in mode of cooperation with such contractor was due to the fact that the air-drying work of such contractor was conducted at one of the off-site air-drying facilities, whereas the air-drying work of the other two contractors were conducted at the air-drying facilities located at the site of our Huanghu Bentonite Mine. By lease of the air-drying facilities from that particular contractor and conducting the air-drying work ourselves, it will allow us to have better management and control, and hence improve the overall quality of the air-drying work carried out. The typical salient terms of the agreements for air-drying services entered into during the Track Record Period are set out below:

Major clause	**Description**
Annual quantity	A targeted annual quantity is generally stipulated in the service agreements. If the targeted annual quantity is not met, the contractor may be subject to an award/penalty scheme as further explained below.

Quality requirements	For drilling mud, the moisture content should be not less than 11% and not more than 16%. For pelletising clay, the moisture content should be not less than 8% and not more than 13%. Both parties will conduct tests on samples of the bentonite ore being air-dried, however our test results shall prevail, unless there is a dispute in relation to the test results, then a qualified person will be appointed to arbitrate.
Contracting fees	Contracting fees include: (i) labour fees; (ii) air-drying facilities fees; and (iii) transportation fees (for air-drying work conducted at off-site air-drying facilities). The agreement stipulates the rate for each item under contracting fees on a per tonne basis.
Awards and penalties	The contractor may be awarded a sum of money based on the rate stipulated in the service agreement if the actual quantity of bentonite ore that has been air-dried exceeds that of the annual quantity stipulated in the service agreement. On the other hand, the contractor may be required to pay our Group a sum of money based on the rate stipulated in the service agreement should any of the following situations arise: (i) the actual quantity of bentonite ore that has been air-dried falls below that of the annual quantity stipulated in the service agreement; or (ii) the moisture content of the air-dried bentonite ore exceeds the percentage stipulated in the service agreement. During the Track Record Period, awards to such air-drying contractors amounted to approximately RMB13,000, RMB1,000 and nil, respectively. None of the air-drying contractors were penalised during the Track Record Period. One of the contractors did not have such clause in its agreement.
Payment term	Monthly settlement of outstanding amounts for work done in the previous month based on the number of tonnes of bentonite ore air-dried as measured by our Group.

Responsibility for incidents occurring in the course of conducting the outsourced activity	The contractor shall be solely responsible for all incidents occurring in the course of conducting the air-drying activities.
Termination	The party wishing to terminate is required to give at least three months' notice in writing to the other party.
Dispute resolution	If any dispute arises, the parties are required to attempt negotiation first. If the parties fail to reach a settlement via negotiation, only then are they allowed to commence litigation proceedings.
Term of service agreement	Generally for a term not exceeding one year.

During the Track Record Period, we incurred contracting fees of approximately RMB2.1 million, RMB2.0 million and RMB0.2 million for air-drying services, respectively. We commenced business relationships with such contractors since 2008, 2012, 2013, 2014 and 2015, respectively.

Extraction services

For each of the years ended 31 December 2013 and 2014, we only engaged one contractor for the provision of extraction services and the typical salient terms of the agreement are set out below:

Major clause	**Description**
Responsibilities of the parties	We will provide the design diagrams, extraction work plan as well as technical guidance. The contractor will conduct the extraction work under our management based on our extraction work plan and in accordance with our operational rules and regulations.
Contracting fees	Contracting fees include: (i) extraction fees on a per tonne basis; and (ii) overburden stripping on a per m^3 basis. If the contractor is also required to carry out road construction work, the parties will enter into a separate agreement for such road construction work.
Payment term	Monthly settlement of outstanding amounts for work done in the previous month based on the number of tonnes of bentonite ore extracted as measured by our Group.

Responsibility for incidents occurring in the course of conducting the outsourced activity	The contractor shall be solely responsible for all incidents occurring in the course of conducting the air-drying activities.
Termination	The party wishing to terminate is required to give at least three months' notice in writing to the other party, otherwise the defaulting party shall be responsible for all losses incurred by the non-defaulting party.
Dispute Resolution	There is no specific clause for dispute resolution. However, there is a clause which states that for issues not specifically addressed in the agreement, both parties shall negotiate that particular issue separately.
Term of service agreement	Generally for a term not exceeding one year.

During the Track Record Period, we incurred contracting fees of approximately RMB0.9 million, RMB0.8 million and nil for extraction services respectively. Our business relationship with the abovementioned contractor commenced in 2013.

Pursuant to 非煤礦山外包工程安全管理暫行辦法 (Non-coal Mine Outsourcing Project Safety Management Interim Measures*), a party who outsources any extraction services is required to check the safety production qualification of the contractors providing the extraction service, and the outsourcing party is also required to enter into a safety production management agreement (安全生產管理協議) with the contractor. In September 2014, we became aware of the fact that: (i) the contractor engaged for the provision of extraction services did not possess the necessary licences or qualifications under the PRC laws and regulations; and (ii) we did not enter into any safety production management agreement with such contractor. Given the foregoing as well as cost considerations, we ceased the engagement of our only contractor for the provision of extraction services and have leased the relevant extraction equipment from the same contractor from October 2014 onwards to carry out the extraction work ourselves.

On 18 August 2015, Feishang Material obtained a confirmation from 繁昌縣安全生產監督管理局 (Fanchang County Safety Administration*) ("**Fanchang Safety Administration**") confirming, among others, that (i) we will not be penalised or made accountable for any liability arising from the aforementioned outsourced activity; and (ii) we have obtained the relevant permits and qualifications for safe production. Based on the aforementioned confirmation, our PRC Legal Advisers are of the view that: (i) Fanchang Safety Administration is the competent authority for issuing the confirmation; and (ii) the probability of our Group being penalised by Fanchang Safety Administration for the aforementioned outsourced activity is remote.

For further details about the aforementioned outsourced activity and the measures adopted to prevent the recurrence of similar incident, please refer to "Legal proceedings and regulatory compliance – Regulatory non-compliance – 7. Non-compliance relating to our subcontracting arrangement" below in this section.

Save as disclosed above and to the best of their knowledge, our Directors are not aware of any of our contractors not possessing the necessary licences or permits required for the provision of air-drying, transportation and processing services to our Group as at the Latest Practicable Date.

Transportation services

During the Track Record Period, we engaged two, three and two contractors for the provision of transportation services to our Group, respectively. Transportation services represent transportation of extracted bentonite ore between: (i) Huanghu Bentonite Mine; (ii) the processing plant; and (iii) off-site air-drying facilities located either at Digang town or Suncun town. For delivery of products to customers, our customers are generally responsible for the relevant transportation costs.

The typical salient terms of the agreements for transportation services are set out below:

Major clause	**Description**
Responsibilities of the parties	We shall be responsible for providing the transportation plan to the contractor one day in advance, settle outstanding amounts with the contractor in accordance with the terms of the service agreement, and have the right to supervise the transportation process to ensure the safe and timely transportation of the transported goods to the designated location. The contractor shall complete the transportation work in a timely manner, ensure that the necessary licences of the transportation vehicle is complete and valid, and be responsible for all amounts in relation to the transportation vehicle and transportation tax.
Quantity transported	The quantity of goods transported shall be based on the number of tonnes as measured by the contractor.

Contracting fees	Contracting fees are calculated based a fixed rate per tonne and the number of tonnes transported.
Payment term	Both parties shall verify the quantity of goods transported within the first five days of each month. The previous month's outstanding amounts are then required to be settled on a monthly basis within the first ten days of each month.
Event of default	The defaulting party shall be responsible for all losses incurred by the non-defaulting party.
Termination	There is no specific clause for termination in all agreements for transportation services provided by contractors to our Group. However, there is a clause which states that for issues not specifically addressed in the agreement, both parties shall negotiate that particular issue separately.
Dispute resolution	For two of the contractors, if any dispute arises, the parties are required to attempt negotiation first. If the parties fail to reach a settlement via negotiation, only then are they allowed to commence litigation proceedings.
Term of service agreement	Generally for a term not exceeding one year.

During the Track Record Period, we paid approximately RMB1.2 million, RMB0.7 million and RMB0.8 million for transportation services for the relevant periods, respectively. Our business relationships with such contractors commenced in 2012, 2013 and 2014, respectively.

Processing services

During the Track Record Period, we engaged nil, one and one contractor for the provision of processing services to our Group, respectively. Such contractors were engaged on one-off occasions to carry out processing work in the event we are required by our customers to produce high volume of our products within a short timeframe which is beyond the designed capacity of our existing processing plant. One contractor provided processing services for pelletising clay ("**Pelletising Clay Contractor**") on one occasion in 2014 and one contractor provided processing services for drilling mud ("**Drilling Mud Contractor**") on one occasion in 2015. The typical salient terms of the agreements for processing services entered into during the Track Record Period are set out below:

Major clause	Description
Responsibilities of the parties	**Drilling Mud Contractor**: we will provide the bentonite ore. The contractor will be responsible for collecting the bentonite ore from us as well as the drying and processing of the bentonite ore. Thereafter, we will be responsible for collection of the final product from the contractor. **Pelletising Clay Contractor**: we will provide the bentonite ore and sodium carbonate, whereas the contract will be responsible for processing the bentonite ore into pelletising clay. Thereafter, we will be responsible for collection of the final product from the contractor.
Quality requirements	**Drilling Mud Contractor**: quality requirements include: (i) moisture content (between 12% – 14%); (ii) sodium carbonate content (not less than 4%); and (iii) particle size (more than or equal to 95%). The drilling mud is to be packed into packaging bags with a capacity of 25kg each. If the quality requirements are not fulfilled, the contractor will be responsible for all losses incurred. **Pelletising Clay Contractor**: quality requirements include: (i) moisture content (between 9% – 13%); (ii) sodium carbonate content (not less than 3%); and (iii) particle size (more than or equal to 98%).

Contracting fees	**C**ontracting fees are generally calculated based on a fixed rate per tonne processed.
Payment term	**Drilling Mud Contractor**: once we have performed the required quality checks and acknowledge final acceptance of the final products, we are required to settle the outstanding amounts on a monthly basis within five days upon receipt of invoice from the contractor. **Pelletising Clay Contractor**: once we have performed the required quality checks and acknowledged final acceptance of the final products, we are required to settle the outstanding amounts within five days upon receipt of invoice from the contractor.
Termination	There is no specific clause for termination in all agreements for processing services provided by contractors to our Group. However, there is a clause which states that for issues not specifically addressed in the agreement, both parties shall negotiate that particular issue separately.
Term of service agreement	**Drilling Mud Contractor**: nine months. **Pelletising Clay Contractor**: one year.

During the Track Record Period, we paid nil, approximately RMB0.3 million and RMB0.1 million to contractors engaged for the provision of processing services, respectively. Our business relationships with such contractors commenced in 2014 and 2015, respectively.

UTILITIES, PROCUREMENT OF MATERIALS AND SUPPLIES AND SUPPLIERS

Utilities

Electricity for our operations is supplied by Fanchang grid, which is located in Fanchang county of Wuhu city, Anhui province, the PRC. We pay the unit electricity price promulgated by the PRC government, which we believe is the market rate, and the fee is settled on a monthly basis.

Our electricity supplier was also our largest supplier during the Track Record Period. In order to ensure that we will have a stable supply of electricity sufficient for our business operations, we have entered into a legally binding long-term agreement (as amended from time to time) with our electricity supplier for a term of three years and the salient terms are set out below:

Major clause	**Description**
Designed capacity of electricity point	One electricity point with a designed capacity of 1,165 kilovolts.
Metre reading, price and price adjustment	Our electricity supplier will determine the amount of electricity supplied to our Group based on the metre reading on or before the 29th day of each month. No minimum consumption of electricity is required. The price is determined by the competent administrative authority having electricity administration power. Any price adjustment is made in accordance with the electricity supplier's internal price adjustment policies.
Payment term	Monthly settlement of outstanding amounts for electricity supplied in the previous month on the second day of the following month. In the event of any dispute between the parties in relation to the electricity fees payable, our Group shall still pay the full amount as originally charged. An adjustment will be made once the dispute has been settled.
Termination and renewal	The agreement may be terminated by: (i) both parties in writing; (ii) our electricity supplier by giving at least seven days' notice in writing to our Group; or (iii) our Group upon completion of the termination procedures in writing as required by our electricity supplier. 15 days prior to the expiry of the current agreement, either party to the agreement is entitled to raise comments on the current agreement. If any party raises any comment, once both parties have reached an agreement, a new agreement will be executed. Otherwise, the agreement is generally automatically renewed with the same terms upon expiry.

Dispute resolution	If any dispute arises, the parties are required to attempt negotiation first. If the parties fail to reach a settlement via negotiation, only then are they allowed to commence either arbitration or litigation proceedings.
Term of contract	Three years commencing from April 2014 and expiring in April 2017.

During the Track Record Period, costs incurred for the consumption of electricity amounted to approximately RMB3.1 million, RMB2.4 million and RMB1.5 million, respectively. We believe that the dedicated electricity point to be sufficient for our future mining and processing operations going forward.

Water requirements for both our mining and processing operations are considered relatively insignificant. Most of the water consumed by our Group pertain to our domestic requirements. The water required for our operations and domestic requirements is sourced from 繁昌縣供水有限責任公司 (Fanchang County Water Supply Company Limited*), which we believe is provided to us at market rate. We believe that the water supply from our current water source will be sufficient for our mining and processing operations as well as domestic requirements going forward.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material disruptions to our business operations due to a shortage of electricity or water.

Materials and supplies and price fluctuations

The principal materials and supplies for our production are mainly consumables used in our production processes, including, among others, coal, sodium carbonate, and packaging bags. During the Track Record Period, our total cost of materials and supplies amounted to approximately RMB5.5 million, RMB4.1 million and RMB2.1 million, respectively, representing approximately 29.3%, 23.2% and 26.0%, respectively, of our total costs of sales for the relevant period. We did not encounter any significant delay or shortages in the supply of our materials and supplies during the Track Record Period.

We monitor the prices of our materials and supplies closely and adjust our materials and supplies inventory policy in accordance with price fluctuations of our materials and supplies. During the Track Record Period, we did not experience any significant price fluctuation in relation to our materials and supplies. Please refer to "Financial information – Actual and forecasted operating costs" of this document for a sensitivity analysis illustrating the impact of increases in transportation, consumables, fuel, electricity, water and other services and workforce and employment on our operating costs.

We currently do not expect to increase the prices of our products due to an increase in prices of, among others, our materials and supplies if such increase does not materially affect our profitability so as to maintain good business relationships with our customers. To minimise our exposure to such price fluctuations and to avoid shortage or delay in the supply of raw materials, we have implemented the following measures, including but not limited to:

- increase our inventory level of certain materials and supplies in anticipation of price increases and vice versa;
- enter into long-term supply agreement if the prices of certain materials and supplies are expected to increase in the near future and vice versa;
- maintain at least two suppliers for our principal materials and supplies to reduce over-reliance on any one supplier;
- review and monitor our materials and supplies levels on a periodical basis. The quantity of materials to be procured shall take into account the current levels and prices of such materials and supplies; and
- analyse price trends of raw materials on an on-going basis and purchase more materials and supplies in anticipation of price increases.

For details on price trends of our key materials and supplies, such as coal and sodium carbonate, in the PRC, please refer to "Industry overview – Prices of raw materials" of this document.

Procurement and inventory control

Our procurement team is responsible for the purchase of materials and supplies and negotiation of contracts with our suppliers. We procure our materials and supplies based on various factors, including but not limited to: (i) the delivery dates and volumes of our products stipulated in purchase orders from our customers; (ii) historical sales demand; and (iii) our production capacity, and have in place an inventory management system, which monitors the level of inventory for each type of materials and supplies utilised in our production processes. Before placing purchase orders with our supplier for a particular type of materials and supplies, our procurement team will check the existing level of that particular type of materials and supplies in stock using the inventory management system to avoid over-purchasing and accumulation of excess inventory. All internal procurement applications need to be approved by the following persons/department in the order set out below:

- the deputy-head of the procurement team of Feishang Material, currently the highest ranked in the procurement team, who will check, among others, that: (i) the supplier is on the approved supplier list; (ii) the model/specification required is correct; and (iii) the quantity is sufficient for current production purposes;
- the deputy general manager (finance) of Feishang Material; and
- the general manager of Feishang Material.

We generally maintain a certain inventory level of bentonite ore and our main materials and supplies, such as coal and sodium carbonate, used in our production processes:

- ***bentonite ore*** – an estimated consumption amount for approximately three months' production requirements;
- ***coal*** – an estimated consumption amount for not less than seven days' production requirements;
- ***sodium carbonate*** – an estimated consumption amount for not less than three days' production requirements;
- ***packaging bags*** – an estimated consumption amount for not less than five days' production requirements; and
- ***chemical additives*** – an estimated consumption amount for not less than five days' production requirements.

Suppliers

Details of our Group's top five suppliers for the year ended 31 December 2013 are as follows:

Ranking	Name of supplier	Location	Product supplied/ service provided during the period	Year of commencement of business relationship	Purchases *(RMB'000)*	Percentage to total purchases *(%)*
1	Supplier A	Anhui province, PRC	Electricity	2003	3,120	22.4
2	Supplier B	Anhui province, PRC	Transportation services	2012	1,505	10.8
3	Supplier C	Anhui province, PRC	Sodium carbonate	2011	1,464	10.5
4	Supplier D	Anhui province, PRC	Air-drying services	2013	1,178	8.4
5	Supplier E	Anhui province, PRC	Sodium carbonate	2011	936	6.7
Total					**8,203**	**58.8**

Details of our Group's top five suppliers for the year ended 31 December 2014 are as follows:

Ranking	Name of supplier	Location	Product supplied/ service provided during the period	Year of commencement of business relationship	Purchases *(RMB'000)*	Percentage to total purchases *(%)*
1	Supplier A	Anhui province, PRC	Electricity	2003	2,446	23.1
2	Supplier E	Anhui province, PRC	Sodium carbonate	2011	1,448	13.6
3	Supplier C	Anhui province, PRC	Sodium carbonate	2011	1,060	10.0
4	Supplier F	Anhui province, PRC	Transportation services	2013	924	8.7
5	Supplier G	Anhui province, PRC	Extraction services and rental of extraction equipment	2013	792	7.5
Total					**6,670**	**62.9**

Details of our Group's top five suppliers for the six months ended 30 June 2015 are as follows:

Ranking	Name of supplier	Location	Product supplied/ service provided during the period	Year of commencement of business relationship	Purchases *(RMB'000)*	Percentage to total purchases *(%)*
1	Supplier A	Anhui province, PRC	Electricity	2003	1,497	26.2
2	Supplier C	Anhui province, PRC	Sodium carbonate	2011	731	12.8
3	Supplier B	Anhui province, PRC	Transportation services	2012	522	9.2
4	Supplier F	Anhui province, PRC	Transportation services	2013	442	7.8
5	Supplier H	Anhui province, PRC	Coal	2013	395	6.9
Total					**3,587**	**62.9**

All our top five suppliers during the Track Record Period were Independent Third Parties. During the Track Record Period, our suppliers included an electricity supplier, 11 third party contractors that provided air-drying, extraction, transportation and processing services and a number of suppliers of our consumables, such as coal, sodium carbonate and packaging bags. During the Track Record Period, our top five suppliers collectively accounted for approximately 58.8%, 62.9% and 62.9% of our total purchases, respectively. Our largest suppliers for each of the same periods accounted for approximately 22.4%, 23.1% and 26.2% of our total purchases, respectively. We have entered into a long-term agreement with supplier A for the supply of electricity for a term of three years, details of which are disclosed in "Utilities, procurement of materials and supplies and suppliers – Utilities" in this section.

Our suppliers are selected based on various factors, including but not limited to product or service quality, pricing and reputation in the industry, so as to ensure that materials and supplies supplied by our suppliers meet the required quality standards for our production purposes. We usually source for potential suppliers by conducting market research and searching on the internet, after which we will contact them to enquire about the price of the relevant materials and supplies and obtain, among other documents, a copy of their business licence and tax registration certificate. The results of the price enquiries and the relevant documents of the potential suppliers are submitted to our general manager for his approval, who will make the final decision on the suppliers to be selected. The selected suppliers will be entered into our Company's list of approved suppliers, which is maintained and updated on a periodical basis by our procurement team. In addition, we also regularly review and evaluate our suppliers and their product quality to ensure continuing satisfaction of our production and future development needs, as well as compliance with our quality standards.

All payments for the purchases of our materials and supplies are generally required to be settled upon receipt of invoice from our suppliers. For details on payment terms in relation to our contractors and our only electricity supplier, please refer to "Third party contractors" and "Utilities" in this section.

We consider it important to maintain good business relationships with our suppliers and where possible, diversify our supplier base so as to avoid any disruptions in material supply. During the Track Record Period and as at the Latest Practicable Date: (i) we did not experience any material difficulties in obtaining any of our materials and supplies required for our production processes in a timely manner; and (ii) we did not have any material disputes with any of our suppliers.

During the Track Record Period and up to the Latest Practicable Date, none of our Directors, their respective close associates or any of our Shareholders who, to the knowledge of our Directors, owned more than 5% of our share capital or had any interest in any of our top five suppliers.

SEASONALITY

According to the Independent Technical Report, our Huanghu Bentonite Mine is located in an area where the climate is classified as sub-tropical climate, whereby June and July are usually the months with a relatively higher precipitation level. Given that we adopt the open-pit mining method at Huanghu Bentonite Mine and bentonite's sensitivity to moisture, rainfall is a major consideration when planning our work schedule at our Huanghu Bentonite Mine. During the Track Record Period, we had to suspend our extraction and stripping and air-drying operations for 35 days, 36 days and 25 days for the relevant periods, respectively. Nevertheless, the Independent Technical Consultant considers 250 working days per year for extraction and stripping and air-drying are reasonable for our production requirements. Our processing operations continue all year round and are neither materially affected by suspension of extraction and/or stripping activities, given that we generally maintain a certain quantity of bentonite ore for processing into drilling mud or pelletising clay, nor is it materially affected by suspension of air-drying activities, given that we can dry our extracted bentonite ore using the rotary drum dryer. Sale of drilling mud to our customers may, however, be affected by weather conditions as most drilling activities are conducted outdoors.

INVENTORY MANAGEMENT

Our inventory mainly consists of materials and supplies, work-in-progress and finished goods. Materials and supplies mainly comprises ancillary raw materials, such as coal, sodium carbonate used for processing bentonite ore into final products, and packaging bags, consumables and spare parts used in the production process. Work-in-progress mainly comprises our bentonite ore stored in the warehouse, and finished goods mainly comprises our final products, that is, drilling mud and pelletising clay ready to be delivered to our customers. As at 31 December 2013, 31 December 2014 and 30 June 2015, our inventory balance amounted to approximately RMB3.9 million, RMB2.0 million and RMB2.2 million, respectively, representing approximately 7.5%, 3.7% and 3.7% of our total assets as at the respective year/period end dates. For the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, average inventory turnover days was approximately 51.4 days, 60.8 days and 48.2 days, respectively.

Our Group has in place an inventory management system whereby all incoming and outgoing materials and supplies are tracked so as to ensure that an optimal inventory level is maintained at all times to satisfy the needs of our customers without over-stocking.

We generally procure our materials and supplies based on various factors, including but not limited to: (i) the delivery dates and volumes of our products stipulated in purchase orders from our customers; (ii) historical sales demand; and (iii) our production capacity. For more details on our procurement policy, please refer to "Utilities, procurement of materials and suppliers – Procurement and inventory control" in this section.

Our stock takes are carried out:

- on a monthly basis by our finance and accounting department and production department;
- a half-yearly basis by our finance and accounting department and production department, after which a stock take report will be prepared;
- an annual basis by our finance and accounting department, production department, procurement department, sales and marketing department and administration and human resources department. A report will also be prepared covering various aspects such as storage conditions and any surplus or shortages of inventories. The report will have to be signed by the relevant representative of each department that participated in the stock take, the deputy general manager (finance) and the general manager of Feishang Material.

Based on the results of stock takes and review on the ageing of inventories at the end of each financial reporting period, our Group assesses the adequacy of impairment provision on obsolete and slow-moving inventory items which are identified as no longer saleable or usable in accordance with our accounting policy. During the Track Record Period, no impairment loss on inventories was recognised by our Group.

QUALITY CONTROL

Quality indicators of drilling mud include: (i) water absorption; (ii) swelling capacity; (iii) colloid index; (iv) viscometer 600r/min reading; (v) yield value/plastic viscosity; (vi) filtrate loss; and (vii) 75μm residue on sieve. According to the Independent Technical Report, the test results from the quality tests conducted on two batches of drilling mud during the site visit in January 2015 indicate that the viscometer 600r/min reading and filtrate loss have met the relevant recommended PRC national standard, while the 75μm residue on sieve indicator and yield value/plastic viscosity did not meet the relevant recommended PRC national standard. However, we generally produce our drilling mud in accordance with the quality indicators mutually agreed by our Group and our customers, which may differ from the relevant recommended national standard, and our Directors have confirmed that the drilling mud produced by our Group was accepted by our customers during the Track Record Period. For more details, please refer to the Independent Technical Report set out in Appendix III to this document.

Quality indicators of pelletising clay include: (i) water absorption; (ii) methylene blue index (i.e. the amount of dye a sample of pelletising clay can absorb, which can be used to estimate the quantity of active montmorillonite in the sample); (iii) swelling capacity; (iv) colloid index; (v) sieving rate; and (vi) moisture content. According to the Independent Technical Report, the test results from the quality tests conducted on two batches of pelletising clay during the site visit in January 2015 indicate that the pelletising clay produced by our processing plant is of good quality and fulfils the parameters set out in the relevant recommended PRC national standard other than the swelling capacity. Nevertheless, we generally produce our pelletising clay in accordance with the quality indicators mutually agreed by our Group and our customers, which may differ from the relevant recommended national standard, and our Directors have confirmed that the pelletising clay produced by our Group was accepted by our customers during the Track Record Period. For more details, please refer to the Independent Technical Report set out in Appendix III to this document.

According to the Independent Technical Report, the relevant PRC national standards for pelletising clay and drilling mud are GB/T 20973-2007 and GB/T 5005-2010. Pursuant to the 中華人民共和國標準化法 (Standardisation Law of the PRC*) and 國家標準管理辦法 (Measures for the Management of the National Standard*), the abovementioned national standards are categorised as recommended national standards for which compliance is not obligatory. As advised by our PRC Legal Advisers, our Group will not be subject to any fine or penalties imposed by the relevant PRC authorities solely for not adopting the relevant recommended national standards for all of our products.

We believe that the reliability and quality of our products are crucial to the success of our Group. As such, we have implemented quality control procedures throughout our operations, including but not limited to, our mining operations, procurement of raw materials, production of drilling mud and pelletising clay mud and packaging, so as to ensure that we can produce high quality products consistently.

We have been accredited with ISO9001:2008 certification with a validity period from 18 March 2015 to 17 March 2018, an international certification for quality management systems, for the production of bentonite product including our drilling mud and pelletising clay.

Our quality control measures primarily consist of the following:

- **Materials and supplies**

  The quality of our materials and supplies will affect the overall quality of our final products. Our materials and supplies include, among others, coal, compound additives and sodium carbonate for processing purposes sourced from our suppliers. We perform checks and tests, if necessary, on samples of incoming materials and supplies.

- **Production/processing stage**

  Quality checks and testing are performed at various stages of our production process. We perform tests on unprocessed bentonite ore to determine its suitability for the production of drilling mud or pelletising clay based on its montmorillonite content and moisture content. After the bentonite ore has been air-dried or rotary drum dried, we will perform another round of testing to ensure that quality requirements such as moisture content, montmorillonite content and swelling capacity are fulfilled. Bentonite ore that do not meet the relevant quality requirements will be reprocessed, which will thereafter be subject to the same quality checks and testing again.

- **Finished goods**

  A final test will be performed on our finished goods, which in this case refers to our drilling mud and pelletising clay, to ensure that they comply with all necessary quality specifications and requirements before they are delivered to our customers. Finished goods that do not meet the relevant chemical and quality specifications and requirements will be reprocessed. All reprocessed finished goods will be subject to the same quality checks and inspections again.

We have established and maintained stringent quality control standards and testing and inspection procedures at each critical step in the production of our drilling mud and pelletising clay. These standards and procedures are documented in our quality control manual. In addition, we provide training to our employees to ensure effective application of our quality control procedures.

As at the Latest Practicable Date, our quality control team consisted of 11 personnel including our executive Director, Mr. ZHANG Pingwu, five of which also belonged to our research and development team, and majority of whom have received tertiary or higher education and have at least ten years of experience in quality control.

During the Track Record Period and up to the Latest Practicable Date, we did not receive any material claims or complaints by our customers in respect of the quality of our products and there was no incident of failure of our quality control systems which had a material and adverse impact on our business operation.

ENVIRONMENTAL PROTECTION, LAND REHABILITATION AND OTHER SOCIAL MATTERS

Environmental protection

Our operations are subject to various PRC environmental protection laws and regulations, as well as local environmental protection regulations promulgated by local authorities on environmental protection. These laws and regulations govern a broad range of environmental protection matters, including but not limited to mining control, land rehabilitation, dust emissions, noise emissions, discharge of wastewater and pollutants.

To ensure on-going compliance with the relevant environmental protection laws and regulations in the PRC, we have implemented or will implement certain measures, including but not limited to: (i) conducting additional training on topics such as latest developments in environmental protection laws and regulations; and (ii) nominating our chairman and executive Director, Mr. XU Chengyin to lead our environmental protection team which will be responsible for updating our management and ensuring our compliance with the latest regulatory compliance.

During the Track Record Period and up to the Latest Practicable Date, save as disclosed in "Legal proceedings and regulatory compliance – Regulatory non-compliance" in this section, we did not encounter any material claims, administrative actions or penalties by the relevant PRC authorities in relation to environmental issues.

Mitigation measures on environmental impact

After reviewing the environmental impact assessment reports pertaining to our Huanghu Bentonite Mine and conducting an environmental site visit, the Independent Technical Consultant is of the opinion that our Huanghu Bentonite Mine was generally being operated in accordance with the relevant environmental management and approval conditions.

Flora and fauna

According to the Independent Technical Report, there is no protected vegetation species or protected natural area identified within the Huanghu Bentonite Mine area. We have land rehabilitation plans and the Independent Technical Consultant is of the view that our proposed land rehabilitation plans are generally in line with the relevant recognised PRC industry practices. For further details, please refer to "Land rehabilitation" in this section.

Water management

Water requirements for both our mining and processing operations are relatively insignificant. Processing of our current principal products also do not generate waste water. The Independent Technical Consultant also confirmed that no production waste water was observed at the processing plant during the site visit. We currently have a simple cut-off drain constructed at the mining site and the mine water and collected rainwater are treated in two settling ponds whereby suspended solids in the water are precipitated, after which it is discharged to a nearby brook. Please refer to "Our mining and processing operations – Risks associated with our mining and processing activities" in this section for further details on our water management.

Waste rock management

According to the Independent Technical Report, there was no waste rock dump observed at the mining site as all waste rock generated from our mining operations were either back-filled in mined-out areas or sold to customers who may further process it according to their own needs. According to the Independent Technical Report, no evidence of leaching or acid rock drainage was observed at the site of Huanghu Bentonite Mine. Please refer to "Our mining and processing operations – Risks associated with our mining and processing activities" in this section for further details on our waste rock management.

Dust and gas emissions

The main sources of dust emission of Huanghu Bentonite Mine are mainly from open-pit mining, loading and unloading, flour mill, drying and movement of vehicles and mobile equipment. According to the Independent Technical Report, no obvious fugitive dust emissions was observed during the site visit to our Huanghu Bentonite Mine and our processing plant. We have a water truck for conducting water sprinkling so as to prevent fugitive dust emission at our Huanghu Bentonite Mine site. Gas emissions from the Cowper stove are managed through the use of a dust collector and desulfurisation facility before it is being discharged. Please refer to "Our mining and processing operations – Risks associated with our mining and processing activities" in this section for details on our measures for dust and gas emissions.

Noise emissions

The main sources of noise emissions are from the operation of our processing plant, drilling equipment, bulldozers, pumps and excavators. During its site visit, the Independent Technical Consultant did not note any obvious noise emissions in the open areas of our processing plant. Our processing equipment are all currently installed in enclosed rooms. However, noise emissions by machineries at our Huanghu Bentonite Mine have been cited as low risk by the Independent Technical Consultant. Please refer to "Our mining and processing operations – Risks associated with our mining and processing activities" in this section for details on our measures for noise emissions.

Hazardous materials

We have a maintenance workshop for mining machinery at the processing plant and waste oil is collected in discarded oil drums, which is reused as a lubricant. Our processing operations also use processing reagents such as sodium carbonate, which are stored in warehouses with no secondary containment. The Independent Technical Consultant is of the opinion that the hazardous materials management risk is low and can be generally managed if environmental standards and regulatory requirements in the PRC are followed, and recommended that the collected waste oil at the maintenance workshop and the processing reagents be stored with secondary containment and to establish a discarded hazardous substances management system.

Environmental protection costs

During the Track Record Period, we expended approximately RMB88,000, RMB181,000 and RMB58,000, respectively, on environmental protection compliance. We expect to incur approximately RMB147,000 and RMB181,000 on compliance with the applicable environmental protection laws and regulations for the years ending 31 December 2015 and 2016, respectively.

Land rehabilitation

Under the relevant PRC laws and regulations, we are required to undertake measures to restore a mine site to its original state within a prescribed time frame if our mining activities result in damage to arable land, grassland or forestry land. The rehabilitated land must satisfy rehabilitation standards in accordance with the relevant law from time to time, and cannot be used unless it has been examined and approved by the relevant PRC land authorities. Failure to comply with this requirement or failure to restore the mine site to its original state within the prescribed time frame will result in the imposition of fines on our Company, rehabilitation fees and/or rejection of applications for land use rights or rejection of applications for new mining licence or renewal, alteration or cancellation of mining licence by the local bureau of land and resources.

Land rehabilitation generally involves: (i) the removal of building structures, equipment and machinery, and other physical remnants of mining; (ii) restoration of land features in disturbed areas and dump sites; (iii) contouring, covering and revegetation of disturbed areas. We have developed a geological environment protection and rehabilitation plan which sets out our proposed site closure and rehabilitation measures, including but not limited to: (i) greening, whereby selected plants such as pine trees and Boston ivy will be replanted at the mining site; (ii) stockpiling topsoil for reuse in rehabilitation; and (iii) rehabilitation monitoring of the area of geological disaster, land disturbance, water environment, soil and new plants. The Independent Technical Consultant is of the view that our proposed approach to land rehabilitation is generally in line with the relevant recognised PRC industry practices.

As at 31 December 2013, 31 December 2014, and 30 June 2015, we had provisions for land rehabilitation costs of approximately RMB4.5 million, RMB5.1 million and RMB5.9 million, respectively.

Social/community concerns

The surrounding land around Huanghu Bentonite Mine is mainly farmland. The nearest residents, the majority of whom are Han Chinese, are located a few hundred metres away from the mining site and across the street from our processing plant. According to the Independent Technical Report, there are no natural reserves or significant cultural heritage sites within or surrounding Huanghu Bentonite Mine.

In relation to local community concern, during the Track Record Period and up to the Latest Practicable Date, we had not received any historical or current non-compliance notices and/or other documented regulatory directives in relation to the development of our Huanghu Bentonite Mine and our processing operations. Our Directors also confirm that, to the best of their knowledge, they are not aware of any concerns of local governments and communities in relation to the mining activities at our Huanghu Bentonite Mine which are relevant and material to our business operations.

OCCUPATIONAL HEALTH AND SAFETY

We hold a valid 安全生產許可證 (Safety Production Permit*) for our Huanghu Bentonite Mine issued by 安徽省安全生產監督管理局 (Anhui Province Administration of Work Safety*) with a validity period from 8 June 2015 to 7 June 2018.

Our safety department is responsible for monitoring the occupational health and safety of our mining and production operations. We have developed a set of occupational health and safety procedures, which cover various aspects of our mining and processing. To avoid any potential accident or occupational health and safety issues in the course of our operations, we have also implemented certain safety measures, including: (i) regular reviews of health conditions of employees involved in the processing of our bentonite products and safety statistics; and (ii) additional training for our mining and production staff on mining and production safety.

During the Track Record Period and up to the Latest Practicable Date, our Group did not encounter any major work-related accident that had a material adverse impact on our business operations.

RESEARCH AND DEVELOPMENT

We place great emphasis on our research, design and development capabilities as we believe that it will enable us to maintain our market position and allow us to compete with the leading manufacturers of drilling mud and pelletising clay. Our research and development centre was established in March 2009. Our research and development policies are primarily directed towards two broad categories: (i) providing technological support to our current production process and products; and (ii) development of new products and modifications to the physical and chemical performance of existing products.

As at the Latest Practicable Date, we had successfully obtained 10 utility model patents, mostly related to enhancing the performance and efficiency of our production equipment and processes. For details of the utility model patents that we have obtained, please refer to "Statutory and general information – 2. Further information about the business – B. Our intellectual property rights – (a) Patents" in Appendix V to this document. We were also awarded a 高新技術企業證書 (High Technology Enterprise Certificate*) in 2014.

Our collaboration with external institutions

As at the Latest Practicable Date, we had entered into collaboration agreements with two universities and one research institution, namely 蘇州中材非金屬礦工業設計研究院有限公司 (Suzhou Sinoma Non-metallic Minerals Industry Design and Research Institute Co., Ltd.*) ("**Suzhou Sinoma**"), 安徽工程大學科技開發部 (Anhui Polytechnic University Department of Science and Technology*) ("**Anhui PolyU DST**") and 西南科技大學 (Southwest University of Science and Technology*) ("**Southwest UST**") for the development of new technologies and new bentonite products to cater for downstream markets other than iron ore pelletising and civil engineering. Details of our collaboration arrangements are set out below.

Suzhou Sinoma

We started working with Suzhou Sinoma as early as in 2003 when we appointed Suzhou Sinoma to carry out some testing of our bentonite products. On 12 August 2015, we entered into a strategic cooperation agreement with Suzhou Sinoma pursuant to which Suzhou Sinoma shall utilise the capital and materials provided by us together with its own personnel and technical expertise to develop one to two new products for us each year, and we shall appoint Suzhou Sinoma to provide services on our engineering projects.

Subsequent to our entering into of the strategic cooperation agreement with Suzhou Sinoma, we entered into a technology development agreement with Suzhou Sinoma on 12 August 2015 for a period of three years from 12 August 2015 to 11 August 2018. Pursuant to the technology development agreement, Suzhou Sinoma shall conduct research and development of bentonite purification technology and bentonite feed mold-removing products (膨潤土提純技術及飼料脫霉劑用膨潤土產品), and we shall provide to Suzhou Sinoma a fixed amount of research fee of RMB550,000 in four instalments and the raw materials required by them to conduct the research and testing. We shall have the right to own the technological achievements arising from the research.

Suzhou Sinoma is a subsidiary of Sinoma Science and Technology Co., Ltd. (中材科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002080), and a research institution principally engaged in the research, engineering projects design, engineering projects contracting, research and integration of equipment and processing of high-performance minerals in the PRC non-metal mineral industry. It is also 國家火炬計劃重點高新技術企業 (Key High-technology Enterprise of the National Torch Programme*) and the base of the 中國非金屬礦發展中心 (China Non-metal Mining Development Centre*) and 國家非金屬礦深加工工程技術研究中心 (National Non-metal Minerals Processing and Engineering Technology Research Centre*) in the PRC.

Anhui PolyU DST

We entered into a technology development agreement with Anhui PolyU DST on 4 August 2015 for a period of three years from 4 August 2015 to 3 August 2018. Pursuant to the agreement, Anhui PolyU DST shall conduct research and development of super absorbent bentonite polymer composite materials for us, and we shall provide to Anhui PolyU DST a fixed amount of research fee of RMB180,000 in three instalments and raw materials required by them to conduct the research and testing. We shall have the right to use the intellectual property rights and the scientific and technological achievements arising from the research results and shall also have priority in acquiring the ownership of and/or exclusive right to use the relevant intellectual property rights and the scientific and technological achievements arising from the research results at a price to be agreed with Anhui PolyU DST. If Anhui PolyU DST would like to use the intellectual property rights and the scientific and technological achievements arising from the research results for commercial purpose or to grant such use to a third party, Anhui PolyU DST shall give at least seven days' prior notice to us, at which time we may decide whether or not to exercise our preferential right to acquire the ownership and/or the exclusive right to use such intellectual property rights and scientific and technological achievements.

Southwest UST

On 21 August 2015, we entered into a technology development agreement with Southwest UST for a period from 21 August 2015 to 31 December 2017. Pursuant to the technology development agreement, Southwest UST shall conduct research and development of (i) polyaniline/montmorillonite nano-composite conductive coating materials (聚苯胺／蒙脱石納米複合導電塗料); and (ii) titanium dioxide/montmorillonite nano-composite materials and photocatalytic (TiO_2/蒙脱石納米複合材料與光催化材料), and we shall provide to Southwest UST a fixed amount of research fee of RMB550,000 in three instalments for conducting the research and testing. After delivering the research results to us, Southwest UST shall, upon our request, provide technical guidance and training to persons specified by us or provide the relevant technical services to us to enable us to utilise the relevant research results. Both Southwest UST and us shall have the right to jointly apply for patents for the research results and to use and transfer the intellectual property rights of the research results at a price to be agreed between us. We shall have the right to further improve on the research results and be entitled to the intellectual property rights of any such improvement.

During the Track Record Period and up to the Latest Practicable Date, no new product or technology had been developed under any of our collaborations with Suzhou Sinoma, Anhui PolyU DST and Southwest UST.

Our research and development team

As at the Latest Practicable Date, our research and development team consisted of six personnel including our executive Director, Mr. ZHANG Pingwu, five of which also belonged to our quality control team, and majority of whom have received tertiary or higher education and have at least seven years of experience in mining-related research and development. Our research and development team is led by Mr. ZHANG Pingwu.

Our research and development expenses during the Track Record Period amounted to approximately RMB0.8 million, RMB0.9 million and RMB0.7 million for the relevant periods, respectively. The research and development expenses incurred mainly represented the salaries and other benefits paid to our research and development staff and materials and supplies used for our research and development activities.

MARKET AND COMPETITION

According to the CRU Report, the drilling industry and the iron ore pelletising industry are among the three main bentonite-consuming industries in China, accounting for approximately 22.3% and 28.8% of China's total bentonite consumption in 2014.

According to the CRU Report, drilling activities in civil engineering projects are expected to increase over the next five years due to urbanisation and infrastructural development in China, and hence total bentonite consumption in civil engineering projects are also expected to rise. The drilling industry in east China region, where our Group is located, is also expected to grow by approximately 16.6% from approximately 644kt in 2014 to approximately 751kt in 2019. Conversely, the iron ore pelletising industry in China is forecasted to decline until the year 2016, and hence a corresponding reduction in bentonite consumption. This is due to key trends occurring within China's steel industry such as increase in import of iron ore pellets from overseas and slowing demand for steel from the construction industry.

According to the CRU Report, bentonite industry in China is very fragmented and there is no apparent dominant bentonite producer selling beyond its own regional market or acquired other local bentonite producers in other regional markets. Barriers of entry are also relatively low. As such, competition among industry players is intense and only bentonite producers with certain competitive advantages such as large scale of production, access to well-established transportation networks and ability to ensure low transportation costs will be able to remain in the bentonite industry and continue to grow.

Please refer to "Industry overview" of this document for further details of the competitive landscape of the bentonite mining industry in the PRC.

INTELLECTUAL PROPERTY

We place great importance on protecting our investment in research and development and our proprietary rights. We strive to secure the widest possible protection for our significant inventions and our other intellectual property rights by registering a combination of patents and trademarks with the relevant authorities and by safeguarding our trade secrets.

As at the Latest Practicable Date, we were the registered owner of 10 utility model patents in the PRC, we have also registered one domain name. As at the Latest Practicable Date, we have made applications for two trademarks in Hong Kong which are still pending registration.

As at the Latest Practicable Date, we were not involved in any disputes or litigation relating to the infringement of intellectual property rights, nor are we aware of any such claims either pending or threatened. Please refer to "Statutory and general information – 2. Further information about the business – B. Our intellectual property rights" in Appendix V to this document for details of our Group's intellectual property rights.

AWARDS

As a result of our expertise in production technologies and production efficiency, we have obtained the following awards/certificate:

Time	Awards/certificate	Awarding authority
2014	高新技術企業證書 (High Technology Enterprise Certificate*)	安徽省科學技術廳 (Science Technology Department of Anhui Province*) 安徽省財政廳 (Anhui Provincial Department of Finance*) 安徽省國家税務局 (Administration of Tax of Anhui Province*) 安徽省地方税務局 (Local Tax Bureau of Anhui Province*)

PROPERTIES

As at the Latest Practicable Date, we owned, occupied and leased the following properties in the PRC.

Owned properties

As at the Latest Practicable Date, we owned one parcel of granted land for industrial use purpose in the PRC covering a site area of approximately 82,820 m^2 with one industrial building with a gross floor area of approximately 21,442 m^2 erected thereon for our mining operations. Details of the land and building owned by our Group are set out in the table below:

Owner	Location	Total site area *(approximately)*	Gross floor area of building *(approximately)*	Nature	Expiry date of land use right
Feishang Material	Keshan village, Xingang town, Fanchang county, Wuhu city, Anhui province, PRC (中國安徽省蕪湖市繁昌縣新港鎮磕山村)	82,820 m^2	21,442 m^2	Granted land for industrial use	10 May 2052

The aforementioned parcel of land that we owned was originally allocated to an Independent Third Party in the form of allocated land. Such Independent Third Party also originally owned the building erected on such land. The land was later transferred to Feishang Material by 繁昌縣國有資產管理局 (State-owned Assets Administration Bureau of Fanchang County*) and was converted from allocated land to granted land. At the time when Feishang Material acquired the land use right and building, as we were unfamiliar with the relevant laws and regulations, we did not (i) complete the relevant procedures to reflect the change in the nature of land from allocated land to granted land; (ii) complete the relevant procedures to reflect the change in land user and obtain a new state-owned land use permit (國有土地使用證); and (iii) complete the relevant procedures to reflect the change in building owner and obtaining a building ownership certificate (房地產權證).

Feishang Material obtained a new state-owned land use permit (國有土地使用證) and building ownership certificate (房地產權證) on 20 June 2015 and 26 June 2015, respectively. According to the confirmation letters issued by 繁昌縣城鄉規劃建設委員會 (Fanchang County Urban-Rural Planning and Construction Committee*) ("**Fanchang Construction Committee**") dated 19 August 2015, (i) given that there has been no actual change in the construction planning conditions of both of the aforementioned land and the building and the construction work quality of the aforementioned building and that the use of both the land and building have been in compliance with the relevant laws and regulations, there is no need to renew or apply for new construction land planning licence (建設用地規劃許可證), new building construction project planning permit (房屋建設工程規劃許可證) or new building construction permit (房屋建築工程施工許可證); and (ii) the state-owned land use permit (國有土地使用證) and building ownership certificate (房地產權證) obtained by Feishang Material in relation to such land and building are legal and valid; and (iii) Feishang Material can continue to use such land and the building in its existing way and for the same purpose.

Pursuant to a confirmation letter issued by 繁昌縣國土資源局 (Fanchang County Land Resources Bureau*) ("**Fanchang Land Bureau**") dated 18 August 2015, Fanchang Land Bureau confirmed, among others, that (i) Feishang Material has used the aforementioned land and obtained the relevant land use right registration on 20 June 2015 from the Fanchang Land Bureau; and (ii) save for the failure of Feishang Material to complete the relevant procedures to reflect the change in the nature of land from allocated land to granted land and the change in user in land use right, the land use right registration and the use of the aforementioned land by Feishang Material have been in compliance with the relevant laws and regulations; there has been no violation of land use right registration and land use related laws and regulations which would result in Feishang Material being penalised; and Feishang Material is not in dispute with Fanchang Land Bureau.

Pursuant to a confirmation letter issued by 繁昌縣房地產管理局 (Fanchang County Properties Management Bureau*) ("**Fanchang Properties Bureau**") dated 11 August 2015, Fanchang Properties Bureau confirmed that Feishang Material is entitled to use the building as legal owner.

Based on the abovementioned state-owned land use permit (國有土地使用證) and building ownership certificate (房地產權證) obtained by Feishang Material and the aforementioned confirmation letters, our PRC Legal Advisers are of the view that (i) Fanchang Construction Committee, Fanchang Land Bureau and Fanchang Properties Bureau are the competent authorities for issuing the abovementioned relevant confirmations; (ii) Feishang Material is entitled to use the aforementioned land and building in accordance with our state-owned land use permit (國有土地使用證) and building ownership certificate (房地產權證), respectively.

Temporary land and building

Temporary land used by our Group

Pursuant to the relevant PRC laws and regulations, we may use collective land for a period not exceeding two years (which may be renewed upon expiration) if we have (i) been granted by the competent land authorities with short-term land use right; and (ii) entered into land use agreements with the relevant land owners, for example, rural collective economic entity or village committee. If forestland is involved, we are also required to obtain approval from the competent forestry bureau before we may use the forestland temporarily to carry on our operations.

As at the Latest Practicable Date, we occupied and used four parcels of collective land ("**Collective Land**") with an aggregate site area of approximately 221.925 mu (equivalent to approximately 147,950 m^2), among which 56.625 mu (equivalent to approximately 37,750 m^2) were collective forestland. The Collective Land is located within our Mining Area and is being used by us for our mining operations.

At the time when we used the Collective Land, we did not have a comprehensive understanding of the relevant laws and regulations and we entered into land use agreements with the relevant town authorities for the temporary use of land instead of entering into land use agreements with the corresponding owners of those parcels of collective lands. As a result, we used the Collective Land without (i) entering into land use agreements with the respective land owners; and/or (ii) obtaining the relevant land use approval(s) from the competent forestry bureau and/or competent government authorities.

As at the Latest Practicable Date, we had taken remedial actions and obtained the right to use the Collective Land. On 8 May 2015, Feishang Material entered into land use agreements ("**Land Use Agreements**") with the relevant land owners for the use of the Collective Land for a total rental approximately of RMB1.3 million for as long as we need for our mining operations. Our PRC Legal Advisers are of the view that the Land Use Agreements entered into between Feishang Material and the relevant land owners are legal and valid.

Pursuant to (i) an approval on the use of forestland and a confirmation letter issued by the 安徽省林業廳 (Anhui Province Forestry Department*) ("**Anhui Forestry Department**") on 5 August 2015 and 6 August 2015, respectively; and (ii) an approval on the use of temporary land and a confirmation letter issued by Fanchang Land Bureau on 19 August 2015 and 20 August 2015, respectively, (a) Feishang Material has obtained approval to use collective forestland with an aggregate site area of approximately 3.7750 hectares (equivalent to approximately 37,750 m^2 or approximately 56.625 mu) ("**Approved Forestland**") for a term of two years from 19 August 2015 to conduct its mining and exploration activities in accordance with the applicable PRC laws and regulations, and Anhui Forestry Department and Fanchang Land Bureau will not recall such land early or to interfere with Feishang Material's use of such Approved Forestland; (b) Fanchang Land Bureau will duly approve Feishang Material's request to further extend its right to use the Approved Forestland after the expiration of the two-year period mentioned above; (c) other than the Approved Forestland, Feishang Material has been granted short-term land use rights in respect of the remaining area of the Collective Land with an aggregate site area of approximately 165.3 mu (equivalent to approximately 110,200 m^2) ("**Other Collective Land**") for a period of two years from 20 August 2015; (d) Fanchang Land Bureau will duly approve Feishang Material's request to further extend its right to use the Other Collective Land after the expiration of the respective two-year periods mentioned above; and (e) as at the date of confirmation, Anhui Forestry Department and Fanchang Land Bureau were not aware of any material legal impediment to the obtaining of approval(s) by Feishang Material for its continual use of the Approved Forestland and the Other Collective Land.

Based on the Land Use Agreements and the aforementioned approvals and confirmations, our PRC Legal Advisers are of the view that (i) Anhui Forestry Department and Fanchang Land Bureau are the competent authorities for issuing the abovementioned relevant approvals and confirmations; and (ii) Feishang Material is entitled to use the Collective Land according to the aforementioned approvals, confirmations and the Land Use Agreements for a period of two years as specified in relevant approvals and confirmations.

Temporary land for our future use

As at the Latest Practicable Date, we had not used or occupied all land within our Mining Area. Such land comprises collective land and/or forestland covering an aggregate site area of approximately 292.209 mu (equivalent to approximately 194,806 m^2) ("**Future Expansion Land**"). To facilitate our use of the Future Expansion Land for our mining operations in the future, Feishang Material has entered into land use agreements ("**Future Land Use Agreements**") with the owners of the Future Expansion Land for the temporary use of such land for a total rental of approximately RMB1.7 million for as long as we need for our mining operations. Our PRC Legal Advisers are of the view that the Future Land Use Agreements entered into between Feishang Material and the relevant land owners are legal and valid. We will apply for the approval for the temporary use of the Future Expansion Land with the competent government authorities and/or competent forestry bureau as and when our need to use such land arises in the future.

Pursuant to the confirmation letters on the use of Future Expansion Land issued by Anhui Forestry Department and Fanchang Land Bureau on 6 August 2015 and 20 August 2015 respectively, (i) Anhui Forestry Department and/or Fanchang Land Bureau (as the case may be) will grant to Feishang Material's approval(s) for using any part of the Future Expansion Land that it plans to use upon its request in the future; (ii) Anhui Forestry Department and/or Fanchang Land Bureau (as the case may be) will duly approve Feishang Material's request to further extend its right to use the Future Expansion Land after the expiration of the period in the relevant approval(s); (iii) as at the date of the confirmation, Anhui Forestry Department and Fanchang Land Bureau were not aware of any legal impediment for Feishang Material's obtaining and further extension of the approval for the temporary use of the Future Expansion Land; and (iv) for so long as Feishang Material's mining licence remains valid, in case any part of the Future Expansion Land is converted into state-owned land, Anhui Forestry Department and/or Fanchang Land Bureau (as the case may be) will approve Feishang Material's request(s) for the right to use those land according to its needs and the applicable PRC laws and regulations.

Based on the Future Land Use Agreements and the aforementioned confirmations, our PRC Legal Advisers are of the view that (i) Anhui Forestry Department and Fanchang Land Bureau are the competent authorities for issuing the abovementioned relevant confirmations; and (ii) so long as our mining licence remains valid, Feishang Material is entitled to apply for temporary land use right(s) to use the Future Expansion Land according to the aforementioned confirmations, and Anhui Forestry Department and Fanchang Land Bureau are not aware of any material legal impediment to the granting of temporary land use right(s) to Feishang Material for using the Future Expansion Land.

Temporary structures

As at the Latest Practicable Date, we had constructed two temporary structures comprising warehouse, office building and ancillary space with an aggregate gross floor area of approximately 1,109 m^2 on land which we only have temporary land use rights within the area of our Huanghu Bentonite Mine for use in our mining operations. According to the confirmation letter issued by Fanchang Construction Committee dated 19 August 2015, since such temporary structures are production facilities located within our Mining Area and do not violate the relevant construction planning requirement, Feishang Material may continue to use the temporary structures in its existing way and for the same purpose. Based on the aforementioned confirmation letter, our PRC Legal Advisers are of the view that (i) Fanchang Construction Committee is the competent authority for issuing the aforementioned confirmation; and (ii) Feishang Material has been approved by Fanchang Construction Committee to continue to use the aforementioned temporary structures in its existing way and for the same purpose; Feishang Material shall voluntarily demolish the aforementioned temporary structures if the term of relevant temporary land use right(s) (including any extension of such term) expires or the competent government authority requests us to demolish such temporary structures due to regional planning. Our Directors are of the view that the aforementioned temporary structures are not crucial to our business and operations and may be replaced or relocated within a short timeframe

without significant costs. Should we be required to demolish our temporary structures and relocate to another location, our Directors consider that the impact on our business and financial conditions is low. For details of the risk of demolition of our temporary structures, please refer to "Risk factors – Our operations may be interrupted if we are denied access to our mine sites located on land which we hold temporary land use rights, or if we are required to demolish the temporary structures on such land" of this document.

Leased properties

As at the Latest Practicable Date, we also leased one property located in Shenzhen city, PRC from an Independent Third Party for our office use with an aggregate floor area of 11 m^2 for the period from 15 August 2015 to 24 May 2016 at a total rental of RMB968 per month. The lessor has obtained building ownership certificate (房地產權證) for the abovementioned property. The tenancy agreement entered into between Zhuorui and the lessor in respect of the aforementioned property has been registered with Building Renting Management Bureau of Futian District of Shenzhen City (深圳市福田區房屋租賃管理局). Based on the above, our PRC Legal Advisers are of the view that the lessor has the right to lease the abovementioned property to us and the abovementioned tenancy agreement is legal and valid.

As at the Latest Practicable Date, we had no single property with a carrying amount of 15% or more of our total assets. Accordingly, we are not required by Chapter 8 of the GEM Listing Rules to value or include in this document any valuation report. Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this document is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all our interests in land or buildings.

INSURANCE

We have maintained third party liability insurance in relation to, among others, employer liability, properties and vehicles. During the Track Record Period, our Group paid approximately RMB127,000, RMB116,000 and RMB31,000, respectively, as insurance premium payment for our various insurance policies (excluding social insurance and housing provident fund contributions). Please refer to "Employees – Social insurance and housing provident fund contributions" in this section for details of social and housing provident fund contributions of our Group.

It is not mandatory under the relevant PRC laws and regulations to maintain, and we have not maintained, among others, any business interruption insurance.

During the Track Record Period, we did not experience any business interruptions or losses or damages to our facilities that had a material adverse effect on our business, financial conditions or results of operation. Taking into account the general mining industry in the PRC, our Directors are of the view that our current insurance coverage is sufficient for our current operations and is in line with the industry norm. Our Directors and senior management will regularly review the risks relating to our operations and adjust our insurance coverage accordingly from time to time.

EMPLOYEES

As at the Latest Practicable Date, our Group had a total of 86 full-time employees, all of which were based in the PRC. The following table sets out a breakdown of our Group's employees by function as at the Latest Practicable Date:

Function	Number of employees
Chief executive officer and general manager	1
Sales and marketing and procurement	5
Mining, production and safety	63
Research and development and quality control	12
Finance and accounting, administration and human resources	5
Total	86

Recruitment and remuneration

During the Track Record Period, we incurred staff costs of approximately RMB4.4 million, RMB3.4 million and RMB1.7 million respectively, representing mainly wages and other benefits.

We believe that our employees are valuable assets that contribute to the success of our Group. We recruit out employees based on a number of factors such as their industry experience in the bentonite mining industry, their educational background, and our vacancy needs. We generally pay our employees a fixed salary and other allowances based on their respective positions and responsibilities. We also entered into individual employment contracts with our employees covering matters such as wages, employee benefits, employment scope and grounds for termination. Our employees do not negotiate their terms of employment through any labour union or by way of collective bargaining agreements.

Training

Our employees undergo both internal and external training to enhance their technical mining skills, knowledge of industry quality standards, occupational health and safety standards and applicable laws and regulations.

Employee relationship

We believe that we have maintained good working relationships with our employees. During the Track Record Period and up to the Latest Practicable Date, we did not experience any major labour disputes, work stoppages or labour strikes or any work safety related incidents that led to disruptions in our Group's operations.

Social insurance and housing provident fund contributions

Under the relevant PRC laws and regulations, we are required to contribute to a number of employee social welfare schemes in respect of our employees. Such schemes include social insurance contributions and housing provident fund contributions.

Under the PRC's social insurance system, we are required to make contributions for its employees towards five categories of insurance, including the basic pension insurance, basic medical insurance, work-related injury insurance, unemployment, insurance and maternity insurance. We are also required to make housing provident fund contributions for its employees.

Save for the non-compliance incidents relating to social insurance contributions and housing provident fund contributions during the Track Record Period as disclosed in "Legal proceedings and regulatory compliance – Regulatory non-compliance" in this section, we have complied with the applicable labour laws and regulations in all material aspects during the Track Record Period and up to the Latest Practicable Date.

LEGAL PROCEEDINGS AND REGULATORY COMPLIANCE

As all of our operations are in the PRC, we are required to conduct our business in compliance with the relevant PRC laws and regulations. A summary of the material PRC laws and regulations applicable to our operations in the PRC is set out in "Regulations" of this document. As advised by our PRC Legal Advisers and as confirmed by our Directors, during the Track Record Period and as at the Latest Practicable Date, save as disclosed in this document, we have (i) obtained all the material approvals, consents, certificates, licences and permits to conduct our operations in the PRC; and (ii) complied with all applicable laws and regulations in the PRC in all material aspects.

To the best knowledge of our Directors, as at the Latest Practicable Date, save as disclosed below, no member of our Group was a party to any litigation, arbitration or administrative proceedings, and our Directors were not aware of any pending or threatened litigation, arbitration or administrative proceedings against our Group that would have a material adverse effect on our results of operations and financial conditions.

Regulatory non-compliance

The following table sets out our Group's non-compliance incidents during the Track Record Period and up to the Latest Practicable Date, the remedial actions that we have taken in respect of such non-compliance incidents and the measures we have adopted to prevent recurrence of such non-compliance incidents in the future:

1. Non-compliance relating to land rehabilitation

Non-compliance incident:	Feishang Material failed to (i) timely compile a land rehabilitation plan and obtain the approval for such plan; and (ii) pay deposit for land rehabilitation fees in accordance with the applicable PRC laws and regulations ("**Land Rehabilitation Non-compliances**").
Reason(s) for non-compliance and person(s) involved:	The non-compliance was due to an unintended and inadvertent oversight by the directors of Feishang Material who were not familiar with the relevant laws and regulations at the material time. There was also an oversight by the directors of Feishang Material in failing to ensure that the relevant personnel possessed sufficient knowledge and understanding of the relevant laws and regulations. The then general office of Feishang Material was not aware of the need for Feishang Material to compile a land rehabilitation plan and to submit such plan to the relevant land and resources authority when 土地復墾條例 (Regulations on Land Rehabilitation*) became effective on 5 March 2011 and 土地復墾條例實施辦法 (Implementing Measures of Regulations on Land Rehabilitation*) became effective on 1 March 2013 as it did not have a comprehensive understanding of the relevant laws and regulations. The then general office therefore failed to bring the matter to the attention of the directors of Feishang Material, including our executive Director, Mr. XU Chengyin, who became a director of Feishang Material in November 2011.

The existing directors of Feishang Material, including Mr. Xu, only became aware of the Land Rehabilitation Non-compliances when we engaged our PRC Legal Advisers to review the level of compliance of Feishang Material in preparation for the Listing and were advised by our PRC Legal Advisers of such non-compliance. Upon becoming aware of the Land Rehabilitation Non-compliances, the existing directors of Feishang Material immediately took actions to compile the land rehabilitation plan.

Legal consequences and financial liabilities (if any):

Pursuant to 土地復墾條例 (Regulations on Land Rehabilitation*) of the PRC, the relevant competent government authorities will not grant any construction land and mining licence unless and until a land rehabilitation plan has been compiled. The relevant government authorities may order that a land rehabilitation plan be prepared within a prescribed period of time, failing which, a fine ranging from RMB100,000 to RMB200,000 may be imposed.

Pursuant to 土地復墾條例 (Regulations on Land Rehabilitation*), based on the approved land rehabilitation plan, a deposit shall be payable. If such deposit is not paid within a prescribed period of time, a fine ranging from once to twice the amount of the amount of deposits past due and payable may be imposed and the relevant mining licence may also be revoked.

Remedial actions taken and latest status:

Feishang Material submitted its land rehabilitation plan to the relevant government authorities and obtained an approval from Anhui Land and Resources Department on its land rehabilitation plan on 10 September 2015. On 17 September 2015, Feishang Material paid the deposit for land rehabilitation fees of approximately RMB3.1 million in accordance with its approved land rehabilitation plan and the applicable PRC laws and regulations. As at 31 December 2013, 31 December 2014 and 30 June 2015, we had provisions for asset retirement obligations of approximately RMB4.5 million, RMB5.1 million and RMB5.9 million, respectively, in respect of our land rehabilitation plan.

On 10 September 2015, Feishang Material received an approval from Anhui Land and Resources Department ("**Anhui Land and Resources Approval**") confirming, among others, (i) its approval to Feishang Material's land rehabilitation plan; and (ii) its agreement to Feishang Material to organise and implement its land rehabilitation work according to its approved land rehabilitation plan. On 17 September 2015, Feishang Material further received a confirmation from 繁昌縣國土資源局 (Fanchang County Land and Resources Bureau*) ("**Fanchang Land and Resources Confirmation**") confirming, among others, that (i) Anhui Land and Resources Department has approved Feishang Material's land rehabilitation plan; (ii) Feishang Material has paid the deposit for land rehabilitation fees of approximately RMB3.1 million into a designated account in accordance with its land rehabilitation plan and the relevant PRC laws and regulations; (iii) Feishang Material may place the remaining deposits for and rehabilitation fees by instalments in accordance with its land rehabilitation plan and the relevant PRC laws and regulations; (iv) since Feishang Material has complied with the applicable PRC laws and regulations, 繁昌縣國土資源局 (Fanchang County Land and Resources Bureau*) has not and will not penalise Feishang Material for its Land Rehabilitation Non-compliances.

Based on the Anhui Land and Resources Approval and the Fanchang Land and Resources Confirmation, our PRC Legal Advisers are of the view that (i) Anhui Land and Resources Department and 繁昌縣國土資源局 (Fanchang County Land and Resources Bureau*) are the competent authorities for issuing the Anhui Land and Resources Approval and the Fanchang Land and Resources Confirmation, respectively; and (ii) the probability that we will be penalised by such authorities for our Land Rehabilitation Non-compliances is remote.

Based on the above, our Directors consider that the Land Rehabilitation Non-compliances have no material adverse operational and financial impact on our Group.

Measures adopted to prevent future non-compliance:

We have established a compliance committee and adopted a compliance policy to monitor and oversee the compliance-related issues of our Group. For details of our enhanced measures, please refer to "Internal control and risk management – Key internal control measures implemented by our Group" below in this section.

2. Non-compliance relating to soil and water conservation

Non-compliance incident: Feishang Material failed to obtain approval for (i) its soil and water conservation plan prior to the commencement of its mining construction; and (ii) the completion acceptance of its soil and water conservation facilities prior to the commencement of its mining operations ("**Soil and Water Non-compliances**").

Reason(s) for non-compliance and person(s) involved: The non-compliance was due to an unintended and inadvertent oversight by the directors of Feishang Material who did not have a comprehensive understanding of the relevant law and regulations before Feishang Material commenced its mining operations. There was also an oversight by the directors of Feishang Material in failing to ensure that the relevant personnel possessed sufficient knowledge and understanding of the relevant laws and regulations.

When Feishang Material prepared for the application of the relevant licences such as mining licence and the commencement of its operations in 2002 and 2003, the then general office of Feishang Material did not realise the need to compile a soil and water conservation plan and to obtain completion acceptance approval for its soil and water conservation facilities as it did not have a comprehensive understanding of the relevant laws and regulations. The then general office therefore failed to bring the matter to the attention of the then directors of Feishang Material. None of the aforementioned then directors of Feishang Material is our Director.

The existing directors of Feishang Material, including our executive Director, Mr. XU Chengyin, who became a director of Feishang Material in November 2011, only became aware of the Soil and Water Non-compliances when we engaged our PRC Legal Advisers to review the level of compliance of Feishang Material in preparation for the Listing and were advised by our PRC Legal Advisers of such non-compliance. Upon becoming aware of the Soil and Water Non-compliances, the existing directors of Feishang Material immediately took actions to compile its soil and water conservation plan and prepare for the obtaining of the approval of completion acceptance.

Legal consequences and financial liabilities (if any):

Pursuant to 中華人民共和國水土保持法 (PRC Water and Soil Conservation Law*), for the failure of Feishang Material to obtain approval of its soil and water plan before the commencement of its mining construction operation, Feishang Material may be ordered to cease its mining activities and to prepare its soil and water conservation plan within a prescribed period of time. If Feishang Material failed to do so, it may be subject to a penalty ranging from RMB50,000 to RMB500,000.

In addition, for Feishang Material's failure to obtain approval of the completion acceptance of its soil and water conservation facilities before the commencement of its mining operation, Feishang Material may be ordered to cease its mining operations or to use its water and soil conservation facilities until it has obtained obtain approval of the completion acceptance of such facilities and be subject to a penalty of RMB50,000 to RMB500,000.

Remedial actions taken and latest status:

Feishang Material obtained the approval of its soil and water conservation plan on 30 April 2015. Feishang Material further obtained approval of the completion acceptance of the soil and water conservation facilities on 21 August 2015.

On 21 August 2015, Feishang Material received a confirmation from 蕪湖市水務局 (Wuhu City Water Bureau*) confirming, among other things, that (i) they have not and will not penalise Feishang Material for its Soil and Water Non-compliances; (ii) Feishang Material has duly paid the relevant water and soil conservation fees; (iii) save for the Soil and Water Non-compliances, Feishang Material is in compliance with all relevant laws and regulations relating to water and soil conservation; and (iv) Feishang Material is not in any dispute with the bureau.

Based on the aforementioned confirmation, our PRC Legal Advisers are of the view that (i) 蕪湖市水務局 (Wuhu City Water Bureau*) is the competent authority for issuing the confirmation; and (ii) the probability that Feishang Material will be penalised by such bureau for its Soil and Water Non-compliances is remote.

Based on the above, our Directors consider that the Soil and Water Non-compliances have no material adverse operational and financial impact on our Group.

Measures adopted to prevent future non-compliance: We have established a compliance committee and adopted a compliance policy to monitor and oversee the compliance-related issues of our Group. For details of our enhanced measures, please refer to "Internal control and risk management – Key internal control measures implemented by our Group" in this section below.

3. Non-compliance relating to environment protection

Non-compliance incident: Feishang Material commenced its mining operations in 2004 and the commercial production of pelletising clay in 2004 and drilling mud in 2010 before obtaining the relevant approvals for its environmental trial operation and completion acceptance of its environmental facilities ("**Environmental Facilities Non-compliances**").

Feishang Material also did not prepare the relevant environmental impact assessment alteration report and obtain the relevant approvals for such report when Feishang Material modified the production line previously used for the production of activated bentonite in 2008 for the production of other bentonite products. ("**Environmental Assessment Non-compliance**").

Reason(s) for non-compliance and person(s) involved: The non-compliance was due to an unintended and inadvertent oversight by the directors of Feishang Material who were not familiar with the relevant laws and regulations at the material time. There was also an oversight by the directors of Feishang Material in failing to ensure that the relevant personnel possessed sufficient knowledge and understanding of the relevant laws and regulations.

At the time Feishang Material commenced commercial production in 2004, due to the lack of a comprehensive understanding of the relevant laws and regulations, the then general office of Feishang Material was not aware of the need for an open-pit mine to obtain approvals for environmental trial operation and completion acceptance of environmental facilities as an open-pit mine is relatively environmental friendly as compared to an underground mine. The then general office therefore failed to bring the matters to the attention of the then directors of Feishang Material. None of the aforementioned then directors of Feishang Material is our Director.

Due to (i) the fact that Feishang Material had already obtained approval for its environmental impact assessment report in 2003 for its original activated bentonite production line; (ii) the impression that the modified production line is considered to be more environmental friendly than the one before the modification; and (iii) the lack of comprehensive understanding of the relevant laws and regulations, the then general office of Feishang Material did not realise that there was a need to prepare an alteration report when Feishang Material modified its original activated bentonite production line.

Legal consequences and financial liabilities (if any):

For the Environmental Facilities Non-compliances, according to the relevant PRC laws and regulations, Feishang Material may be ordered to obtain the relevant environmental approvals for the trial operation of its environmental facilities within a specified period of time. If Feishang Material failed to do so, it may be ordered to cease trial production or production using its environmental facilities and be subject to a fine not exceeding RMB50,000. In addition, for the failure of Feishang Material to complete the required environmental acceptance inspection prior to its commencement of commercial production, Feishang Material may be ordered to cease production or the use of the relevant environmental facilities and be subject to a fine ranging from RMB50,000 to RMB500,000.

For the Environmental Assessment Non-compliances, pursuant to 中華人民共和國環境影響評價法 (PRC Environmental Impact Assessment Law*), Feishang Material may be ordered to cease construction activities and to prepare the relevant environmental impact assessment variation report within a specified time period. If Feishang Material failed to do so within the specified time period, it may be subject to a fine of RMB50,000 to RMB200,000 and administrative penalty may also be imposed on its person-in-charge of the construction activities.

Remedial actions taken and latest status:

For Feishang Material's (i) bentonite mining; and (ii) production of drilling mud and pelletising clay, it obtained approvals for trial operation on 12 March 2013 and 5 December 2014, respectively, and approvals for completion acceptance of its environmental facilities on 16 September 2013 and 30 December 2014, respectively, from 繁昌縣環境保護局 (Fanchang County Environmental Protection Agency*) ("**Fanchang EPA**").

Feishang Material also prepared its environmental impact assessment alteration report in October 2014 and obtained the relevant approval for such report on 26 November 2014.

On 3 August 2015, Feishang Material received a confirmation from Fanchang EPA confirming, among others, that since (i) the construction and operation of Feishang Material's construction projects in fact complied with the requirements of the relevant environmental laws and regulations; (ii) Feishang Material has already obtained approvals for the trial operation and for completion acceptance of its environmental facilities for its bentonite mining and production of drilling mud and pelletising clay; (iii) it has already obtained approval for its environmental impact assessment alteration report; and (iv) it will not be penalised for the Environmental Facilities Non-compliances and the Environmental Assessment Non-compliance.

Based on the aforementioned confirmation, our PRC Legal Advisers are of the view that (i) Fanchang EPA is the competent authority for issuing the confirmation; and (ii) the probability that we will be penalised by Fanchang EPA for the Environmental Facilities Non-compliances and the Environmental Assessment Non-compliance is remote.

Based on the above, our Directors consider that the Environmental Facilities Non-compliances and the Environmental Assessment Non-compliance have no material adverse operational and financial impact on our Group.

Measures adopted to prevent future non-compliance:

We have established a compliance committee and adopted a compliance policy to monitor and oversee the compliance-related issues of our Group, including to review new projects, identify potential compliance issues in these projects and ensure that business activities will not commence prior to obtaining all necessary permits and approvals. We have also arranged a training session in September 2015 conducted by our PRC Legal Advisers and have set aside a budget to organise compliance training sessions for our Directors and senior management to enhance their knowledge on the material PRC laws and regulations applicable to our business operations. We will also appoint a qualified PRC law firm upon Listing as our Group's external PRC legal adviser to advise us on compliance with the applicable PRC laws and regulations from time to time. For details of our enhanced measures, please refer to "Internal control and risk management – Key internal control measures implemented by our Group" in this section below.

4. Non-compliance relating to safety

Non-compliance incident:

Feishang Material commenced construction works of its Huanghu Bentonite Mine in 2004 without registering its safety pre-assessment report and without obtaining approval for its preliminary design safety report as required by the applicable PRC laws and regulations. Feishang Material subsequently commenced mining production in August 2004 without completing the necessary legal formalities for production ("**Construction Safety Non-compliances**").

Feishang Material failed to renew its safety production permit when such permit expired on 13 November 2014 but Feishang Material continued to carry out its stripping and related mining activities.

Reason(s) for non-compliance and person(s) involved:

The non-compliance was due to an unintended and inadvertent oversight by the directors of Feishang Material who did not have a comprehensive understanding of the relevant laws and regulations before Feishang Material commenced its construction works and mining production. There was also an oversight by the directors of Feishang Material in failing to ensure that the relevant personnel possessed sufficient knowledge and understanding of the relevant laws and regulations.

When Feishang Material prepared for the application of the relevant licences such as mining licence and the commencement of its operations in 2002 and 2003, the safety department of Feishang Material was not aware of the need to prepare a safety pre-assessment report and a preliminary design safety report and to complete the relevant legal formalities as it did not have a comprehensive understanding of the relevant laws and regulations and, therefore, failed to bring the matter to the attention of the then directors of Feishang Material. None of the aforementioned then directors of Feishang Material is our Director.

The failure to renew the safety production permit of Feishang Material was also due to an unintended and inadvertent oversight of the safety department of Feishang Material, which failed to closely monitor the validity of the safety production permit. The directors of Feishang Material, including our executive Director, Mr. XU Chengyin, who became a director of Feishang Material in November 2011, did not implement sufficient internal control measures to keep track of the expiration date of Feishang Material's safety production permit.

Legal consequences and financial liabilities (if any):

For the Construction Safety Non-compliances, according to the relevant PRC laws and regulations, Feishang Material may be ordered to cease construction or production and carry out the relevant rectification actions by obtaining the relevant safety approvals. If Feishang Material failed to do so, it may be subject to a fine ranging between RMB500,000 to RMB1,000,000 and its person-in-charge may also be subject to a fine of RMB20,000 to RMB50,000.

For the failure to renew safety production permit, according to 非煤礦礦山企業安全生產許可證實施辦法 (Non-coal Mine Safety Production Permit Implementation Measures*), Feishang Material may be ordered to (i) cease its mining operations; (ii) renew its safety production permit within a prescribed period of time; (iii) have its revenue generated during the relevant period of non-compliance forfeited; and (iv) be subject to a fine ranging from RMB50,000 to RMB100,000. If Feishang Material failed to renew its safety production permit within the specified time period and continue its mining operations, Feishang Material may be ordered to cease its mining operations, have its revenue during the relevant period forfeited and be subject to a fine ranging from RMB100,000 to RMB500,000.

Remedial actions taken and latest status:

Feishang Material registered the safety pre-assessment report for its Huanghu Bentonite Mine with 繁昌縣安全生產監督管理局 (Fanchang County Safety Administration*) ("**Fanchang Safety Administration**") and obtained an approval from Fanchang Safety Administration on such registration on 13 December 2013. Feishang Material obtained approval for its preliminary design safety report from Fanchang Safety Administration on 1 August 2014. Feishang Material further obtained approval acceptance for its safety facilities from Fanchang Safety Administration and 蕪湖市安全生產監督管理局 (Wuhu City Safety Administration*) on 7 May 2015 and 21 May 2015, respectively.

Feishang Material also obtained its renewed safety production permit from 安徽省安全生產監督管理局 (Anhui Provincial Administration of Work Safety*) ("**Anhui Safety Administration**") on 8 June 2015 with validity period from 8 June 2015 to 7 June 2018.

On 13 August 2015, Feishang Material received a confirmation from Anhui Safety Administration confirming, among others, that (i) the safety production permit obtained by Feishang Material on 8 June 2015 is legal and valid; (ii) Fanchang Safety Administration has approved the safety pre-assessment report for its Huanghu Bentonite Mine and Feishang Material has obtained completion acceptance approval for its safety facility; and (iii) Feishang Material has not had any safety accidents or been penalised because of any violations of safety production laws and regulations since its establishment.

Feishang Material received two confirmations from Fanchang Safety Administration on 18 August 2015 and 10 September 2015 confirming, among others, that (i) Feishang Material has not had any safety accidents in its construction and mining operation since its establishment; (ii) Feishang Material has not received any administrative punishment from the relevant work safety department for violating any safety production laws and regulations; and (iii) during the period from the expiration of the previous safety production permit on 13 November 2014 to the issuance of the new safety production permit on 8 June 2015, as Feishang Material had conducted stripping activities at the Huanghu Bentonite Mine in compliance with the relevant laws and regulations and the acceptance requirements of the relevant competent safety authorities, Feishang Material will be entitled to the revenue arising from such stripping activities and Fanchang Safety Administration has not and will not impose any penalty against Feishang Material or its employees for its stripping and related business activities during the aforementioned period without a valid safety production permit.

Based on the aforementioned confirmations, our PRC Legal Advisers are of the view that (i) Anhui Safety Administration and Fanchang Safety Administration are the competent authorities for issuing the relevant confirmations; and (ii) the probability that Feishang Material will be penalised by Fanchang Safety Administration for its Construction Safety Non-compliances and/or by Anhui Safety Administration for carrying on its stripping and related business activities without a valid safety production permit is remote.

Based on the above, our Directors consider that the abovementioned non-compliance has no material adverse operational and financial impact on our Group.

Measures adopted to prevent future non-compliance: We have assigned a designated management team to update and maintain a licence register for keeping track of the status of necessary licences, permits and approvals. We will also appoint a qualified PRC law firm upon Listing as our Group's external PRC legal adviser to advise us on compliance with the applicable PRC laws and regulations from time to time. For details of our enhanced measures, please refer to "Internal control and risk management – Key internal control measures implemented by our Group" below in this section.

5. Non-compliance relating to social insurance

Non-compliance incident: Feishang Material did not make full social insurance contribution for all of its eligible employees in accordance with the applicable PRC laws and regulations during the period from June 2002 to March 2015 ("**Social Insurance Non-compliance**").

Reason(s) for non-compliance and person(s) involved: Some of Feishang Material's employees refused to participate in the social insurance contribution as they were reluctant to bear their portion of the social insurance contribution. Some of Feishang Material's employees also requested Feishang Material to make minimum social insurance contributions as opposed to making contributions based on their actual amount of salary received as required by law. The human resources department of Feishang Material did not have a comprehensive understanding of the relevant laws and regulations and therefore acted according to the requests of the employees and failed to bring the matters to the attention of the then directors of Feishang Material, including our executive Director, Mr. XU Chengyin, who became a director of Feishang Material in November 2011. There was also an oversight by the directors of Feishang Material in failing to ensure that the relevant person-in-charge of the matter possessed sufficient knowledge and understanding of the relevant laws and regulations.

The existing directors of Feishang Material, including Mr. Xu, only became aware of such non-compliance when we engaged our PRC Legal Advisers to review the level of compliance of Feishang Material in preparation for the Listing and were advised by our PRC Legal Advisers of such non-compliance. Upon becoming aware of the such non-compliance, the existing directors of Feishang Material immediately made arrangements for full social insurance contribution for all of its eligible employees.

Legal consequences and financial liabilities (if any):

Pursuant to the 中華人民共和國社會保險法 (Social Insurance Law*) of the PRC, Feishang Material may be ordered to make up for the shortfall in contribution within a specified time period and be subject to a daily fine amounting to 0.05% of the outstanding contributions from the date on which payment is overdue. If the outstanding contribution is not made within the specified time period, Feishang Material may be imposed a fine ranging from one to three times of the amount of shortfall in contribution.

Remedial actions taken and latest status:

Feishang Material has made full social insurance contribution for all of its eligible employees since April 2015.

During the Track Record period and up to the Latest Practicable Date, Feishang Material had not been ordered or requested by the relevant government authorities to pay any shortfall in social insurance contribution.

Our Controlling Shareholders have, pursuant to the Deed of Indemnity, undertaken to indemnify us of any loss arising out of or in connection with, among others, our Social Insurance Non-compliance. For details of the Deed of Indemnity, please refer to "Statutory and general information – 6. Other information – B. Tax and other indemnities" in Appendix V to this document. Notwithstanding the indemnity undertakings from our Controlling Shareholders, we had a provision of approximately RMB0.5 million as at 30 June 2015 in respect of the estimated shortfall in social insurance contribution.

On 30 July 2015, Feishang Material received a confirmation from 繁昌縣人力資源和社會保障局 (Fanchang County Human Resources and Social Security Bureau*) ("**Fanchang HRSSB**") confirming, among others, that (i) except for those employees who have reached or exceeded statutory retirement age, Feishang Material has made full social insurance contribution for all of our employees since April 2015; (ii) it is unable to make any social insurance contribution for those employees who have reached or exceeded statutory retirement age; (iii) it will not be required to pay any shortfall in social insurance contribution for the period from June 2002 to April 2015, nor will it or its employees be penalised or be imposed of any fine for such reason; and (iv) save for the Social Insurance Non-compliance, it has not violated any other employment or social insurance related laws and regulations since the establishment of Feishang Material; and (v) it is not in any dispute with Fanchang HRSSB.

Based on the aforementioned confirmation, our PRC Legal Advisers are of the view that (i) Fanchang HRSSB is the competent authority for issuing the confirmation; and (ii) the probability that Feishang Material will be penalised by such authority for our Social Insurance Non-compliance is remote.

Having taken into account (i) the legal means through which the relevant employees may claim for the past outstanding social insurance contributions; (ii) the fact that the relevant employees were fully aware of the payment arrangement of Feishang Material in respect of the social insurance contributions; and (iii) the fact that Feishang Material has not received any complaint or claim relating to the past outstanding social insurance contributions, our Directors are of the view that the probability of the relevant employees taking legal actions against our Group to claim for the past outstanding social insurance contributions is remote.

Based on the above, our Directors consider that the Social Insurance Non-compliance has no material adverse operational and financial impact on our Group.

Measures adopted to prevent future non-compliance: We have enhanced our internal control procedures and have assigned designated personnel to regularly review our social insurance contribution and to ensure sufficient social insurance contribution is made. For details of our enhanced measures, please refer to "Internal control and risk management – Key internal control measures implemented by our Group" below in this section.

6. Non-compliance relating to housing provident funds

Non-compliance incident: Feishang Material did not (i) complete the registration of housing provident funds and set up housing provident fund accounts for its employees within the specified time period stipulated under the applicable PRC laws and regulations and make housing provident fund contributions for all of its eligible employees before 24 September 2013; and (ii) make full housing provident fund contribution for all of its employees in accordance with the applicable PRC laws and regulations during the period from 24 September 2013 to 17 June 2015 ("**Housing Provident Fund Non-compliances**").

Reason(s) for non-compliance and person(s) involved:

The failure of Feishang Material to complete the registration of housing provident fund and to set up housing provident fund accounts was due to an unintended and inadvertent oversight by the directors of Feishang Material who did not have a comprehensive understanding of the relevant laws and regulations at the material time.

Some of Feishang Material's employees also refused to participate in the housing provident fund contribution as they were reluctant to bear their portion of the housing provident fund contribution. The human resources department of Feishang Material did not have a comprehensive understanding of the relevant laws and regulations and therefore acted according to the requests of the employees and failed to bring the matters to the attention of the then directors of Feishang Material, including our executive Director, Mr. XU Chengyin, who became a director of Feishang Material in November 2011. There was also an oversight by the directors of Feishang Material in failing to ensure that the relevant person-in-charge of the matter possessed sufficient knowledge and understanding of the relevant laws and regulations.

The existing directors of Feishang Material including Mr. Xu, only became aware of the Housing Provident Fund Non-compliances when we engaged our PRC Legal Advisers to review the level of compliance of Feishang Material in preparation for the Listing and were advised by our PRC Legal Advisers of such non-compliance. Upon becoming aware of the Housing Provident Fund Non-compliances, the directors of Feishang Material immediately made arrangements to rectify such non-compliance.

Legal consequences and financial liabilities (if any):

Pursuant to 住房公積金管理條例 (Housing Provident Fund Management Regulations*), for Feishang Material's failure to complete the registration of housing provident funds and set up housing provident fund accounts for its employees, Feishang Material may be ordered to complete the registration and set up the relevant accounts within a specified period of time. If Feishang Material failed to do so within such specified time period, it may be subject to a fine ranging from RMB10,000 to RMB50,000.

For Feishang Material's failure to make the relevant housing providing fund contribution, it may be ordered to make up for the shortfall in contribution within a specified time period, and if it failed to do so within the specified time period, the relevant authorities may apply to PRC courts for compulsory enforcement of such payments.

Remedial actions taken and latest status:

Feishang Material completed the registration of housing provident funds and set up the relevant accounts for our employees on 24 September 2013. Feishang Material has also made full housing provident fund contribution for all of its eligible employees since 18 June 2015.

During the Track Record Period and up to the Latest Practicable Date, Feishang Material had not been ordered or requested by the relevant government authorities to pay any shortfall in housing provident funds.

Our Controlling Shareholders have, pursuant to the Deed of Indemnity, undertaken to indemnify us of any loss arising out of or in connection with, among others, our Housing Provident Fund Non-compliances. For details of the Deed of Indemnity, please refer to "Statutory and general information – 6. Other information – B. Tax and other indemnities" in Appendix V to this document. Notwithstanding the indemnity undertakings from our Controlling Shareholders, we had provision of approximately RMB0.3 million as at 30 June 2015 in respect of the estimated shortfall in housing provident fund contribution.

On 30 July 2015, Feishang Material received a confirmation from 蕪湖市住房公積金管理中心繁昌縣管理部 (Wuhu City Housing Provident Fund Management Centre Fanchang County Management Department*) confirming, among others, that (i) except for those employees who have reached or exceeded statutory retirement age, it has made full housing provident fund contribution for all of our employees since 18 June 2015; (ii) it is not required to and is unable to make any housing provident fund contribution for those employees who have reached or exceeded statutory retirement age; (iii) it will not be required to pay any shortfall in housing provident fund contribution for the period from its establishment to 17 June 2015, nor will it be penalised or be imposed of any fine for such reason or for its failure to complete the registration of the housing provident funds and set up the relevant accounts within the specified statutory time period; and (iv) save for the Housing Provident Fund Non-compliances, it has not violated any other employment or housing provident fund contribution related laws and regulations since the establishment of Feishang Material; and (v) it is not in any dispute with 蕪湖市住房公積金管理中心繁昌縣管理部 (Wuhu City Housing Provident Fund Management Centre Fanchang County Management Department*).

Based on the aforementioned confirmation, our PRC Legal Advisers are of the view that (i) 蕪湖市住房公積金管理中心繁昌縣管理部 (Wuhu City Housing Provident Fund Management Centre Fanchang County Management Department*) is the competent authority for issuing the confirmation; and (ii) the probability that Feishang Material will be penalised by such authority for our Housing Provident Fund Non-compliances is remote.

Having taken into account (i) the legal means through which the relevant employees may claim for the past outstanding housing provident fund contributions; (ii) the fact that the relevant employees were fully aware of the payment arrangement of Feishang Material in respect of the housing provident fund contributions; and (iii) the fact that Feishang Material has not received any complaint or claim relating to the past outstanding housing provident fund contributions, our Directors are of the view that the probability of the relevant employees taking legal actions against our Group to claim for the past outstanding housing provident fund contributions is remote.

Based on the above, our Directors consider that the Housing Provident Fund Non-compliances have no material adverse operational and financial impact on our Group.

Measures adopted to prevent future non-compliance: We have enhanced our internal control procedures and have assigned designated personnel to regularly review our housing provident fund contribution and to ensure sufficient housing provident fund contribution is made. For details of our enhanced measures, please refer to "Internal control and risk management – Key internal control measures implemented by our Group" below in this section.

7. Non-compliance relating to our subcontracting arrangement

Non-compliance incident: Feishang Material (i) engaged third party contractors who did not possessed the necessary licences or qualifications under the PRC laws and regulations for the provision of extraction services from August 2004 to September 2014; and (ii) did not enter into any safety production management agreement with the relevant contractors during their respective period of service ("**Subcontracting Non-compliances**").

Reason(s) for non-compliance and person(s) involved:

The non-compliance was due to an unintended and inadvertent oversight by the mine manager of Feishang Material, Mr. CHENG Jiayi, who was responsible for selecting third party contractors for extraction services and did not have a comprehensive understanding of the relevant laws and regulations at the time when Feishang Material engaged the third party contractor for the provision of extraction services. Mr. Cheng was not aware of the importance for such contractor to hold any licence or qualification as (i) the Huanghu Bentonite Mine is an open-pit mine; and (ii) Mr. Cheng who held the relevant safety qualification certificate was present on site to supervise the extraction activities. Mr. Cheng was also not aware of the need to enter into safety production management agreements with the relevant contractors due to his lack of comprehensive understanding of the relevant laws and regulations. Mr. Cheng therefore failed to bring the matters to the attention of the then directors of Feishang Material, including our executive Director, Mr. XU Chengyin, who became a director of Feishang Material in November 2011. There was also an oversight by the directors of Feishang Material in failing to ensure that the relevant person-in-charge of the matter possessed sufficient knowledge and understanding of the relevant laws and regulations.

The existing directors of Feishang Material, including Mr. Xu, only became aware of the Subcontracting Non-compliances in September 2014 when we discussed regulatory compliance matters of Feishang Material with our PRC Legal Advisers in preparation for the Listing and were advised by our PRC Legal Advisers of such non-compliance.

Legal consequences and financial liabilities (if any):

According to 非煤炭山外包工程安全管理暫行辦法 (Non-Coal Mine Outsourcing Project Safety Management Interim Measures*), (i) for Feishang Material's failure to enter into a safety production management agreement with a third party contractor for the provision of extraction services, Feishang Material may be ordered to rectify within a specified time period and be subject to a fine not exceeding RMB50,000, and its person-in-charge of such matter may also be subject to a fine not exceeding RMB10,000; if Feishang Material failed to rectify within the specified time period, it may be ordered to cease production; and (ii) for Feisheng Material's failure to check the safety production qualifications of such third party contractor, Feisheng Material may be ordered to rectify within a specified time period and be subject to a fine ranging from RMB10,000 to RMB30,000.

Remedial actions taken and latest status:

Feishang Material ceased the engagement of its only contractor for the provision of extraction services in September 2014 and has been leasing the relevant extraction equipment from the same contractor since October 2014 to carry out the extraction work itself.

On 18 August 2015, Feishang Material obtained a confirmation from Fanchang Safety Administration confirming, among others, that (i) Feishang Material will not be penalised or made accountable for any liability arising from the Subcontracting Non-compliances; and (ii) Feishang Material has obtained the relevant permits and qualifications for safe production.

Based on the aforementioned confirmation, our PRC Legal Advisers are of the view that: (i) Fanchang Safety Administration is the competent authority for issuing the confirmation; and (ii) the probability of Feishang Material being penalised by Fanchang Safety Administration for the Subcontracting Non-compliances is remote.

Based on the above, our Directors consider that the Subcontracting Non-compliances have no material adverse operational and financial impact on our Group.

Measures adopted to prevent future non-compliance:	We have enhanced our selection procedure for third party contractors or service providers for the provision of services which requires, among others, our Group to check whether such contractors or service providers possess, anong others the relevant licences certificates, permits or qualifications for the intended engagement under the relevant PRC laws and regulations. In addition, we have established a compliance committee and adopted a compliance policy to monitor and oversee the compliance-related issues of our Group. We will also appoint a qualified PRC law firm upon Listing as our Group's external PRC legal adviser to advise us on compliance with the applicable PRC laws and regulations from time to time. For details of our enhanced measures, please refer to "Internal control and risk management – Key internal control measures implemented by our Group" in this section.

Indemnity by our Controlling Shareholders to our Group for any loss on our non-compliance incidents

Pursuant to the Deed of Indemnity, our Controlling Shareholders have undertaken to indemnify our Group against all claims, damages, losses, costs, expenses, actions and proceedings (if any) arising out of or in connection with any non-compliance or alleged non-compliance by any member of our Group with any applicable PRC rules, regulations and laws on or before the Listing Date. For details of the Deed of Indemnity, please refer to "Statutory and general information – 6. Other information – B. Tax and other indemnities" in Appendix V to this document.

INTERNAL CONTROL AND RISK MANAGEMENT

Key internal control measures implemented by our Group

In order to prevent the recurrence of non-compliance incidents and to ensure ongoing compliance with applicable laws and regulations in the future, our Group has designed, implemented and enhanced several internal control measures which include the following:

1. We established a compliance committee on 12 December 2015 to monitor and oversee the compliance-related issues of our Group. The committee is required to meet quarterly to discuss, among others, existing and potential compliance issues, formulate solutions to such compliance issues, and report to the Board if necessary. The compliance committee comprises our chairman and executive Director, Mr. XU Chengyin, our executive Director, Mr. CHEN Gongbao, our independent non-executive Directors, Mr. CHAN Chiu Hung Alex and Mr. DUAN Xuechen, and our company secretary, Mr. YUE Ming Wai Bonaventure. The compliance committee is chaired by Mr. CHEN Gongbao. Our Directors confirmed that save for Mr. XU Chengyin who was a director of Feishang Material at the time of occurrence of certain non-compliance incidents, none of the compliance committee members was involved the non-compliance incidents set out in "Legal proceedings and regulatory compliance – Regulatory non-compliance" above in this section.

   Our Directors are of the view that our compliance committee is capable of ensuring on-going compliance of our Group due to the following reasons:

   (i) the chairman of our compliance committee, Mr. CHEN Gongbao, has over 12 years of management experience in companies listed in Hong Kong, Shenzhen and the United States, including over seven years of experience in the mining industry with expertise in regulatory compliance and audit-related work. For further information about his previous experience, please refer to "Directors, senior management and employees – Executive Directors" in this document;

(ii) although one of our compliance committee members, Mr. XU Chengyin, was a director of Feishang Material at the time of occurrence of certain non-compliance incidents, those non-compliance incidents were due to unfamiliarity with the relevant laws and regulations. Mr. Xu, with over 10 years of experience in managing downstream operations (including product production, raw materials procurement and product sales) in the non-ferrous metal industry, has been principally responsible for overseeing the overall operation of Feishang Material with a focus on managing its sales and marketing operations since his joining of Feishang Material in November 2011. As such, we have arranged Mr. Xu and other members of our compliance committee to attend training sessions in September 2015 on the material PRC laws and regulations applicable to our business operations and compliance with the GEM Listing Rules. After Listing, we will also organise regular compliance training sessions for our compliance committee members to update them on the relevant changes and/or updates to the laws and regulations applicable to our Group, including those relating to the GEM Listing Rules. In addition, our compliance committee may, whenever necessary, seek advice from the qualified PRC law firm engaged by our Group after Listing;

(iii) other than Mr. CHEN Gongbao and Mr. XU Chengyin, the other members of our compliance committee comprise two of our independent non-executive Directors and our company secretary. Our Directors believe that such other members of our compliance committee will be able to contribute appropriate and independent recommendations on compliance-related issues of our Group; and

(iv) we have enhanced the internal control measures of our Group to avoid and prevent the recurrence of any historical non-compliance incident in the future. For details of our enhanced internal control measures, please refer to items 8 to 12 below.

2. We have appointed Mr. CHEN Gongbao, our executive Director, as the compliance officer of our Company who is responsible for reviewing regulatory requirements both in Hong Kong and the PRC. The compliance officer will, with the support of the company secretary of our Company and other external professional advisers including a qualified PRC law firm, a qualified Hong Kong law firm, and the compliance adviser, conduct regular review and make recommendation to our Board in respect of our Group's policies and practices on corporate governance, review and monitor our Group's policies and practices on compliance with any requirement, direction and regulation that may be prescribed by our Board or imposed by the GEM Listing Rules, other applicable laws regulations, rules and codes, and ensure that consistent procedures are applied;

3. We have appointed Celestial Capital Limited as our compliance adviser upon Listing to advise our Group on compliance matters relating to the GEM Listing Rules;

4. We will appoint a qualified PRC law firm upon Listing as our Group's external PRC legal adviser to advise us on compliance with the applicable PRC laws and regulations and, if necessary, provide us with the relevant training, from time to time;

5. We will appoint a qualified Hong Kong law firm upon Listing as our Group's external Hong Kong legal adviser to advise us on compliance with the GEM Listing Rules and the applicable Hong Kong laws and regulations and, if necessary, provide us with the relevant training, from time to time;

6. We have arranged training sessions for our Directors and senior management as to: (i) the responsibilities of Directors and compliance with GEM Listing Rules, conducted by our legal advisers as to Hong Kong laws; and (ii) the material PRC laws and regulations applicable to our business operations, conducted by our PRC Legal Advisers, both in September 2015;

7. We have set aside an annual budget of approximately RMB100,000 for organising compliance training sessions for our Directors and senior management members to be held periodically so as to enhance compliance awareness and knowledge. The training sessions will cover topics such as changes and/or updates to the relevant rules and regulations for our operations and compliance with the GEM Listing Rules;

8. In relation to social insurance and housing provident funds contributions, our Group has enhanced its internal control procedures since July 2015 and has assigned our executive Director, Mr. CHEN Gongbao, who is also the chairman of our compliance committee, to ensure (i) the contribution base are continuously monitored and approved by our executive Director in accordance with relevant standard of the competent authorities; (ii) the contribution base are checked and updated with relevant authorities in accordance with the actual human resource change on a monthly basis; and (iii) the actual payment of contribution is made on a regular basis after being reviewed by our executive Director and is reconciled by the finance and accounting department with the supporting document issued by the competent authorities. Please refer to "Directors, senior management and employees – Executive Directors" in this document for further information about Mr. Chen's background and experience;

9. In relation to compliance regarding land use, our Group has adopted a compliance policy which requires the compliance committee to (i) monitor the ongoing compliance of land use in our operations; (ii) inspect the necessary licences and permits required for using any parcel of land; (iii) consult our Group's external PRC legal adviser; and (iv) regularly report to our Board of the compliance status;

10. In relation to compliance regarding licences and permits required for our business operations, since August 2015, our Group has assigned a designated management team comprising our executive Director and chairman of our compliance committee, Mr. CHEN Gongbao, and our deputy general manager (finance), Mr. CHEN Jiayang, to update and maintain a licence register for keeping track of the status of necessary licences, permits and approvals. The register contains necessary information, such as the current status, timing of renewal, condition of renewal and responsible persons for the purpose of timely application and/or renewal. Please refer to "Directors, senior management and employees" in this document for further information about the background and experience of the members of our designated management team;

11. In relation to subcontracting arrangement, we have adopted an enhanced procedure for selecting third party contractors or service providers for the provision of services which require, among others, our Group to check whether such contractors or service providers have the relevant licences or qualifications for the intended engagement under the relevant PRC laws and regulations. For details about our enhanced selection procedure, please refer to "Third party contractors" in this section; and

12. We will appoint an independent internal control consultant to undertake review of the internal control system of our Group annually upon Listing.

In March 2015, our Group engaged SHINEWING Risk Services Limited (the "**Internal Control Consultant**") to perform a detailed evaluation of the adequacy and effectiveness of our Group's internal control system including the areas of financial, operation, compliance and risk management. SHINEWING Risk Services Limited is an independent internal control consulting firm, which has been previously engaged in internal control review projects for a number of companies listed on the Stock Exchange and non-listed companies in Hong Kong and the PRC. The engagement team of the Internal Control Consultant has relevant experience in internal control review, which includes member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

The Internal Control Consultant has reviewed and provided recommendations to our internal control system for preventing the recurrence of the above-mentioned non-compliance incidents, and our Group has implemented all such recommendations. Key steps taken and to be taken by our Group in response to each of the non-compliance incidents mentioned above and for enhancement of our internal control and risk management measures are disclosed above. The Internal Control Consultant has performed a follow-up review in this connection. Upon completion of the follow-up review in September 2015, our Group did not have significant deficiencies in our internal control system.

Views of our Directors and the Sole Sponsor

After considering the nature and reasons for our historical non-compliance incidents, the remedial actions taken by our Group and our business nature and operation scale, our Directors are satisfied that our internal control procedures are adequate and effective for the purpose of Rule 6A.15(5) of the GEM Listing Rules, and consider that the non-compliance incidents do not have any material impact on: (i) the suitability of our Directors under Rules 5.01 and 5.02 of the GEM Listing Rules; and (ii) our suitability for listing under Rule 11.06 of the GEM Listing Rules.

Having considered the remedial actions taken by us and our business nature and operation scale, the Sole Sponsor concurred with our Directors' view that our internal control procedures are adequate and effective for the purpose of Rule 6A.15(5) of the GEM Listing Rules, and consider that the non-compliance incidents do not have any material impact on: (i) the suitability of our Directors under Rules 5.01 and 5.02 of the GEM Listing Rules; and (ii) our suitability for listing under Rule 11.06 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following persons or entities will, immediately following the completion of the **[REDACTED]** (assuming the **[REDACTED]** is not exercised and without taking into account any Shares that may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme), have interests or short positions in our Shares or our underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be recorded in the register required to be kept under Section 336 of the SFO, or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

Name	**Capacity**	**Approximate percentage of shareholding in our Company as at the date of this document** *(Note 1)* *(%)*	**Number of Shares directly or indirectly held immediately following completion of the [REDACTED]** *(Note 2)*	**Approximate percentage of shareholding in our Company immediately following completion of the [REDACTED]** *(%)*
Mr. Li *(Note 3)*	Interests of controlled corporation	100	**[REDACTED]** (L)	**[REDACTED]**
Laitan Investments *(Note 3)*	Interests of controlled corporation	100	**[REDACTED]** (L)	**[REDACTED]**
Feishang *(Note 3)*	Beneficial owner	100	**[REDACTED]** (L)	**[REDACTED]**

Notes:

1. The date of this document is **[REDACTED]**.

2. The letter "L" denotes the entity/person's long position in the Shares (as defined under Part XV of the SFO).

3. These Shares are held by Feishang, the entire issued share capital of which is held by Laitan Investments which is in turn wholly-owned by Mr. Li. Under the SFO, each of Mr. Li and Laitan Investments is deemed to be interested in the **[REDACTED]** Shares held by Feishang.

Save as disclosed above, our Directors are not aware of any person who will, immediately following completion of the **[REDACTED]** (assuming the **[REDACTED]** is not exercised and without taking into account any Shares that may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme), have an interest or short position in our Shares or our underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be recorded in the register required to be kept under Section 336 of the SFO, or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the **[REDACTED]** (assuming the **[REDACTED]** is not exercised and without taking into account any Shares that may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme), our Company will be owned as to **[REDACTED]** by Feishang, the entire issued share capital of which is held by Laitan Investments, which is in turn wholly-owned by Mr. Li. As Feishang, Laitan Investments and Mr. Li are directly or indirectly entitled to exercise or control the exercise of 30% or more of the voting power at general meetings of our Company immediately following the Listing, each of Feishang, Laitan Investments and Mr. Li shall be regarded as a Controlling Shareholder under the GEM Listing Rules. Feishang and Laitan Investments are investment holding companies.

Mr. Li is engaged in other mining and mineral resources businesses through his approximately 60.74% interest in Feishang Enterprise and his 100% interest in Feishang. Feishang and Mr. Li together hold approximately 59.33% interest in CHNR and approximately 53.53% interest in Feishang Anthracite. The following is a summary of such mining and mineral resources businesses conducted by our Controlling Shareholders, Feishang Enterprise, CHNR and Feishang Anthracite. Such mining and mineral resources business of our Controlling Shareholders do not compete with our business.

- *Coal.* Feishang and Mr. Li together hold approximately 53.53% of the issued share capital of Feishang Anthracite, a company whose shares are listed on the Main Board of the Stock Exchange. Feishang Anthracite and its subsidiaries are principally engaged in the acquisition, construction and development of anthracite coal mines and the extraction and sale of anthracite coal. Feishang Anthracite, through its subsidiaries, currently owns seven anthracite coal mines based in Guizhou province of the PRC. Feishang Enterprise, through its subsidiaries, currently owns seven coal mines (including two coal mines of which acquisition agreements have been entered into but not completed) in Guizhou province of the PRC.

- *Copper.* Feishang Enterprise, through its subsidiary, holds 49% of the equity interest in 蕪湖恆鑫銅業集團有限公司 (Wuhu Hengxin Copper Industrial Group Co., Ltd.*) which in turn holds approximately 13.85% of the equity interest in Anhui Xinke New Materials Co. Ltd., a company whose shares are listed on the Shanghai Stock Exchange. Wuhu Hengxin Copper Industrial Group Co., Ltd. is principally engaged in the copper refining business and Anhui Xinke New Materials Co. Ltd. is principally engaged in copper-related businesses, including importation of copper, copper processing and trading of copper. Feishang Enterprise also owns 100% equity interest in 哈橋礦業股份有限公司 (Haqiao Mining Holdings Limited*) which owns the right to operate a copper mine in South America.

- *Iron, zinc and other non-ferrous metals.* CHNR is principally engaged in the mining, processing and sale of iron and zinc concentrates extracted or produced at the Yangchong Mine located in Anhui province of the PRC through CHNR's wholly-owned subsidiary, Feishang Development which currently owns and has the right to operate Yangchong Mine. Further, Feishang Enterprise owns 巴彥淖爾市飛尚礦業有限公司 (Bayannur Feishang Mining Company Limited*) which owns nine exploration rights for non-ferrous metals, precious metals and magnetite mines in Inner Mongolia.

- *Non-metals minerals.* Anhui Xinke New Materials Co. Ltd., a company which is held as to approximately 13.85% by Wuhu Hengxin Copper Industrial Group Co., Ltd. which is in turn held as to 49% by Feishang Enterprise through its subsidiaries, also produces and sells non-metal minerals and materials such as carbon fibre reinforced metal matrix composite, rare and precious metals, and porcelain.

Mr. Li is also engaged in other non-mining related businesses, such as health care and forestry, which do not compete with our business.

Apart from engaging in the aforementioned businesses, Mr. Li was (i) the legal representative of Feishang Material from the date of its establishment up to 18 June 2004; (ii) the chairman of Feishang Material from the date of its establishment up to 9 September 2003; and (iii) a director of Feishang Material from 9 September 2003 to 20 October 2004. In addition, he has been the sole director of Feishang International, an investment holding company which wholly owns Feishang Material, since the date of its incorporation. He was also our Director from the date of incorporation of our Company up to 18 September 2015.

There has been little involvement of Mr. Li in our Group's business since the commencement of our Group's bentonite mining operations in 2004. During Mr. Li's period of office at Feishang Material, he was primarily responsible for assisting in the setting up of Feishang Material and establishing a bentonite mining and management team to operate Feishang Material, after which he gradually stepped down from the management of Feishang Material and focused on his other businesses instead. At the time our Company was incorporated, Mr. Li also participated as a director in its initial set-up. As Mr. Li (i) had little involvement in the management of our principal operating subsidiary, Feishang Material, in the past; and (ii) is a director and the chairman and chief executive officer of each of CHNR and Feishang Anthracite, Mr. Li decided to focus more of his time and efforts in managing CHNR, Feishang Anthracite and his other businesses and therefore did not continue to act as our Director.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors believe that our Group is capable of carrying on our business independent of and without undue reliance on our Controlling Shareholders and their respective close associates after the Listing based on the following reasons:

Management independence

Our Board consists of six Directors, comprising three executive Directors and three independent non-executive Directors. Our chairman who is also one of our executive Directors, Mr. XU Chengyin, is also the chairman, a director, the legal representative and general manager of Feishang Development which is principally engaged in the exploration, extraction, processing and sales of iron and zinc. Mr. XU Chengyin will however only require a limited amount of time to attend to the affairs of Feishang Development. In addition, the day-to-day management of our business primarily lies with our executive Directors as well as our senior management team, and no member of our senior management team holds any position in Feishang or Laitan Investments. For more details on our Directors, please refer to "Directors, senior management and employees" of this document.

Each of our Directors is aware of his fiduciary duties as a director which require, among other things, that he acts for the benefit and in the best interests of our Company, and does not allow any conflict between his duties as a director and his personal interest to exist. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant Board meeting in respect of such transaction and shall not be counted in the quorum. Our independent non-executive Directors will also bring independent judgment to the decision-making process of our Board. In addition, we have an independent senior management team with the relevant industry expertise and experience to implement our Group's policies and strategies.

Based on the above, our Directors are of the view that our Company is capable of managing its business independently from our Controlling Shareholders and his/its respective close associates after the Listing.

Operational independence

We have established our own organisational structure comprising individual departments, each with specific areas of responsibilities. We have not shared our operational resources, such as suppliers, customers, marketing sales and general administration resources with our Controlling Shareholders and/or their respective close associates.

We hold all relevant licences necessary for carrying on our businesses and have sufficient capital, equipment and employees to operate our business independently of our Controlling Shareholders. We have also established and implemented various internal control procedures to ensure that our business operations are being run effectively and efficiently.

During the Track Record Period, Feishang Material used certain packaging bags with the logo of Feishang Enterprise for our drilling mud sold to certain customers. Our Directors estimate that the revenue attributable to the sale of drilling mud packed into the abovementioned packaging bags amounted to approximately RMB0.5 million, RMB0.8 million and RMB0.2 million representing approximately 1.6%, 2.7% and 1.6% of our Group's total revenue for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, respectively. Our Directors confirm that Feishang Material has ceased to use the abovementioned packaging bags since August 2015.

During the Track Record Period, a few staff of Feishang Material used the administrative office of a related company owned by Mr. Li at nil consideration. Our Directors confirm that such arrangement has ceased since June 2015.

Based on the above, our Directors consider that the operations of our Group do not rely on our Controlling Shareholders or any of his/its respective close associates.

Financial independence

We have our own independent financial system and we make financial decisions according to our business needs. We also have our own internal control and accounting systems and accounting and finance department to perform independent treasury function for cash receipts and payments and independent accounting and reporting functions. We are able to obtain financing from third parties or from our internally generated funds without reliance on our Controlling Shareholders.

Save as disclosed, our Controlling Shareholders have not entered into any other financial arrangements with our Group during the Track Record Period and our Directors believe that we are able to maintain financial independence from our Controlling Shareholders or any of his/its respective close associates after the Listing.

Independence of major suppliers

Our Directors confirm that our Controlling Shareholders, Directors and their respective close associates did not have any relationship with the major suppliers of our Group (other than the business contracts in the ordinary and usual course of business of our Group) during the Track Record Period and up to the Latest Practicable Date.

Independence of major customers

Our Directors confirm that our Controlling Shareholder, Directors and their respective close associates did not have any relationship with the major customers of our Group (other than the business contracts in the ordinary and usual course of business of our Group) during the Track Record Period and up to the Latest Practicable Date.

DEED OF NON-COMPETITION

In order to ensure that our Controlling Shareholders will not engage in any business undertaking in competition with our Group, each of our Controlling Shareholders (namely Feishang, Laitan Investments and Mr. Li, collectively the "**Covenantors**", and each a "**Covenantor**") entered into the Deed of Non-competition pursuant to which each Covenantor has given an irrevocable non-competition undertaking in favour of our Company (for itself and as trustee for its subsidiaries from time to time) pursuant to which, each Covenantor has unconditionally and irrevocably undertaken with our Company that, among others, at any time during the Relevant Period (as defined below), the Covenantor shall:

(i) save for engaging in the Restricted Business (as defined below) through our Group, not, and shall procure that none of its/his close associates (other than our Group and Feishang Anthracite Group) shall, directly or indirectly, carry on, invest, participate or be engaged in any business which competes or may compete with the Restricted Business; and

(ii) promptly provide our Company with any relevant information in respect of any new business opportunity ("**New Business Opportunity**") within the PRC which competes or may compete with the Restricted Business or future business of our Group of which it/he or its/his close associates may have knowledge and will give our Company an option exercisable by our Company within 30 days upon receipt of the written notification of relevant information to take up such New Business Opportunity and it/he and its/his close associates may only take up such New Business Opportunity after our independent non-executive Directors have separately reviewed and decided that our Group should decline such New Business Opportunity.

For the above purposes:

(i) "**Restricted Business**" means the business engaged by our Group in the PRC from time to time; and

(ii) "**Relevant Period**" means the period commencing from the Listing Date and expiring on the earlier of the dates below:

(a) the date on which the Covenantor ceases to be our Controlling Shareholder for the purpose of the GEM Listing Rules; or

(b) the date on which the Shares cease to be listed on the Stock Exchange.

Pursuant to the Deed of Non-competition, each of the Covenantors has also unconditionally and irrevocably granted to our Company (for itself and as trustee for its subsidiaries from time to time) the options to purchase any interest in any business of the relevant Covenantor or its affiliates resulting from a New Business Opportunity which has been offered to us, but has not been purchased by us, and has been retained by the relevant Covenantor or its affiliates.

Notwithstanding the aforesaid, the non-competition undertaking as set out above shall not prevent the Covenantors and its/his respective close associates from holding, directly on individually our Shares, or other securities in us and our subsidiaries; and/or acquiring a direct or indirect shareholding interest of not more than five per cent in a company listed on any stock exchange anywhere in the world and engaged in any Restricted Business.

The Deed of Non-competition and the rights and obligations thereunder are conditional upon: (i) the Listing Division granting the listing of, and the permission to deal in, the Shares as described in this document, and (ii) the Listing and dealings in the Shares on GEM taking place.

The Deed of Non-Competition will take effect on the Listing Date and will remain in full force and be terminated upon the earlier of:

(i) the date on which our Shares cease to be listed on the Stock Exchange;

(ii) the date on which the relevant Controlling Shareholders and/or their affiliates cease to be our controlling shareholder within the meaning of the GEM Listing Rules; and

(iii) the date on which our Company ceases to engage in the Restricted Business.

RULE 11.04 OF THE GEM LISTING RULES

Our Controlling Shareholders, Directors and their respective close associates do not have any interest, apart from our Group's business, which competes or may compete, directly or indirectly, with our Group's business, and which requires disclosure pursuant to Rule 11.04 of the GEM Listing Rules.

CORPORATE GOVERNANCE MEASURES

In order to ensure the performance of the above non-competition undertakings, the Covenantors will:

(i) in case of any actual or potential conflict of interest, abstain from attending and voting at any meeting or part of any meeting convened to consider any new business opportunity (unless their attendance is specifically requested by our non-interested Directors), and shall not be counted towards the quorum for such meeting;

(ii) as required by our Company, provide all information necessary for our independent non-executive Directors to conduct an annual examination with regard to the compliance of the terms of the Deed of Non-competition and the enforcement of it;

(iii) where our independent non-executive Directors shall deem fit, make a declaration in relation to the compliance of the terms of the Deed of Non-competition in the annual report of our Company; and

(iv) that during the period when the Deed of Non-competition is in force, fully and effectually indemnify our Company against any losses, liabilities, damages, costs, fees and expenses as a result of any breach on the part of the Covenantor of any statement, warranty or undertaking made under the Deed of Non-competition.

Our Company will disclose either in the annual report of our Company or issue a public announcement in relation to any decisions made by our independent non-executive Directors with regard to the compliance of the terms of the Deed of Non-competition and the enforcement of it and, where applicable, the reason(s) why any New Business Opportunity referred to our Company by our Controlling Shareholder was not taken up.

As the Covenantors have given non-competition undertakings in favour of the Company, there are sufficient and effective preventive measures to manage conflicts of interest and the Covenantors have no interest in other businesses that compete or are likely to compete with the business of our Group, our Directors are of the view that we are capable of carrying on our Group's business independently of the Covenantors following the Listing.

DIRECTORS

Our Board is responsible for and has general powers for the management and conduct of our business. Our Board consists of six Directors, including three executive Directors and three independent non-executive Directors. The following table sets out certain information with respect to our Directors as at the Latest Practicable Date:

Name	Age	Position	Date of joining our Group	Date of appointment as Director	Role and responsibilities
Mr. XU Chengyin (徐承銀)	53	Chairman, executive Director, chief executive officer and member of Remuneration Committee	November 2011	15 July 2015	Formulating corporate strategies and supervising the business and marketing operations
Mr. ZHANG Pingwu (張平武)	41	Executive Director, chief technology officer and deputy general manager (production and technology)	June 2002	15 July 2015	Overseeing production and technology related matters
Mr. CHEN Gongbao (陳功保)	38	Executive Director, financial controller and member of Nomination Committee	July 2015	15 July 2015	Overseeing financial management
Mr. CHAN Chiu Hung Alex (陳釗洪)	49	Independent non-executive Director, chairman of Audit Committee and member of Remuneration Committee and Nomination Committee	December 2015	12 December 2015	Overseeing management independently and providing independent advice to our Board
Mr. ZHENG Shuilin (鄭水林)	59	Independent non-executive Director, chairman of Nomination Committee and member of Audit Committee and Remuneration Committee	December 2015	12 December 2015	Overseeing management independently and providing independent advice to our Board

Name	Age	Position	Date of joining our Group	Date of appointment as Director	Role and responsibilities
Mr. DUAN Xuechen (段學臣)	66	Independent non-executive Director, chairman of Remuneration Committee and member of Audit Committee and Nomination Committee	December 2015	12 December 2015	Overseeing management independently and providing independent advice to our Board

The following table sets out certain information with respect to members of our senior management team (other than those who are also our Directors) as at the Latest Practicable Date:

Name	Age	Position	Date of joining our Group	Role and responsibilities
Mr. CHENG Jiayi (程家義)	57	Bentonite mine manager	May 2004	Overseeing all mining operations of our Huanghu Bentonite Mine
Mr. QIAN Shengli (錢勝利)	39	Deputy general manager (safety) and safety director	September 2002	Overseeing production safety and mine safety
Mr. CHEN Jiayang (陳家陽)	51	Deputy general manager (finance)	March 2012	Overseeing finance, administration and human resources related matters

Executive Directors

Mr. XU Chengyin(徐承銀), aged 53, is our chairman, executive Director and chief executive officer. He is primarily responsible for formulating corporate strategies and supervising the business and marketing operations of our Group. He joined our Group in November 2011 and has been the chairman, director, legal representative and general manager of Feishang Material since then, responsible for overseeing the overall operation of Feishang Material with a focus on managing its sales and marketing operations. He has over 34 years of experience in the non-ferrous metal industry.

Mr. Xu obtained graduate certificates in heavy metal smelting from 長沙冶金工業學校 (Changsha Metallurgical Industry School*) in July 1981, industrial enterprise management from 經濟管理刊授聯合大學蕪湖市分校 (Wuhu Branch of the Economic Management Correspondence United Institute*) in December 1988 and economic management from 中共中央黨校函授學院 (Correspondence Institute of the Party School of the Central Committee of the Communist Party of China*) in December 1999. He was awarded the qualifications of smelting engineer by 蕪湖市職稱改革領導小組 (Wuhu City Title Reform Leading Committee*) in September 1993, senior economist by 蕪湖市人事局 (Wuhu City Personnel Bureau*) in January 2009 and senior professional manager by Research Center for Professional Managers(職業經理研究中心) in March 2010.

Other major work experience of Mr. Xu includes:

Name of entity	Principal business activities	Period of service	Position and major responsibilities
蕪湖恒鑫銅業集團有限公司 (Wuhu Hengxin Copper Group Co., Ltd.*) ("**Hengxin Copper**")	Copper processing	July 1981 to December 2000	Technician, statistician, deputy director and youth league's deputy secretary, responsible for production technology related work, conducting statistics and the youth league's daily operation
		July 2006 to March 2009	Deputy general manager, responsible for production technology related work
蕪湖恒昌銅精煉有限責任公司 (Wuhu Hengchang Copper Refinery Co., Ltd.*) a former subsidiary of Hengxin Copper	Copper refining	July 2006 to March 2009	Deputy general manager, responsible for production technology related work

Name of entity	Principal business activities	Period of service	Position and major responsibilities
Anhui Xinke New Materials Co., Ltd (安徽鑫科新材料股份有限公司) ("**Anhui Xinke**"), a company listed on the Shanghai Stock Exchange (stock code: 600255)	Production, development and marketing of copper-based alloy materials	January 2001 to June 2003	Deputy manager, executive deputy manager and manager of the copper rod branch (銅杆分公司) of Anhui Xinke, responsible for providing overall production related technological services and supervising the overall operation of the branch
		July 2003 to February 2005	Manager of a company of Anhui Xinke, responsible for the set up and preparation of such supply company and the raw materials procurement and product sales of branch companies of Anhui Xinke
		March 2005 to June 2006	Manager of a company of Anhui Xinke, responsible for raw materials procurement and product sales of branch companies of Anhui Xinke
		April 2009 to October 2011	Deputy general manager, responsible for raw material procurement, product sales and production technology related work
Feishang Development	Exploration, extraction, processing and sales of iron and zinc	November 2011 till present	Chairman, director, legal representative and general manager, responsible for overseeing the overall operation

Mr. ZHANG Pingwu(張平武), aged 41, is our executive Director and chief technology officer. He is primarily responsible for overseeing production and technology related matters of our Group. He is also the deputy general manager (production and technology) of Feishang Material, responsible for production, quality control, new product development and the overall management of our production department, quality control centre and research and development laboratory. He joined our Group in June 2002 after we acquired certain assets of 繁昌縣鋅鐵礦 (Fanchang County Iron-zinc Ore Mine*) and was the deputy production plant manager of the processing plant of Feishang Material from June 2002 to March 2009, responsible for production management and quality control work. He became our plant manager in March 2009 and was responsible for overseeing the overall operation of our processing plant. Between August 2011 and December 2014, he was the assistant to general manager of Feishang Material and assisted our general manager in new product development and production safety management of our bentonite processing plant. He was promoted to deputy general manager (production and technology) of Feishang Material in December 2014. He has over 13 years of mining experience.

Mr. Zhang obtained a bachelor's degree in engineering in chemical engineering and crafts from 淮南工業學院 (Huainan Industrial Institute*) (later became Anhui University of Science and Technology(安徽理工大學)) in July 2000 and the engineer qualification in chemical engineering and crafts from 蕪湖市人事局 (Wuhu City Personnel Bureau*) in December 2006. He has published research papers relating to bentonite in magazines including Technology Wind(《科技風》) and Technology Innovation and Application(《科技創新與應用》) and《中國非金屬礦工業導刊》(China Non-metallic Minerals Industry Guide*).

Prior to joining our Group, Mr. Zhang was deputy production plant manager from October 2001 to June 2002 at the activated bentonite processing plant of 繁昌縣鋅鐵礦 (Fanchang County Iron-zinc Ore Mine*), an entity engaged in the mining of non-ferrous metal, where he was mainly responsible for production management of activated bentonite products.

Mr. CHEN Gongbao(**陳功保**), aged 38, is our executive Director and financial controller. He is primarily responsible for overseeing the financial management of our Group. He joined our Group in July 2015. He has over 15 years of experience in accounting and financial management and over seven years of experience in the mining industry.

Mr. Chen graduated from 安徽商業高等專科學校 (Anhui Business College*) (now known as Anhui University of Technology (安徽工業大學)) with a certificate in accounting in July 1998 and from the Dalian University of Technology (大連理工大學) with a master's degree in business administration in December 2012. He obtained the qualification of Chinese Certified Public Accountant (中國註冊會計師) in December 2002.

Other major work experience of Mr. Chen includes:

Name of entity	Principal business activities	Period of service	Position and major responsibilities
Shenzhen Neptunus Bioengineering Co., Ltd.(深圳市海王生物工程股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000078)	Production and research and development of pharmaceutical products	July 1998 to September 2002	Principal accountant, responsible for supervising accounting related matters
Shenzhen Fuanna Bedding and Furnishing Co., Ltd.(深圳富安娜家居用品股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002327)	Research and development, design, production and sales of home textile products	October 2002 to April 2004	Financial supervisor, responsible for managing accounting related matters
深圳納克邁伊茲諮詢有限公司 (Shenzhen Nac-Myts Consulting Limited*) (now known as Nac-Meinan Consulting (Shenzhen) Ltd.(深圳納克名南諮詢有限公司))	Business, finance and tax consulting	November 2005 to April 2008	Senior consultant, responsible for providing comprehensive consulting services on business enterprise management, finance and tax as well as professional internal training and development

Name of entity	Principal business activities	Period of service	Position and major responsibilities
CHNR	Mining, processing and selling zinc concentrates and iron concentrates	April 2008 to May 2011	Compliance and audit senior manager, responsible for implementing Sarbanes-Oxley Act within the company and carrying out internal audit work
		May 2011 to January 2014	Compliance and assistant audit general manager, responsible for compliance and audit related matters
貴州浦鑫能源有限公司 (Guizhou Puxin Energy Co., Ltd.*), a wholly-owned subsidiary of Feishang Anthracite (as defined below)	Investment holding and coal trading	October 2010 to January 2014	Compliance and audit director, responsible for compliance and audit related work
Feishang Anthracite	Acquisition, construction and development of anthracite coal mines and the extraction and sale of anthracite coal	January 2014 to June 2015	Assistant general manager of the corporate development department, responsible for corporate development and investor relations

Independent non-executive Directors

Mr. CHAN Chiu Hung Alex（陳釗洪）, aged 49, is our independent non-executive Director. He graduated from the Hong Kong Baptist University with a bachelor of business administration (honours) degree in finance in November 1990. He completed an advanced diploma in specialist taxation with the Hong Kong Institute of Certified Public Accountants in December 2012 and was admitted as an associate with the Institute of Chartered Accountants in England and Wales. He is currently a fellow of the Institute of Chartered Secretaries and Administrators, a fellow of the Hong Kong Institute of Chartered Secretaries, a fellow of the Association of Chartered Certified Accountants and an associate of the Hong Kong Institute of Certified Public Accountants.

Mr. Chan has over 17 years of experience in managing companies listed in Hong Kong or overseas. Major work experience of Mr. Chan includes:

Name of entity	Principal business activities at the time of employment	Period of service	Position and major responsibilities
FT Far East Limited, a then indirect wholly-owned subsidiary of FT Holdings International Limited (now known as Guocang Group Limited) which is a company listed on the Main Board of the Stock Exchange (stock code: 559)	Design, manufacturing and sale of life-like plants and other products	June 1998 to July 2003	Accounting manager, responsible for financial reporting and supervising financial and internal control of the group activities
Pak Tak Knitting & Garment Factory Limited, a then indirect wholly-owned subsidiary of Pak Tak International Limited which is a company listed on the Main Board of the Stock Exchange (stock code: 2668)	Manufacturing and trading of garments	July 2003 to July 2005	Financial controller, responsible for the group's financial reporting and supervising financial activities
Garron International Limited (now known as China Investment and Finance Group Limited), a company listed on the Main Board of the Stock Exchange (stock code: 1226)	Energy resources	June 2007 to 28 April 2008	Company secretary and authorised representative, responsible for information disclosure, advising the board of directors on corporate governance, coordination and preparation of board meeting
Temujin International Investments Limited (now known as China Investment and Development Limited), a company listed on the Main Board of the Stock Exchange (stock code: 204)	Investment holding	April 2008 to June 2011	Company secretary and authorised representative, responsible for accounting, financial reporting and company secretarial work

Name of entity	Principal business activities at the time of employment	Period of service	Position and major responsibilities
ePRO Limited (now known as DX.com Holdings Limited), a company listed on GEM of the Stock Exchange (stock code: 8086)	Software development	January 2006 to March 2007	Financial controller, responsible for financial reporting and supervising financial activities of the group
		January 2006 to August 2013	Company secretary and authorised representative, responsible for external liaison and advising the board of directors on corporate governance
China ASEAN Resources Limited (now known as IR Resources Limited), a company listed on GEM of the Stock Exchange (stock code: 8186)	Wood forestry	August 2013 to September 2014	Company secretary and authorised representative, responsible for financial report, external liaison and advising the board of directors on corporate governance
China Sports International Limited, a company listed on the main board of the Singapore Stock Exchange (stock code: FQ8)	Design, manufacturing and sale of sports footwear, apparel and accessories	March 2007 to November 2014	Chief financial officer, responsible for financial reporting and advising the board of directors on corporate governance and investor relationship
Hao Wen Holdings Limited, a company listed on GEM of the Stock Exchange (stock code: 8019)	Trading of biodegradable containers	December 2014 till present	Chief financial officer, responsible for financial reporting

Mr. Chan also has the following directorial experience with the following listed companies:

Name of entity	Principal business activities at the time of employment	Period of service	Position and major responsibilities
Amax Holdings Limited (now known as Amax International Holdings Limited), a company listed on the Main Board of the Stock Exchange (stock code: 959)	Gaming and entertainment related business	October 2005 to July 2010	Independent non-executive director, chairman of audit committee and member of remuneration committee, responsible for advising on corporate governance, remuneration of directors and senior management, auditing and risk management
Vitop Bioenergy Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1178)	Manufacturing and trading of multi-functional water generators, healthy bedroom products and healthcare food products	January 2006 to February 2008	Independent non-executive director and chairman of audit committee, responsible for advising on corporate governance, auditing and risk management
Kong Sun Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 295)	Property investment and development, manufacture and sales of life-like plants and provision of financial services	June 2006 to September 2008	Independent non-executive director, chairman of audit committee and member of remuneration committee, responsible for advising on corporate governance, remuneration of directors and senior management, auditing and risk management
Multi Sports Holdings Limited, a company listed on the main board of Bursa Malaysia Securities Berhad (stock code: 5150)	Research, design, production and sale of sports and casual shoe soles	July 2009 to June 2012	Independent non-executive director, chairman of audit committee and member of nomination and remuneration committees, responsible for advising on corporate governance, nomination and remuneration of directors and senior management, auditing and risk management
e-Kong Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 524)	Telecom operations and insurance	February 2015 till present	Independent non-executive director and member of the audit committee, investment committee and share option committee, responsible for advising on corporate governance, investment and remuneration (share options only) of directors and senior management, auditing and risk management

Name of entity	Principal business activities at the time of employment	Period of service	Position and major responsibilities
Co-Prosperity Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 707)	Sale of finished fabrics, provision of fabrics processing subcontracting services and the trading of goods	March 2015 to October 2015	Independent non-executive director, chairman of remuneration, nomination and audit committees, responsible for advising on corporate governance, nomination and remuneration of directors and senior management, auditing and risk management
Kate China Holdings Limited, company listed on GEM of the Stock Exchange (stock code: 8125)	Design and fitting-out business	17 September 2015 till present	Independent non-executive director, chairman of audit committee and compliance committee and member of remuneration and nomination committees, responsible for advising on corporate governance, nomination and remuneration of directors and senior management, auditing and compliance and risk management

Mr. ZHENG Shuilin(**鄭水林**), aged 59, is our independent non-executive Director. He has over 14 years of experience in the field of material engineering. He graduated from 武漢建築材料工業學院 (Wuhan Institute of Building Materials*) (now part of Wuhan University of Technology (武漢理工大學)("**Wuhan UT**")) with a bachelor's degree in non-metal mining (mineral processing engineering) in June 1982 and was awarded with a master's degree in engineering from 武漢工業大學 (Wuhan Industrial College*) (now part of Wuhan UT) in November 1985 and a doctoral degree in mineral processing engineering from the University of Science and Technology Beijing (北京科技大學) in July 1999.

Mr. Zheng has published a number of books relating to science and technology and has written over 300 research papers. He has obtained more than 30 invention patents and has received awards including the China Coal Industry Technological Advancement Second Level Award from 中國煤炭工業協會 (China Coal Industry Association*) and 中國煤炭學會(China Coal Society*) in 2012 for his research publication on "Surface Modification Technology and Equipment for Industrial Mineral Powder(工業礦粉體表面改性技術與裝備)", the Building Materials Technological Advancement Second Level Award (Technological Advancement Award) from China Building Materials Federation(中國建築材料聯合會) and Chinese Ceramic Society (中國矽酸鹽學會) in January 2015 for his research publication on "Filler Composite and Surface Modification Technology and Equipment for Non-metal Minerals(非金屬礦物填料複合與表面改性技術及裝備)", and the 2014 Excellent Works in Chinese Petroleum and Chemical Industry First Level Award from 中國石油和化學工業聯合會 (China Petroleum and Chemical Industry Federation*) in March 2015 for his publication on "Non-metal Mineral Processing and Application (3rd Edition)(非金屬礦加工與應用(第三版))".

In addition, Mr. Zheng was appointed as the vice-chairman of the Fifth Council of the China Non-metallic Minerals Industry Association (中國非金屬礦工業協會) in December 2008, a committee member of the Academic Committee of the Key Laboratory of the Ministry of land and Resources of Clay Minerals (國土資源部粘土礦物重點實驗室學術委員會委員) in March 2013 and the vice-chairman of the Sixth Council of Chinese Society of Particuology (中國顆粒學會) in May 2014. Other major work experience of Mr. Zheng includes:

Name of entity	Principal business activities	Period of service	Position and major responsibilities
武漢工業大學北京研究生部 (Beijing Graduate Division of Wuhan Industrial College*) (now part of Beijing University of Technology (北京工業大學))	Education and research	September 1997 to November 2000	Professor, responsible for providing lectures
School of Materials and Engineering of Beijing University of Technology (北京工業大學材料科學與工程學院)	Education and research	November 2000 to April 2002	Professor, responsible for teaching topics relating to material engineering
School of Chemical & Environmental Engineering of China University of Mining & Technology, Beijing (中國礦業大學(北京)化學與環境工程學院)	Education and research	May 2002 till present	Professor and doctoral programme supervisor, responsible for teaching, researching and supervising master and doctoral students on areas of mineral processing engineering and mineral material engineering

Mr. DUAN Xuechen (段學臣), aged 66, is our independent non-executive Director. He graduated from the course of metallurgy analysis chemistry of 中南礦冶學院 (Central South School of Mining & Metallurgy*) ("**Central South SMM**") (now part of Central South University (中南大學)("**Central South University**")) in November 1975 and obtained a master's degree in chemical engineering in March 1982 from the same school. He further obtained a doctoral degree in engineering in non-ferrous metallurgy from 中南工業大學 (Central South Industrial University*) ("**Central South IU**") (now part of Central South University) in December 1990.

Mr. Duan has published a number of research papers and is the inventor of a number of invention patents. He was a visiting scholar and research fellow at the KTH Royal Institute of Technology in Stockholm, Sweden, from January to July 2004 where he was engaged in the research of nano structures. He became a member of The Chinese Society For Metals (中國金屬學會) in October 1992 and an editorial board member of the journal "中國粉體技術 (China Powder Science and Technology*)". Mr. Duan's other major work experience includes:

Name of entity	Principal business activities	Period of service	Position and major responsibilities
Central South SMM	Education and research	September 1975 to August 1978	Teaching assistant of the Faculty of Chemistry, responsible for teaching and researching topics on chemical analysis and separation of elements
		September 1981 to August 1987	Lecturer of the Faculty of Chemistry, responsible for teaching and researching topics on equipment analysis and reagent synthesis
Central South IU	Education and research	September 1991 to August 1994	Associate professor of the Faculty of Non-ferrous Metals, responsible for teaching and researching topics on ultra fine powder and integration of material processing and smelting
		September 1994 to August 2000	Deputy head and researcher at Materials Research Institute (材料研究所), responsible for teaching and researching areas relating to nano complex materials and nano non-metal composite materials
Central South University	Education and research	September 2000 to October 2014	Nano materials research laboratory director and professor of the Faculty of Material Science and Engineering, responsible for teaching and researching material chemistry
		November 2014 till present	Professor of the Faculty of Material Science and Engineering, responsible for teaching and researching advanced functional materials such as nano materials

Disclosure required under Rule 17.50(2) of the GEM Listing Rules

Mr. Zheng Shuilin, our independent non-executive Director, has been the chairman and legal representative of 北京正知林技術發展有限責任公司 (Beijing Zhengzhilin Technology Development Company Limited*) ("**Beijing Zhengzhilin**"), a limited liability company established in the PRC on 30 April 1999, since the date of establishment of Beijing Zhengzhilin. Mr. Zheng also owns 60% of the entire equity interest in Beijing Zhengzhilin. On 12 October 2011, the business licence of Beijing Zhengzhilin was revoked by 北京市工商行政管理局朝陽分局 (Chaoyang Branch of the Beijing Administration for Industry and Commerce*) ("**Revocation Incident**") as Beijing Zhengzhilin did not attend annual inspection for the year 2010 within the specified time period after it ceased to have business operations. Mr. Zheng has confirmed that Beijing Zhengzhilin was solvent at the time of the revocation of the business licence.

According to 中華人民共和國公司法 (PRC Company Law*), if a person is a legal representative of a PRC company whose business licence has been revoked and such person is personally responsible for such revocation, such person should not be appointed as a director, supervisor or senior management of any company in the PRC for a period of three years from the date of revocation of the business licence ("**Three-year Prohibition**").

Mr. Zheng has confirmed that, save for the Three-year Prohibition, the Revocation Incident did not resulted in any restriction, responsibility or penalty imposed against him. Since (i) the Revocation Incident was a result of the failure of Beijing Zhengzhilin to attend annual inspection within the specified time period; (ii) Mr. Zheng did not hold positions of directorship or senior management in any other PRC companies whose business licence has been revoked; and (iii) more than three years has lapsed since the date of the Revocation Incident, our Board considers that the suitability of Mr. Zheng to act as an independent non-executive Director is not affected by the Revocation Incident.

Save as disclosed above, each of our Directors confirms that: (i) he has not held any directorship in the last three years in other public companies the securities of which are listed on any securities market in Hong Kong or overseas; (ii) he does not have any relationship with any other Directors or member of our senior management team; (iii) there is no other information that should be disclosed for him pursuant to Rule 17.50(2) of the GEM Listing Rules; and (iv) to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there are no other matters with respect to the appointment of our Directors that need to be brought to the attention of our Shareholders.

Save as disclosed in "Statutory and general information – 4. Further information about Directors, management and staff – C. Interests of Directors and chief executive in our Shares, underlying Shares and debentures of our Company and its associated corporations" in Appendix V to this document, each of our Directors confirms that he does not have any interests in the Shares within the meaning of Part XV of the SFO.

SENIOR MANAGEMENT

Our senior management comprises our Directors and the following persons:

Mr. CHENG Jiayi(**程家義**), aged 57, joined our Group in May 2004 and is the bentonite mine manager of Feishang Material, responsible for overseeing all mining operations of our Huanghu Bentonite Mine. He has over 13 years of experience in the mineral mining industry. He joined 棗園鐵礦 (Zaoyuan Iron Ore Mine*) of Feishang Development in September 2002 and was employed as the mine manager from September 2002 to April 2004 and from October 2007 to September 2009, during both period he was responsible for overseeing all mining operations of the mine. He obtained the qualification of assistant engineer from 繁昌縣職稱改革領導小組 (Fanchang county Title Reform Leadership Committee*) in December 1999 and completed a course in metals mining technology at the Anhui Industry Polytechnic(安徽工業職業技術學院) in July 2015.

Mr. QIAN Shengli(**錢勝利**), aged 39, is the deputy general manager (safety) and safety director of Feishang Material, responsible for overseeing safety at our Huanghu Bentonite Mine and bentonite processing plant. He is also the supervisor of Zhuorui. He joined our Group in September 2002 and was initially the general office deputy director and safety deputy section head of Feishang Material. He was promoted to safety section head in August 2005 and was appointed as assistant to general manager, safety director and safety section head of Feishang Material in August 2011. He became the deputy general manager (safety) and safety director of Feishang Material in December 2014. During his employment with our Group, he has been mainly responsible for mine safety management, mine licensing matters and the approval and reporting of special funding and projects. He has over 13 years of mineral mining experience.

Mr. Qian graduated from the mining course of 安徽省冶金工業學校 (Anhui Metallurgy Industrial School*) in July 1997, the engineering geology exploration course of Anhui Technical College of Industry and Economy(安徽工業經濟職業技術學院) through distance learning in July 2011 and the mining engineering course of Anhui University of Science and Technology(安徽理工大學) through distance learning in July 2014. He obtained the qualifications of certified safety engineer from the 安徽省人事局 (Anhui Province Personnel Bureau) in December 2007 and construction projects surveying engineer from the Wuhu Municipal Human Resources and Social Security Bureau(蕪湖市人力資源和社會保障局) in June 2013. He also currently holds a middle-level blasting works technician licence(爆破工程技術人員安全作業證).

Other major work experience of Mr. Qian includes:

Name of entity	Principal business activities	Period of service	Position and major responsibilities
Feishang Development	Exploration, extraction, processing and sales of iron and zinc	September 2002 to August 2005	General office deputy director and safety deputy section head
		August 2005 to August 2011	Safety section head
		August 2011 to December 2014	Assistant to general manager, safety director and safety section head
		December 2014 to September 2015	Deputy general manager and safety director Mainly responsible for mine safety management, mine licensing matters and the approval and reporting of special funding and projects

Mr. CHEN Jiayang(陳家陽), aged 51, joined our Group in March 2012 and is the deputy general manager (finance) of Feishang Material, responsible for managing finance, administration and human resources related matters. He has over 29 years of experience in the fields of finance and accounting.

Mr. Chen completed courses in industrial accounting and in politics and law in July 1986 and in December 2000, respectively. He obtained the qualifications of accountant from the PRC Ministry of Finance(中華人民共和國財政部) in October 1994 and senior registered tax consultant from 中國註冊稅務諮詢師協會 (China Association of Register Tax Consultant*) in March 2014.

Other major work experience of Mr. Chen includes:

Name of entity	Principal business activities	Period of service	Position and major responsibilities
蕪湖冶煉廠 (Wuhu Smelting Plant*)	Smelting	August 1986 to June 1995	Initially as accountant and subsequently as principal accountant at the finance department Responsible for conducting various accounting and external liaison work

Name of entity	Principal business activities	Period of service	Position and major responsibilities
Hengxin Copper	Copper processing	July 1995 to December 2000	Head of audit office, responsible for conducting financial, engineering, performance and resign auditing work and liaising with audit and tax bureaus and other government authorities
		January 2001 to June 2002	Deputy manager of finance department and head of audit office, responsible for conducting accounting and internal auditing work, liaising with government authorities on finance, industry and commerce and audit related matters
Feishang Development	Exploration, extraction, processing and sales of iron and zinc	July 2002 to February 2012	Finance manager
		March 2012 to September 2015	Financial controller Responsible for formulating and implementing policies relating to finance accounting and internal control liaising with tax authorities, accountants, banks and other external authorities on finance related matters

Save as disclosed above, each member of our senior management team confirms that he has not held any directorship in the last three years in other public companies, the securities of which are listed on any securities market in Hong Kong or overseas. The business address of Mr. CHENG Jiayi, Mr. QIAN Shengli and Mr. CHEN Jiayang is at Xiao Keshan, Xingang town, Fanchang county, Wuhu city, Anhui province, PRC.

COMPANY SECRETARY

Mr. YUE Ming Wai Bonaventure(**余銘維**), aged 48, is our company secretary. He is responsible for investor relations and company secretarial matters of the Group. He joined our Group in June 2015 and is also the executive director, legal representative and general manager of Zhuorui. He has over 23 years of experience in accounting and finance gained in international certified public accounting firm, investment advisory firm and listed companies in both Hong Kong and the United States and over five years of company secretarial and regulatory compliance experience with listed companies in Hong Kong.

Mr. Yue graduated from the Hong Kong Baptist University with a bachelor of business administration (honours) degree in accounting in November 1990 and was awarded a master of science degree in accounting and finance by the University of Manchester in December 1994. He is a fellow member of the Hong Kong Institute of Chartered Secretaries, the Hong Kong Institute of Certified Public Accountants, and the Institute of Chartered Accountants in England & Wales and was admitted as a member of the Chartered Accountants Australia & New Zealand in January 2008, a member of the American Institute of Certified Public Accountants in November 2013 and a member accredited in business valuation by the American Institute of Certified Public Accountants in January 2015.

Mr. Yue started off his career in July 1990 in the audit department of Ernst & Young where he conducted various audit and assurance work. Other major work experience of Mr. Yue includes:

Name of entity	Principal business activities at the time of employment	Period of service	Position and major responsibilities
Sun Hung Kai & Co. Limited, a company listed on the Stock Exchange (stock code: 86)	Financial services	December 1992 to August 1993	Accountant, responsible for managing and analysing financial accounts
Nam Hing Holdings Limited (now known as China Environmental Energy Investment Limited). a company then listed on the Main Board of the Stock Exchange (stock code: 986)	Manufacturing	January 1995 to August 1996	Had served as group financial manager, assistant financial controller and company secretary, mainly responsible for financial reporting, internal control and regulatory compliance of the group
Leading Spirit (Holdings) Company Ltd. a company then listed on the Main Board of the Stock Exchange (stock code: 606), delisted in January 2004	Manufacturing	August 1996 to April 1998	Accounting manager, responsible for financial reporting of the group
Henco Capital Limited	Investment advisory	November 1998 to April 2003	Associate director of corporate advisory services, responsible for providing financial advisory services to listed and private clients
Coland Group Limited	Manufacturing	April 2003 to October 2007	Chief financial officer and company secretary, responsible for financial reporting, corporate finance, compliance and investor relations

Name of entity	Principal business activities at the time of employment	Period of service	Position and major responsibilities
Enerchina Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 622)	Operations of power plants and securities investment	September 2007 to April 2008	Financial controller, responsible for overseeing financial matters
K.P.I. Company Limited (now known as China Financial Services Holdings Limited), a company listed on the Main Board of the Stock Exchange (stock code: 605)	Retail business	June 2006 to May 2007	Independent non-executive director, responsible for providing independent advice to the board of directors of the company
CHNR	Mining, processing and selling zinc concentrates and iron concentrates	April 2008 to January 2014	Financial controller, responsible for overseeing financial matters
		April 2015 till present	Chief financial officer and corporate secretary, responsible for overseeing financial and corporate secretarial matter
深圳市馳鑫信息諮詢有限公司 (Shenzhen Chixin Information and Consulting Co., Ltd.*)	Provision of management and consulting services	July 2012 till present	Executive director and legal representative, responsible for the overall operations of the company
Feishang Anthracite	Acquisition, construction and development of anthracite coal mines and the extraction and sale of anthracite coal.	December 2013 to May 2015	Chief financial officer and company secretary, responsible for overseeing financial and company secretarial matters
		May 2015 till present	Executive director, chief financial officer and company secretary, responsible for overseeing matters relating to finance, investment and regulatory compliance

COMPLIANCE OFFICER

Mr. CHEN Gongbao (陳功保), our executive Director, is also our compliance officer. Please refer to "Directors – Executive Directors" in this section for details of his biography.

CORPORATE GOVERNANCE CODE

Our Company complies or intends to comply with the Corporate Governance Code set out in Appendix 15 of the GEM Listing Rules save for Code A.2.1 which requires that the roles of chairman and chief executive officer be separate and performed by different individuals.

Mr. XU Chengyin is both our chairman and chief executive officer. Since November 2011, Mr. Xu has been a key leadership figure of our Group and has been overseeing our Group's overall operations. Our Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership and efficient discharge of the executive functions within our Group. Our Board considers that the balance of power and authority for the present arrangement will not be impaired as the Board comprises five other experienced and high-calibre individuals including two other executive Directors and three independent non-executive Directors who would be able to offer advice from various perspectives. In addition, for major decisions of our Group, the Board will make consultations with appropriate Board committees and senior management. Therefore our Directors consider that the present arrangement is beneficial to and in the interests of our Company and our Shareholders as a whole and the deviation from the Code A.2.1 of the Corporate Governance Code is appropriate in such circumstance.

Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code in each financial year and comply with the "*comply or explain*" principle in our corporate governance report which will be included in our annual reports after the Listing.

BOARD COMMITTEES

Audit Committee

We established an Audit Committee on 12 December 2015 in accordance with Rule 5.28 of the GEM Listing Rules. We have also adopted written terms of reference for our Audit Committee in compliance with paragraph C.3 of the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules. The primary duties of our audit committee are to make recommendations to our Board on the appointment and dismissal of the external auditor, review the financial statements and information and provide advice in respect of financial reporting and oversee the internal control procedures and risk management system of our Company. Our Audit Committee currently consists of three independent non-executive Directors, Mr. CHAN Chiu Hung Alex, Mr. DUAN Xuechen and Mr. ZHENG Shuilin. Mr. CHAN Chiu Hung Alex is the chairman of our Audit Committee.

Remuneration Committee

We established a Remuneration Committee on 12 December 2015 in accordance with Rule 5.34 of the GEM Listing Rules. We have also adopted written terms of reference for our Remuneration Committee in compliance with paragraph B.1.2 of the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules. The primary duties of our Remuneration Committee are to make recommendations to our Board on the overall remuneration policy and the structure relating to all Directors and senior management of our Group, review performance-based remuneration and ensure none of our Directors determine their own remuneration. Our Remuneration Committee currently consists of three independent non-executive Directors, Mr. DUAN Xuechen, Mr. CHAN Chiu Hung Alex and Mr. ZHENG Shuilin, and one executive Director, Mr. XU Chengyin. Mr. DUAN Xuechen is the chairman of our Remuneration Committee.

Nomination Committee

We established a Nomination Committee on 12 December 2015 with written terms of reference adopted in compliance with paragraph A.5.2 of the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules. The primary duties of our Nomination Committee are to: (i) review the structure, size and composition (including the skills, knowledge and experience) of our Board at least annually and make recommendation to our Board on any proposed changes to our Board to complement our Company's corporate strategy; (ii) identify individuals suitably qualified as potential board members and select or make recommendations to our Board on the selection of individuals nominated for directorships; (iii) to assess the independence of independent non-executive Directors; and (iv) make recommendations to our Board on the appointment or reappointment of Directors and succession planning of Directors, in particular that of our chairman and the chief executive officer. Our Nomination Committee currently consists of three independent non-executive Directors, Mr. ZHENG Shuilin, Mr. CHAN Chiu Hung Alex and Mr. DUAN Xuechen, and one executive Director, Mr. CHEN Gongbao. Mr. ZHENG Shuilin is the chairman of our Nomination Committee.

COMPLIANCE ADVISER

In compliance with Rule 6A.19 of the GEM Listing Rules, we have appointed Celestial Capital Limited as our compliance adviser. Pursuant to Rule 6A.23 of the GEM Listing Rules, the compliance adviser will advise us in the following circumstances:

(a) before the publication of any regulatory announcement, circular or financial report;

(b) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;

(c) where our Company proposes to use the proceeds of the **[REDACTED]** in a manner different from that detailed in this document or where our business activities, developments or results deviate from any forecast, estimate, or other information in this document; and

(d) if the Stock Exchange makes an inquiry of our Company under Rule 17.11 of the GEM Listing Rules.

The term of the appointment shall commence on the Listing Date and end on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year commencing after the Listing Date.

REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of salaries, discretionary bonuses, contributions to pension schemes and other allowances and benefits in kind subject to applicable laws, rules and regulations.

The aggregate amount of remuneration including salaries, allowances and benefits in kind which were paid to our Directors for the years ended 31 December 2013 and 2014, and the six months ended 30 June 2015 were approximately RMB59,000, RMB60,000 and RMB78,000, respectively.

The aggregate amount of remuneration including salaries, allowances and benefits in kind which were paid to our five highest paid individuals (excluding the Directors amongst the five highest paid individuals) for the years ended 31 December 2013 and 2014, and the six months ended 30 June 2015 were approximately RMB179,000, RMB182,000 and RMB102,000, respectively.

Our Company regularly reviews and determines the remuneration and compensation packages of our Directors and senior management. After Listing, the remuneration committee of our Company will review and determine the remuneration and compensation packages of our Directors and senior management with reference to the market condition, salaries paid by comparable companies, time commitment and responsibilities of our Directors and performance of our Group. Under such arrangement and pursuant to our Directors' service contracts referred to in "Statutory and general information – 4. Further information about Directors, management and staff – A. Particulars of Directors' service agreement" in Appendix V to this document, the aggregate amount of remuneration including salaries, allowances and benefits in kind payable to our Directors (excluding any discretionary bonuses) for the years ending 31 December 2015 and 2016 are estimated to be approximately RMB282,000 and RMB704,000, respectively.

None of our Directors or any past directors of any member of our Group has been paid any sum of money during the Track Record Period as (i) an inducement to join or upon joining our Group; or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any remuneration during the Track Record Period.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme pursuant to which selected participants may be granted options to subscribe for shares as incentives or rewards for their service rendered to our Group and any entity in which any member of our Group holds an equity interest. For details of the Share Option Scheme, please refer to "Statutory and general information – Other information – 5. Share Option Scheme" in Appendix V to this document.

EMPLOYEES

Please refer to "Business – Employees" of this document for details relating to our number of employees, training, recruitment and remuneration policies, our relationship with our employees and employees' benefits.

SHARE CAPITAL

AUTHORISED AND ISSUED SHARE CAPITAL

The authorised and issued share capital of our Company immediately after the **[REDACTED]** (without taking into account the exercise of the **[REDACTED]** and the options which may be granted under the Share Option Scheme) will be as follows:

Authorised share capital		*HK$*
10,000,000,000	Shares	100,000,000

Issued share capital		*HK$*
[REDACTED]	Shares in issue as at the date of this document	**[REDACTED]**
[REDACTED]	Shares to be issued pursuant to the **[REDACTED]**	**[REDACTED]**
[REDACTED]		**[REDACTED]**

Assuming the **[REDACTED]** is exercised in full, the issued share capital of our Company immediately after the **[REDACTED]** (without taking into account the options which may be granted under the Share Option Scheme) will be as follows:

		HK$
[REDACTED]	Shares in issue as at the date of this document	**[REDACTED]**
[REDACTED]	Shares to be issued pursuant to the **[REDACTED]**	**[REDACTED]**
[REDACTED]	Shares to be issued upon exercise of the **[REDACTED]** in full	**[REDACTED]**
[REDACTED]		**[REDACTED]**

Assumptions

The above tables assume that the **[REDACTED]** has become unconditional and the issue of **[REDACTED]** pursuant thereto is made as described herein. It does not take into account: (i) any Shares which may be allotted and issued (a) pursuant to the exercise of the **[REDACTED]**; or (b) pursuant to the exercise of the options which may be granted under Share Option Scheme; (ii) any Shares which may be allotted and issued pursuant to the issuing mandate (as described below); or (iii) any Shares which may be repurchased by our Company pursuant to the repurchase mandate (as described below).

MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at least 25% of the total issued share capital of our Company must at all times be held by the public. The **[REDACTED]** represent **[REDACTED]** of the issued share capital of our Company upon Listing.

RANKING

The **[REDACTED]** will rank *pari passu* in all respects with all of the Shares now in issue or to be issued as mentioned in this document, and in particular, will rank in full for all dividends or other distributions hereafter declared, made or paid on the Shares on or after the date on which they are issued.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme, the major terms of which are set out in "Statutory and general information – 5. Share Option Scheme" in Appendix V to this document. No option was granted under the Share Option Scheme.

ISSUING MANDATE

Subject to the **[REDACTED]** becoming unconditional, our Directors have been granted a general and unconditional mandate to allot, issue and deal with the Shares with an aggregate nominal value of not more than the sum of:

(i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the **[REDACTED]** (not including Shares which may be allotted and issued pursuant to the **[REDACTED]** and the exercise of options may be granted under the Share Option Scheme); and

(ii) the aggregate nominal value of the share capital of our Company repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares as described below.

Our Directors may, in addition to the Shares which they are authorised to issue under the mandate, allot, issue and deal in the Shares pursuant to a rights issue, exercise of subscription rights attaching to any warrants of our Company, scrip dividends or similar arrangements or the exercise of subscription rights attaching to share options under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted.

The issuing mandate will expire at the earliest of:

(i) the conclusion of the next annual general meeting of our Company;

(ii) the expiration of the period within which our Company is required by the Articles or any applicable law to hold our next annual general meeting; or

(iii) when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting.

Further details of this issuing mandate are contained in "Statutory and General Information – 1. Further information about our Company – C. Written resolutions of our Sole Shareholder passed on 12 December 2015" in Appendix V to this document.

REPURCHASE MANDATE

Subject to the **[REDACTED]** becoming unconditional, the Directors have been granted a general and unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal value of the share capital of our Company in issue following the completion of the **[REDACTED]** (not including Shares which may be allotted and issued pursuant to the **[REDACTED]** and the exercise of the options that may be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and such repurchases are made in accordance with the requirements of the GEM Listing Rules and all applicable laws, regulations and rules. A summary of the relevant GEM Listing Rules is set out in "Statutory and general information – 1. Further information about our Company – F. Repurchase by our Company of its own securities" in Appendix V to this document.

The repurchase mandate will expire at the earliest of:

(i) the conclusion of the next annual general meeting of our Company;

(ii) the expiration of the period within which our Company is required by the Articles or any applicable law to hold our next annual general meeting; or

(iii) when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting.

Further details of this repurchase mandate are contained in "Statutory and general information – 1. Further information about our Company – C. Written resolutions of our Sole Shareholder passed on 12 December 2015" and "F. Repurchase by our Company of its own securities" in Appendix V to this document.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

The circumstances under which general meeting and class meeting are required are provided in the Articles and Association. For details, please refer to "Summary of the constitution of our Company and Cayman Islands Company Law" in Appendix IV to this document.

*The following discussion and analysis should be read in conjunction with the audited combined financial information of our Group for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015 and the accompanying notes ("**Financial Information**"), included in the accountants' report as set out in Appendix I to this document. The Financial Information and the combined financial statements of our Group have been prepared in accordance with IFRS, which may differ in certain respects from generally accepted accounting principles in certain other countries. Potential investors should read the whole of the accountants' report as set out in Appendix I to this document and should not rely merely on the information contained in this section.*

The discussion and analysis set out in this section contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from those projected. Factors that might cause our future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this document, particularly in "Risk factors" of this document.

Discrepancies between totals and sums of amounts listed herein in any table or elsewhere in this document may be due to rounding.

OVERVIEW

We are principally engaged in the development of our Huanghu Bentonite Mine in Anhui province, the PRC and the production and sale of bentonite products in the PRC. Huanghu Bentonite Mine is an open-pit bentonite mine located in Fanchang county of Wuhu city, Anhui province, the PRC. Our current principal products include: (i) drilling mud; and (ii) pelletising clay. We also sell unprocessed clay to our customers. During the Track Record Period, we generated revenue from the sale of drilling mud, pelletising clay and unprocessed clay, accounting for approximately 61.1%, 38.9% and nil of our total revenue for the year ended 31 December 2013, approximately 62.8%, 34.0% and 3.2% of our total revenue for the year ended 31 December 2014, and approximately 67.0%, 29.9% and 3.1% of our total revenue for the six months ended 30 June 2015, respectively. The drilling mud produced by our Group is mainly for trenchless directional drilling activities in civil engineering. The pelletising clay produced by our Group can be used as a binder for the production of iron ore pellets, which is an essential raw material for the production of iron in the iron and steel industries. Unprocessed clay sold to our customers can be further processed by such customers depending on their own needs. During the Track Record Period, we derived all of our revenue from sales to customers in the PRC. Our customers can be generally categorised into: (i) traders who buy our products for resale; and (ii) manufacturers who buy our products for use in their own production processes.

Our commercial production of pelletising clay commenced in 2004 while our commercial production of drilling mud commenced in 2010. Unlike drilling mud and pelletising clay, unprocessed clay can be sold in its original form. During the Track Record Period, the average selling price per tonne of our drilling mud was approximately RMB383.6, RMB415.7 and RMB455.9, respectively, while the average selling price per tonne of our pelletising clay was approximately RMB305.5, RMB292.2 and RMB307.5, respectively. The average selling price of our unprocessed clay remained stable at approximately RMB54.7 per tonne during the Track Record Period.

For the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, our total revenue amounted to approximately RMB30.0 million, RMB30.4 million and RMB15.2 million, respectively, while our profit amounted to approximately RMB5.1 million, RMB7.0 million and RMB0.1 million, respectively.

BASIS OF PREPARATION

The Financial Information of our Group has been prepared in accordance with the IFRS issued by the International Accounting Standards Board ("**IASB**"), on the basis disclosed in note A2 to the accountants' report as set out in Appendix I to this document.

On 15 July 2015, our Company was incorporated in the Cayman Islands as an exempted company with limited liability. Pursuant to the Reorganisation, our Company became the holding company of the companies now comprising our Group on 17 September 2015. Our Group comprising our Company and its subsidiaries as a result of the Reorganisation continues to be controlled by Mr. Li, Laitan Investments and Feishang, our Controlling Shareholders, and is regarded as a continuing entity.

The Reorganisation involved interspersing a shell company, our Company, between Feishang International and our Controlling Shareholders, which does not represent combination of businesses. Therefore, our Group comprising our Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity, accordingly, our Financial Information was prepared and presented on the basis as if our Company had always been the holding company of the companies now comprising our Group throughout the Track Record Period.

The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows include the results and cash flows of the companies now comprising our Group were therefore prepared as if the current group structure upon completion of the Reorganisation had been in existence throughout the Track Record Period or since their respective dates of incorporation or establishment up to 30 June 2015, where this is a shorter period. The combined statements of financial position of our Group as at 31 December 2013, 31 December 2014 and 30 June 2015 were prepared to present the assets and liabilities of the companies now comprising our Group as if the current group structure upon completion of the Reorganisation had been in existence as at those dates.

Our Financial Information is presented in RMB, which is the functional currency of our Company and its principal subsidiary.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our financial condition, results of operations and the period-to-period comparability of our financial results are principally affected by the following factors:

Production and sales volume

Sales volume of our bentonite products has a substantial effect on our results of operations. Our sales volume largely depends upon our customer and market demand, our extraction and processing volume as well as changes in the PRC economy and market conditions.

The following table sets out a breakdown of our quantity produced and quantity sold by product category for the years/periods indicated:

	Year ended 31 December				Six months ended 30 June			
	2013		2014		2014		2015	
	Quantity produced	Quantity sold	Quantity produced	Quantity sold	Quantity produced	Quantity sold	Quantity produced	Quantity sold
	tonnes	*tonnes*	*tonnes*	*tonnes*	*tonnes*	*tonnes*	*tonnes*	*tonnes*
Drilling mud	53,753	47,761	39,959	46,000	19,950	24,697	23,634	22,400
Pelletising clay	39,030	38,191	33,995	35,389	13,800	14,252	15,112	14,828
Unprocessed clay	–	–	17,953	17,953	–	–	8,695	8,695
Total	**92,783**	**85,952**	**91,907**	**99,342**	**33,750**	**38,949**	**47,441**	**45,923**

Our production volume is mainly affected by the production plan of our processing plant, which is generally prepared based on various factors, including but not limited to: (i) the delivery dates and volumes of our products stipulated in purchase orders from our customers; (ii) historical sales demand; and (iii) our production capacity. In addition, we generally maintain a certain level of: (i) bentonite ore sufficient for approximately three month's production requirements; and (ii) materials and supplies sufficient for not less than three to seven days' production requirements, depending on the type of material and/or supply. For details on the inventory levels maintained for our unprocessed bentonite ore and materials and supplies, please refer to "Business – Utilities, procurement of materials amd supplies and suppliers – Procurement and inventory control" of this document.

During the Track Record Period, our total sales volume increased by approximately 15.6% from approximately 85,952 tonnes for the year ended 31 December 2013 to approximately 99,342 tonnes for the year ended 31 December 2014; and our total sales volume increased by approximately 17.9% from approximately 38,949 tonnes for the six months ended 30 June 2014 to approximately 45,923 tonnes for the six months ended 30 June 2015.

Product mix and pricing of our products

Our product mix and the pricing of our products have a direct impact on our results of operations and financial condition. We normally set the prices of our products on a cost-plus basis and we take into account a variety of factors, including but not limited to, our production costs and the product specifications required by our customers.

The following table sets out a breakdown of our revenue by product category for the years/periods indicated:

	Year ended 31 December				Six months ended 30 June			
	2013		2014		2014		2015	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Drilling mud	18,319	61.1	19,123	62.8	9,580	69.5	10,212	67.0
Pelletising clay	11,668	38.9	10,342	34.0	4,214	30.5	4,560	29.9
Unprocessed clay	–	–	982	3.2	–	–	475	3.1
Total	**29,987**	**100.0**	**30,447**	**100.0**	**13,794**	**100.0**	**15,247**	**100.0**

The following table sets out the average selling prices of our products for the years/periods indicated:

	Year ended 31 December		Six months ended 30 June	
	2013	2014	2014	2015
	RMB/tonne	*RMB/tonne*	*RMB/tonne*	*RMB/tonne*
Drilling mud	383.6	415.7	387.9	455.9
Pelletising clay	305.5	292.2	295.7	307.5
Unprocessed clay	N/A	54.7	N/A	54.7

During the Track Record Period, revenue derived from the sale of drilling mud accounted for the largest portion of our total revenue. For the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, revenue derived from the sale of drilling mud accounted for approximately 61.1%, 62.8% and 67.0% of our total revenue, respectively.

As shown in the table above, during the Track Record Period, the average selling price of our drilling mud exhibited an increasing trend, while the average selling prices of our pelletising clay and unprocessed clay were relatively stable during the Track Record Period.

The following table illustrates the sensitivity of changes in our average selling prices on our gross profit and profit before tax for the years/periods indicated:

	Increase/(Decrease) in our gross profit and profit before tax			
	Year ended		**Six months ended**	
Percentage changes	**31 December**		**30 June**	
in average selling price	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
+5%	1,499	1,522	690	762
+10%	2,999	3,045	1,379	1,525
-5%	(1,499)	(1,522)	(690)	(762)
-10%	(2,999)	(3,045)	(1,379)	(1,525)

Extraction and processing costs

Our Group adopts the open-pit mining method at our Huanghu Bentonite Mine. Such mining method is considered to result in lower operating costs and improve the efficiency of our operations as compared to underground mining methods.

The extraction and processing costs of bentonite ore mined from our Huanghu Bentonite Mine account for a relatively significant portion of our cost of sales. During the Track Record Period, the extraction and processing costs of our bentonite ore, in aggregate, accounted for approximately 93.2%, 91.6% and 91.2% of our total cost of sales for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, respectively. We engaged third party contractors for the provision of extraction services, air-drying services, transportation services and processing services during the Track Record Period. However, in respect of extraction, we started leasing the relevant extraction equipment to carry out the extraction ourselves from October 2014 onwards. In respect of air-drying, we ceased the engagement of one of the contractors that provided air-drying services during the year ended 31 December 2014 and have leased the relevant air-drying facilities from that particular contractor from October 2014 onwards.

The following table sets out a breakdown of our cost of sales by nature for the years/periods indicated:

	Year ended 31 December				Six months ended 30 June			
	2013		2014		2014		2015	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Extraction costs	604	3.2	872	4.9	367	4.4	253	3.2
Processing costs	16,865	90.0	15,328	86.7	7,432	88.6	6,957	88.0
Sales tax and surcharges	1,280	6.8	1,486	8.4	588	7.0	696	8.8
Total	**18,749**	**100.0**	**17,686**	**100.0**	**8,387**	**100.0**	**7,906**	**100.0**

Major components of our extraction and processing costs directly relate to our production volume. Variations in our production volume may significantly affect our production costs, which in turn, may affect our cost of sales. Additional capital expenditure may increase our depreciation and amortisation, which may in turn also increase our production costs and cost of sales.

There is no assurance that future increases in our extraction and processing costs will be offset by increases in our future selling prices. If the growth of our unit costs outpaces the growth of our unit selling price, there may be a material and adverse impact on our gross margins, results of operations and financial condition.

PRC government policies and regulations

The mining industry in the PRC is subject to various laws, regulations and control measures from central, provincial and local authorities. Please refer to "Regulations" of this document for a summary of the significant laws and regulations that our Group is subject to. The PRC government has full discretion and authority to grant, renew and terminate our Group's mining and production licences and permits which are crucial for our business operations. In addition, our principal PRC operating subsidiary, Feishang Material, obtained 高新技術企業證書 (High Technology Enterprise Certificate*) issued by 安徽省科學技術廳 (Science Technology Department of Anhui Province*), 安徽省財政廳 (Anhui Provincial Department of Finance*), 安徽省國家税務局 (Administration of Tax of Anhui Province*) and 安徽省地方税務局 (Local Taxation Bureau of Anhui Province*), which granted a EIT preferential rate of 15% for three years from 1 January 2015. There is no guarantee that PRC preferential taxation treatment policies will remain the same in future or that the current preferential taxation treatment of Feishang Material will be renewed. Further, the legal framework under which foreign-invested companies in the PRC operate may differ in various aspects from that under which domestic PRC companies operate. Any failure to obtain or renew the High Technology Enterprise Certificate or licences and permits requisite for our business operations, or any substantial changes to the legal framework under which our principal PRC operating subsidiary operates could materially and adversely affect our business and results of operations.

SIGNIFICANT ACCOUNTING POLICIES

We have identified certain accounting policies that are significant to the preparation of our Financial Information. These significant accounting policies are important for an understanding of our financial condition and results of operations and are disclosed in note A4 to the accountants' report as set out in Appendix I to this document. The following paragraphs discuss, among others, certain significant accounting policies applied in preparing our Group's Financial Information:

Revenue recognition

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

When our products are delivered to the locations designated by our customers and title has passed, revenue from the sale of our bentonite products will be recognised as it is satisfied that: (i) our Group has transferred to the buyer the significant risks and rewards of ownership of the goods; (ii) our Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (iii) the amount of revenue can be measured reliably; (iv) it is probable that the economic benefits associated with the transaction will flow to our Group; and (v) the costs incurred or to be incurred in respect of the transaction can be measured reliably by us.

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

Property, plant and equipment and depreciation

Our property, plant and equipment, other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

The estimated useful lives, residual values and depreciation method are reviewed by our Group at the end of each reporting period. The effect of changes in estimate will be accounted for on a prospective basis. Such estimates are based on our historical experience of actual useful lives and residual values of property, plant and equipment with similar nature and functions. They could change significantly as a result of technical innovations and actions of competitors. Depreciation of items of property, plant and equipment, other than construction in progress, dismantlement asset and capitalised stripping costs, is recognised so as to write off the cost of items of property, plant and equipment less their residual value, using the straight-line method over their estimated useful lives as set out below:

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

Stripping costs incurred during the production phase of a surface mine are allocated between the inventory produced and the stripping activity asset, which 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 ("**UOP**") basis over the estimated recoverable mineral reserves that directly benefit from the stripping activity.

The dismantlement asset and capitalised stripping costs are depreciated on a UOP basis over the total proved and probable reserves.

An item of property, plant and equipment is derecognised upon our 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.

Mining right

Our mining right is carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised on a UOP basis over the total proved and probable reserves. The estimated reserves and amortisation method are reviewed by our Group at the end of each reporting period. The effect of changes in estimate will be accounted for on a prospective basis.

Asset retirement obligations

Dismantlement liability is recognised when our Group has a present legal or constructive obligation associated with closure of our Group's bentonite mine, including dismantling mine-related structures and reclamation of land upon the exhaustion of the mineral reserves 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 our 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 by our Group prospectively by recording an adjustment to the provision, and a corresponding adjustment to the related property, plant and equipment. The unwinding of the discount on the dismantlement provision is included in our finance cost.

Impairment losses of non-financial assets

At the end of the reporting period, our Group reviews the carrying amounts of our non-financial assets, which primarily include our property, plant and equipment, prepaid lease payments and mining right, 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 by our Group in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, our Group estimates the recoverable amount of the cash-generating unit ("**CGU**") to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, 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 a CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or 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 a CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Our inventories are measured at the lower of cost and net realisable value ("**NRV**"). Cost is calculated using the weighted average method. NRV is the estimated selling price of our inventories less all estimated costs of completion and costs necessary to make the sale. At the end of each reporting period, our Group estimates the NRV of our inventories to identify any obsolete and slow-moving inventories.

Work-in-progress

Production costs are capitalised and included in work-in-progress based on the current extraction and processing costs incurred, including: (i) the cost of materials and supplies; (ii) direct labour; (iii) mine-site overhead expenses; (iv) stripping costs; and (v) allocated indirect costs, such as depreciation and amortisation.

Prepaid lease payments

Payment for obtaining our land use right is considered as operating lease payment. Our land use right is stated at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is charged to our profit or loss over the period of the right using the straight-line method.

Financial instruments

Financial assets and financial liabilities are recognised 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. Except for financial assets at FVTPL, 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. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognised immediately in profit or loss.

Financial assets

Our Group's financial assets are classified into financial assets at FVTPL and loans and receivables, depending on their nature and purpose at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling in the near term; or on initial recognition it is a part of a portfolio of identified financial instruments that our Group manages together and has a recent actual pattern of short-term profit-taking; or it is a derivative that is not designated and effective as a hedging instrument.

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 includes any dividend or interest earned on the financial assets and is included in the 'other income' line item. Fair value is determined in the manner described in note A7c to the accountants' report as set out in Appendix I to this document.

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, amounts due from a related company and a Controlling Shareholder, restricted bank balances and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period by our Group. Financial assets are considered to be impaired where there is objective evidence, including but not limited to: (i) significant financial difficulty of the issuer or counterparty; or (ii) breach of contract, such as default or delinquency in interest or principal payments; or (iii) it becoming probable that the borrower will file for bankruptcy or financial reorganisation; or (iv) the disappearance of an active market for that financial asset because of financial difficulties 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.

Our loans and receivables 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 our Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio over our average credit period, observable changes in national or local economic conditions that correlate with the default.

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 its original effective interest rate.

The carrying amount of our loans and receivables is reduced by the impairment loss directly with the exception of trade and other receivables and amounts due from a related company and a Controlling Shareholder, where their carrying amounts are reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When these financial assets are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss 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.

Derecognition

Our 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 our 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.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

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 our Group are recognised at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities including trade and other payables and amounts due to a related company and a Controlling Shareholder are subsequently measured at the amortised cost, using the effective interest method.

Derecognition

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

Income tax

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 before tax" as reported in the combined statements 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. Our 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 Financial Information 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 assets and liabilities are not recognised if the temporary difference arises 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 our 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 and interests 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.

KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of our Group's accounting policies as set out above and as disclosed in note A4 to the accountants' report as set out in Appendix I to this document, our Directors 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 on-going 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.

The key assumptions concerning the future and other key sources of estimation uncertainty as at the end of each 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, are disclosed in note A5 to the accountants' report set out in Appendix I to this document.

RESULTS OF OPERATIONS OF OUR GROUP

The following table sets out our combined statements of profit or loss and other comprehensive income for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2014 and 2015, as derived from the accountants' report of our Company as set out in Appendix I to this document.

	Year ended 31 December		Six months ended 30 June	
	2013	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	**29,987**	**30,447**	**13,794**	**15,247**
Cost of sales	(18,749)	(17,686)	(8,387)	(7,906)
Gross profit	**11,238**	**12,761**	**5,407**	**7,341**
Other income	698	1,100	427	482
Selling and distribution expenses	(1,847)	(1,057)	(487)	(644)
Administrative and other expenses	(2,940)	(2,911)	(1,930)	(5,653)
Finance cost	(296)	(317)	(156)	(168)
Profit before tax	**6,853**	**9,576**	**3,261**	**1,358**
Income tax expense	(1,792)	(2,551)	(996)	(1,269)
Profit and total comprehensive income for the year/period	**5,061**	**7,025**	**2,265**	**89**

PRINCIPAL COMPONENTS OF COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

During the Track Record Period, we generated our revenue mainly from the sale of two principal products to our customers in the PRC, namely: (i) drilling mud; and (ii) pelletising clay. We also sold unprocessed clay to our customers during the Track Record Period. Revenue from the sale of goods is generally recognised when the significant risks and rewards of ownership of the goods have passed to our customers, which usually occurs once the goods have been delivered. Transportation costs incurred for delivery of our products are generally borne by our customers, whereby the products are either delivered by us to the address designated by our customers, or collected by our customers themselves at our production base. The table below sets out a breakdown of our revenue by product type for the years/periods indicated:

	Year ended 31 December				Six months ended 30 June			
	2013		2014		2014		2015	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Drilling mud	18,319	61.1	19,123	62.8	9,580	69.5	10,212	67.0
Pelletising clay	11,668	38.9	10,342	34.0	4,214	30.5	4,560	29.9
Unprocessed clay	–	–	982	3.2	–	–	475	3.1
Total	**29,987**	**100.0**	**30,447**	**100.0**	**13,794**	**100.0**	**15,247**	**100.0**

Our revenue increased slightly by approximately 1.5% to approximately RMB30.4 million for the year ended 31 December 2014 as compared to the same period in 2013, and increased by approximately 10.5% to approximately RMB15.2 million for the six months ended 30 June 2015 as compared to the same period in 2014.

The table below sets out a breakdown of our revenue by customer type for the years/periods indicated:

	Year ended 31 December				Six months ended 30 June			
	2013		2014		2014		2015	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Traders *(Note 1)*	16,982	56.6	20,451	67.2	9,757	70.7	10,008	65.6
Manufacturers *(Note 2)*	13,005	43.4	9,996	32.8	4,037	29.3	5,239	34.4
Total	**29,987**	**100.0**	**30,447**	**100.0**	**13,794**	**100.0**	**15,247**	**100.0**

Notes:

1. Traders refer to customers who buy our products for resale.

2. Manufacturers are customers who buy our products for use in their own production processes.

Cost of sales

During the Track Record Period, our cost of sales primarily consisted of: (i) extraction costs; (ii) processing costs; and (iii) sales tax and surcharges. The table below sets out a breakdown of our cost of sales for the years/periods indicated:

	Year ended 31 December				Six months ended 30 June			
	2013		2014		2014		2015	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Extraction costs	604	3.2	872	4.9	367	4.4	253	3.2
Processing costs								
– Air-drying costs	1,092	5.8	1,529	8.6	749	8.9	586	7.4
– Consumables, materials and supplies	5,483	29.3	4,100	23.2	2,033	24.2	2,051	26.0
– Depreciation and amortisation	1,658	8.8	1,495	8.5	704	8.4	545	6.9
– Staff costs	3,537	18.9	3,295	18.6	1,583	18.9	1,457	18.4
– Transportation costs	1,551	8.3	1,799	10.2	866	10.3	814	10.3
– Utility costs	2,914	15.5	2,724	15.4	1,316	15.7	1,448	18.3
– Others	630	3.4	386	2.2	181	2.2	56	0.7
Sales tax and surcharges	1,280	6.8	1,486	8.4	588	7.0	696	8.8
Total	**18,749**	**100.0**	**17,686**	**100.0**	**8,387**	**100.0**	**7,906**	**100.0**

Our cost of sales decreased by approximately 5.7% to approximately RMB17.7 million for the year ended 31 December 2014 as compared to the same period in 2013, and decreased by approximately 5.7% to approximately RMB7.9 million for the six months ended 30 June 2015 as compared to the same period in 2014.

The largest component of our cost of sales during the Track Record Period was our processing costs, which accounted for approximately 90.0%, 86.7% and 88.0% of our total cost of sales for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, respectively.

Extraction costs mainly represented the service fees paid to a third party contractor for the provision of stripping and extraction services and the operating lease payments for the lease of relevant extraction equipment.

Processing costs mainly consisted of (i) air-drying costs which mainly represented the service fees paid to third party contractors for the provision of air-drying services and the operating lease payments for the lease of relevant air-drying facilities; (ii) costs of consumables, materials and supplies, such as coal for rotary drum-drying, sodium carbonate, other compound additives and packaging; (iii) depreciation of our mine-related equipment and machinery and amortisation of our mining right; (iv) salaries, allowance and other benefits paid to our direct labour; (v) transportation costs paid to third party contractors for the provision of transportation services to transport our extracted bentonite ore between our Huanghu Bentonite Mine, off-site air-drying facilities and the processing plant; and (vi) utility costs mainly paid for the supply of electricity.

Sales tax and surcharges mainly represented the resources tax and other surcharges in relation to our bentonite mining business in the PRC.

The table below sets out a breakdown of our cost of sales by product type for the years/periods indicated:

	Year ended 31 December				Six months ended 30 June			
	2013		2014		2014		2015	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
					(unaudited)			
Drilling mud	11,227	59.9	10,647	60.2	5,797	69.1	4,983	63.0
Pelletising clay	7,522	40.1	6,676	37.7	2,590	30.9	2,744	34.7
Unprocessed clay	–	–	363	2.1	–	–	179	2.3
Total	**18,749**	**100.0**	**17,686**	**100.0**	**8,387**	**100.0**	**7,906**	**100.0**

Cost of sales for drilling mud accounted for a major portion of our total cost of sales during the Track Record Period, and represented approximately 59.9%, 60.2% and 63.0% of our total cost of sales for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, respectively. Cost of sales for drilling mud decreased by approximately 5.2% to approximately RMB10.6 million for the year ended 31 December 2014 as compared to the same period in 2013, and decreased by approximately 14.0% to approximately RMB5.0 million for the six months ended 30 June 2015 as compared to the same period in 2014.

Gross profit and gross profit margin

Our gross profit is calculated by deducting our cost of sales from our revenue. The table below sets out our gross profit and gross profit margin by product type for the years/periods indicated:

	Year ended 31 December				Six months ended 30 June			
	2013		2014		2014		2015	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Drilling mud	7,092	38.7	8,476	44.3	3,783	39.5	5,229	51.2
Pelletising clay	4,146	35.5	3,666	35.4	1,624	38.5	1,816	39.8
Unprocessed clay	–	N/A	619	63.0	–	N/A	296	62.3
	11,238	**37.5**	**12,761**	**41.9**	**5,407**	**39.2**	**7,341**	**48.1**

During the Track Record Period, our overall gross profit was approximately RMB11.2 million, RMB12.8 million and RMB7.3 million for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, respectively, and our overall gross profit margin was approximately 37.5%, 41.9% and 48.1% for the relevant periods, respectively. Our gross profit margin is primarily affected by our unit extraction and processing costs and our average selling price which are determined with reference to, including but not limited to: (i) our production costs; and (ii) the product specifications required by our customers. Gross profit margin for the sale of unprocessed clay is generally higher because unlike drilling mud and pelletising clay, unprocessed clay is sold in its original form by our Group.

Other income

During the Track Record Period, our other income mainly comprised net gain on financial assets at FVTPL, recovery of bad debts, bank interest income, release of government grant for property, plant and equipment and government grants. The table below sets out a breakdown of our other income for the years/periods indicated:

	Year ended 31 December		Six months ended 30 June	
	2013	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(unaudited)	
Net gain on financial assets at FVTPL	404	761	344	279
Recovery of bad debts	–	–	–	89
Bank interest income	141	149	43	66
Release of government grant for property, plant and equipment	80	80	40	40
Government grants	73	110	–	–
Others	–	–	–	8
Total	**698**	**1,100**	**427**	**482**

Our other income increased by approximately 57.6% to approximately RMB1.1 million for the year ended 31 December 2014 as compared to the same period in 2013, and increased by approximately 12.9% to approximately RMB0.5 million for the six months ended 30 June 2015 as compared to the same period in 2014.

Net gain on financial assets at FVTPL referred to realised investment returns from our investment-linked structured deposits with the PRC banks of which such returns were determined by reference to the performance of the underlying investment portfolio managed by the relevant PRC banks.

Recovery of bad debts referred to the reversal of bad debt expenses previously recognised for which our Group eventually recovered such amounts in subsequent financial years.

Release of government grant for property, plant and equipment referred to the income released from a government grant of approximately RMB0.8 million received from 安徽省財政廳 (Anhui Provincial Department of Finance*) and Anhui Land and Resources Department designated for the purchase of plant and machinery during the year ended 31 December 2013. Such government grant is recognised as income in the profit or loss over the useful lives of its related plant and machinery.

During the Track Record Period, we received government grants from 繁昌縣人民政府 (Fanchang County People's Government*) and 繁昌縣科學技術局 (Fanchang County Science and Technology Bureau*) for our contributions to the economy, research and development and technological innovation of Fanchang county as our Group fulfilled all conditions and/or contingencies relating to those grants. Such grants were one-off in nature and may not occur as a constant part of our Group's income in future.

For details of our accounting policy for government grants, please refer to note A4 to the accountants' report as set out in Appendix I to this document.

Selling and distribution expenses

During the Track Record Period, our selling and distribution expenses was approximately RMB1.8 million, RMB1.1 million and RMB0.6 million, respectively, which mainly represented transportation costs for the delivery of our products to our customers.

Our selling and distribution expenses decreased by approximately 42.8% to approximately RMB1.1 million for the year ended 31 December 2014 as compared to the same period in 2013, and increased by approximately 32.2% to approximately RMB0.6 million for the six months ended 30 June 2015 as compared to the same period in 2014. During the Track Record Period, our selling and distribution expenses represented approximately 6.2%, 3.5% and 4.2% of our total revenue for the relevant periods, respectively.

Administrative and other expenses

During the Track Record Period, our administrative and other expenses mainly comprised listing expenses, research and development expenses, other taxes, office supplies expenses, legal and professional fees and staff costs. The table below sets out a breakdown of our administrative and other expenses for the years/periods indicated:

	Year ended 31 December		Six months ended 30 June	
	2013	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(unaudited)	
Listing expenses	–	–	–	3,695
Research and development expenses	801	899	888	664
Other taxes	719	890	449	450
Office supplies expenses	184	337	110	262
Legal and professional fees	483	163	92	220
Staff costs	170	119	64	205
Depreciation and amortisation	154	159	72	71
Entertainment expenses	146	143	93	53
Insurance expenses	127	116	78	31
Repair and maintenance expenses	156	85	84	2
Total	**2,940**	**2,911**	**1,930**	**5,653**

Our administrative and other expenses remained stable and amounted to approximately RMB2.9 million and RMB2.9 million for the years ended 31 December 2013 and 2014, respectively, and increased significantly by approximately 192.9% to approximately RMB5.7 million for the six months ended 30 June 2015 as compared to the same period in 2014 mainly due to the listing expenses. During the Track Record Period, our administrative and other expenses represented approximately 9.8%, 9.6% and 37.1% of our total revenue for the relevant periods, respectively.

Listing expenses represented professional service fees in relation to the Listing. For further details of listing expenses, please refer to "Listing expenses" in this section. Research and development expenses mainly represented the salaries and other benefits paid to our research and development staff and costs of materials and supplies used for our research and development. Other taxes mainly represented the land use tax and other PRC taxes in relation to our business operation in the PRC. Office supplies expenses mainly represented the expenses paid for communication, office supplies and vehicle expenses. Legal and professional fees mainly represented the auditors' remuneration, consultancy fees in relation to tax advices and other professional consultancy for our business operation and development. Staff costs mainly represented our Directors' emoluments and the salaries and other benefits paid to our administrative and management staff. Depreciation and amortisation mainly represented the depreciation of our office equipment and motor vehicles, etc. Entertainment expenses mainly represented the expenses paid for meals and materials used for our business meetings and management meetings. Insurance expenses mainly represented the expenses paid for the vehicle insurance and other insurance. Repair and maintenance expenses mainly represented the expenses paid for the repair and maintenance of our motor vehicles.

Finance cost

Our finance cost amounted to approximately RMB0.3 million, RMB0.3 million and RMB0.2 million for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, respectively, which represented unwinding of discount on provision for dismantlement associated with the increase in the carrying amount of asset retirement obligations due to passage of time.

Income tax expense

Our income tax consisted of current tax and deferred tax. The table below sets out a breakdown of our income tax expense for the years/periods indicated:

	Year ended 31 December		Six months ended 30 June	
	2013	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(unaudited)	
Current tax:				
EIT	2,063	2,415	987	703
Deferred tax:				
Current year/period	(271)	136	9	49
Attributable to change in tax rate	–	–	–	517
Total	**1,792**	**2,551**	**996**	**1,269**

During the Track Record Period, our income tax expense primarily comprised: (i) EIT payable for the relevant periods by our PRC subsidiary; and (ii) movement of deferred tax assets.

Our Group is subject to income tax at the applicable tax rates in accordance with the relevant laws and regulations in each tax jurisdiction we operate or domicile.

(1) *Overseas income taxes*

Pursuant to the rules and regulations of the Cayman Islands and BVI, we are not subject to any income tax in the Cayman Islands and BVI.

(2) *Hong Kong profits tax*

No Hong Kong profits tax has been provided for as our Group did not have any assessable profit in Hong Kong subject to Hong Kong profits tax during the Track Record Period.

(3) *EIT*

Under the EIT Law, the applicable tax rate for our PRC subsidiaries is 25%. On 2 July 2014, our principal PRC operating subsidiary, Feishang Material was recognised as a high technology enterprise and is thus subject to EIT rate at 15% in accordance with EIT Law for three years with effect from 1 January 2015.

Our deferred tax was mainly recognised for the temporary differences arising from accrued liabilities, deferred income, asset retirement obligations and depreciation of our property, plant and equipment. The movements of our deferred tax assets were then recognised in the profit or loss during the Track Record Period.

As at 31 December 2013, 31 December 2014 and 30 June 2015, the aggregate amount of temporary differences associated with Feishang Material's undistributed retained earnings for which deferred tax liabilities have not been recognised were approximately RMB1.1 million, RMB1.8 million and RMB2.2 million, respectively. No deferred tax liabilities have been recognised in respect of these differences because our Group is in a position to control the timing of the reversal of temporary differences and it is probable that such differences will not be reversed in the foreseeable future.

Our effective tax rates for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015 were approximately 26.1%, 26.6% and 93.4%, respectively.

Our income tax expense increased by approximately 42.4% to approximately RMB2.6 million for the year ended 31 December 2014 as compared to the same period in 2013, and increased by approximately 27.4% to approximately RMB1.3 million for the six months ended 30 June 2015 as compared to the same period in 2014.

Our Directors confirm that as at the Latest Practicable Date: (i) our Group has made all required tax filings under the relevant tax laws and regulations in the PRC and has paid all outstanding tax liabilities due; and (ii) our Group is not subject to any dispute or potential dispute with the tax authorities in the PRC.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six months ended 30 June 2015 compared to six months ended 30 June 2014

Revenue

Our revenue increased by approximately 10.5% from approximately RMB13.8 million for the six months ended 30 June 2014 to approximately RMB15.2 million for the six months ended 30 June 2015. Such increase in revenue was mainly due to an increase in the average selling prices of our products and the sale of unprocessed clay during the six months ended 30 June 2015.

The following table sets out the sales volume and average selling prices of our products for the six months ended 30 June 2014 and 2015:

	Six months ended 30 June 2014		**Six months ended 30 June 2015**			
	Sales volume	**Average selling price**	**Sales volume**	**Average selling price**	**Changes in sales volume**	**Changes in average selling price**
	tonnes	*RMB/tonne*	*tonnes*	*RMB/tonne*	*%*	*%*
Drilling mud	24,697	387.9	22,400	455.9	(9.3)	17.5
Pelletising clay	14,252	295.7	14,828	307.5	4.0	4.0
Unprocessed clay	–	N/A	8,695	54.7	N/A	N/A

Revenue derived from the sale of drilling mud increased by approximately 6.6% from approximately RMB9.6 million for the six months ended 30 June 2014 to approximately RMB10.2 million for the six months ended 30 June 2015. Such increase in revenue derived from the sale of drilling mud was mainly due to an increase in the average selling price of our drilling mud by approximately 17.5% primarily because of an increase in sales amount of drilling mud with higher technical specifications from two of our major customers for the six months ended 30 June 2015, whereby we were able to charge these two customers a higher price, the effect of which was partially offset by a decrease in the sales volume of our drilling mud by approximately 9.3%.

Revenue derived from the sale of pelletising clay increased by approximately 8.2% from approximately RMB4.2 million for the six months ended 30 June 2014 to approximately RMB4.6 million for the six months ended 30 June 2015. The increase in revenue derived from the sale of pelletising clay was mainly due to increases in the sales volume and average selling price of our pelletising clay by approximately 4.0% and 4.0%, respectively, which were mainly attributable to an increase in the sale of our pelletising clay to two major customers, and for one of these two major customers, we included the transportation costs relating to product delivery incurred in our selling price.

Our Group also sold unprocessed clay during the six months ended 30 June 2015 because a certain amount of unprocessed clay obtained during our stripping activities fulfilled the needs of certain customers. We did not generate any revenue derived from the sale of unprocessed clay for the six months ended 30 June 2014. Revenue derived from the sale of unprocessed clay amounted to approximately RMB0.5 million for the six months ended 30 June 2015.

Cost of sales

Our cost of sales decreased by approximately 5.7% from approximately RMB8.4 million for the six months ended 30 June 2014 to approximately RMB7.9 million for the six months ended 30 June 2015. The decrease in cost of sales was mainly due to (i) a decrease in our extraction costs primarily because of a decrease in stripping costs and the leasing of extraction equipment since October 2014; and (ii) a decrease in our processing costs primarily because of a reduction of the aggregate sales volume of our drilling mud and pelletising clay by approximately 4.4% from approximately 38,949 tonnes for the six months ended 30 June 2014 to approximately 37,228 tonnes for the six months ended 30 June 2015.

The decrease in our processing costs was mainly contributed by: (i) a decrease in our depreciation and amortisation primarily because we have more fully depreciated machinery and equipment in 2014; (ii) a decrease in our staff costs allocated to cost of sales primarily because of a reduction of the aggregate sales volume of our drilling mud and pelletising clay; (iii) a decrease in our repair and maintenance for our production machinery; and (iv) a decrease in our air-drying costs as a result of the weather conditions, which nevertheless increased our utility costs due to more frequent use of rotary drum-drying.

Cost of sales for drilling mud decreased by approximately 14.0% from approximately RMB5.8 million for the six months ended 30 June 2014 to approximately RMB5.0 million for the six months ended 30 June 2015. The decrease in cost of sales for drilling mud was mainly due to a decrease in the sales volume of our drilling mud by approximately 9.3%.

Cost of sales for pelletising clay increased by approximately 5.9% from approximately RMB2.6 million for the six months ended 30 June 2014 to approximately RMB2.7 million for the six months ended 30 June 2015. The increase in cost of sales for pelletising clay was mainly due to an increase in the sales volume of our pelletising clay by approximately 4.0%.

Gross profit and gross profit margin

Our overall gross profit increased by approximately 35.8% from approximately RMB5.4 million for the six months ended 30 June 2014 to approximately RMB7.3 million for the six months ended 30 June 2015, while our overall gross profit margin increased from approximately 39.2% for the six months ended 30 June 2014 to approximately 48.1% for the six months ended 30 June 2015. The increase in our overall gross profit was mainly due to a decrease in our cost of sales together with an increase in our revenue for the foregoing reasons.

The increase in overall gross profit margin was mainly driven by (i) an increase in the proportion of sales amount of our products with relatively higher gross profit margin, namely drilling mud and unprocessed clay, which in aggregate, accounted for approximately 69.5% of our total revenue for the six months ended 30 June 2014 and increased to approximately 70.1% of our total revenue for the six months ended 30 June 2015; 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 38.2% from approximately RMB3.8 million for the six months ended 30 June 2014 to approximately RMB5.2 million for the six months ended 30 June 2015. Gross profit margin for the sale of drilling mud increased from approximately 39.5% for the six months ended 30 June 2014 to approximately 51.2% for the six months ended 30 June 2015. The increases in our 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 our drilling mud by approximately 17.5% primarily because of an increase in sales amount of drilling mud with higher technical specifications from two of our major customers; and (ii) a decrease in the unit cost of our drilling mud by approximately 5.2% from approximately RMB234.7 per tonne for the six months ended 30 June 2014 to approximately RMB222.5 per tonne for the six months ended 30 June 2015 primarily because of a decrease in stripping costs and the leasing of extraction equipment since October 2014, which reduced our unit cost, the effects of which were partially offset by a decrease in the sales volume of our drilling mud by approximately 9.3%.

Gross profit for the sale of pelletising clay increased by approximately 11.8% from approximately RMB1.6 million for the six months ended 30 June 2014 to approximately RMB1.8 million for the six months ended 30 June 2015. Gross profit margin for the sale of pelletising clay increased from approximately 38.5% for the six months ended 30 June 2014 to approximately 39.8% for the six months ended 30 June 2015. The increases in our gross profit and gross profit margin for the sale of pelletising clay were mainly attributable to: (i) an increase in the average selling price of our pelletising clay by approximately 4.0%; and (ii) an increase in the sales volume of our pelletising clay by approximately 4.0%, primarily because of an increase in the sale of pelletising clay to two major customers and for one of these two customers, we included the transportation costs relating to product delivery in our selling price.

Other income

Our other income increased by approximately 12.9% from approximately RMB0.4 million for the six months ended 30 June 2014 to approximately RMB0.5 million for the six months ended 30 June 2015. The increase was mainly due to recovery of bad debts of approximately RMB0.1 million during the six months ended 30 June 2015.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately 32.2% from approximately RMB0.5 million for the six months ended 30 June 2014 to approximately RMB0.6 million for the six months ended 30 June 2015. The increase was mainly due to an increase in transportation costs incurred mainly because of an increase in the sales of our pelletising clay to certain customers, which we were responsible for the delivery of our products and transportation costs were included in our selling price.

Administrative and other expenses

Our administrative and other expenses increased significantly by approximately 192.9% from approximately RMB1.9 million for the six months ended 30 June 2014 to approximately RMB5.7 million for the six months ended 30 June 2015. The increase in administrative and other expenses was mainly due to: (i) listing expenses of approximately RMB3.7 million recognised during the six months ended 30 June 2015; and (ii) an increase in staff costs mainly because of an increase in the headcount of administrative and management staff.

Income tax expense

Our income tax expense increased by approximately 27.4% from approximately RMB1.0 million for the six months ended 30 June 2014 to approximately RMB1.3 million for the six months ended 30 June 2015. The increase in income tax expense was mainly due to deferred tax expense of approximately RMB0.5 million recognised during the six months ended 30 June 2015 resulting from a decrease in deferred tax assets, which was attributable to a reduction of EIT rate of Feishang Material from 25% to 15%, the effect of which was partially offset by a decrease in current tax expense by approximately RMB0.3 million because of a reduction of EIT rate of Feishang Material.

Our effective tax rate increased from approximately 30.5% for the six months ended 30 June 2014 to approximately 93.4% for the six months ended 30 June 2015. The increase was mainly due to the non-tax deductible listing expenses recognised during the six months ended 30 June 2015.

Profit and total comprehensive income for the period

Due to the foregoing reasons, our profit and total comprehensive income decreased by approximately 96.1% from approximately RMB2.3 million for the six months ended 30 June 2014 to approximately RMB0.1 million for the six months ended 30 June 2015.

Year ended 31 December 2014 compared to year ended 31 December 2013

Revenue

Our revenue slightly increased by approximately 1.5% from approximately RMB30.0 million for the year ended 31 December 2013 to approximately RMB30.4 million for the year ended 31 December 2014. The increase in revenue was mainly due to an increase in the average selling price of drilling mud and the sale of unprocessed clay during the year ended 31 December 2014.

The following table sets out the sales volume and average selling prices of our products for the years ended 31 December 2013 and 2014:

	Year ended 31 December 2013		Year ended 31 December 2014			
	Sales volume	Average selling price	Sales volume	Average selling price	Changes in sales volume	Changes in average selling price
	tonnes	*RMB/tonne*	*tonnes*	*RMB/tonne*	*%*	*%*
Drilling mud	47,761	383.6	46,000	415.7	(3.7)	8.4
Pelletising clay	38,191	305.5	35,389	292.2	(7.3)	(4.4)
Unprocessed clay	–	N/A	17,953	54.7	N/A	N/A

Revenue derived from the sale of drilling mud increased by approximately 4.4% from approximately RMB18.3 million for the year ended 31 December 2013 to approximately RMB19.1 million for the year ended 31 December 2014. The increase in revenue derived from the sale of drilling mud was mainly due to an increase in the average selling price of our drilling mud by approximately 8.4% primarily because of an increase in sales amount of drilling mud with higher technical specifications from two of our major customers for the year ended 31 December 2014, whereby we were able to charge a higher price and margin, the effect of which was partially offset by a decrease in the sales volume of our drilling mud by approximately 3.7%.

Revenue derived from the sale of pelletising clay decreased by approximately 11.4% from approximately RMB11.7 million for the year ended 31 December 2013 to approximately RMB10.3 million for the year ended 31 December 2014. The decrease in revenue derived from the sale of pelletising clay was mainly due to decreases in the sales volume and average selling price of our pelletising clay by approximately 7.3% and 4.4%, respectively, which were mainly attributable to a decrease in the sales of our pelletising clay to a major customer to whom we would include our transportation costs relating to product delivery incurred in our selling price.

We did not generate any revenue derived from the sale of unprocessed clay for the year ended 31 December 2013. For the year ended 31 December 2014, revenue derived from the sale of unprocessed clay amounted to approximately RMB1.0 million.

Cost of sales

Our cost of sales decreased by approximately 5.7% from approximately RMB18.7 million for the year ended 31 December 2013 to approximately RMB17.7 million for the year ended 31 December 2014. The decrease in cost of sales was mainly due to a decrease in our processing costs primarily because of a reduction of the aggregate sales volume of our drilling mud and pelletising clay by approximately 5.3% from approximately 85,952 tonnes for the year ended 31 December 2013 to approximately 81,389 tonnes for the year ended 31 December 2014.

The decrease in our processing costs was mainly attributable to: (i) a decrease in our costs of consumables, materials and supplies primarily because of a reduction of the purchase price of coal; (ii) a decrease in our depreciation and amortisation primarily because of more fully depreciated machinery and equipment in 2014; (iii) a decrease in our staff costs allocated to cost of sales primarily because of a reduction of the aggregate sales volume of our drilling mud and pelletising clay; (iv) a decrease in our repair and maintenance for our productive machinery; and (v) a decrease in our utility costs due to the increased use of air-drying as a result of the weather conditions.

Cost of sales for drilling mud decreased by approximately 5.2% from approximately RMB11.2 million for the year ended 31 December 2013 to approximately RMB10.6 million for the year ended 31 December 2014. The decrease in cost of sales for drilling mud was mainly due to a decrease in the sales volume of our drilling mud by approximately 3.7%.

Cost of sales for pelletising clay decreased by approximately 11.2% from approximately RMB7.5 million for the year ended 31 December 2013 to approximately RMB6.7 million for the year ended 31 December 2014. The decrease in cost of sales for pelletising clay was mainly due to a decrease in the sales volume of our pelletising clay by approximately 7.3%.

Gross profit and gross profit margin

Our overall gross profit increased by approximately 13.6% from approximately RMB11.2 million for the year ended 31 December 2013 to approximately RMB12.8 million for the year ended 31 December 2014, while our overall gross profit margin increased from approximately 37.5% for the year ended 31 December 2013 to approximately 41.9% for the year ended 31 December 2014. Such increases in our overall gross profit were mainly due to a decrease in our cost of sales together with an increase in our revenue for the foregoing reasons.

The increase in overall gross profit margin was mainly driven by (i) an increase in the proportion of sales amount of our products with relatively higher gross profit margin, namely drilling mud and unprocessed clay, which in aggregate, accounted for approximately 61.1% of our total revenue for the year ended 31 December 2013 and increased to approximately 66.0% of our total revenue for the year ended 31 December 2014; 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 19.5% from approximately RMB7.1 million for the year ended 31 December 2013 to approximately RMB8.5 million for the year ended 31 December 2014. Gross profit margin for the sale of drilling mud increased from approximately 38.7% for the year ended 31 December 2013 to approximately 44.3% for the year ended 31 December 2014. The increases in our 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 our drilling mud by approximately 8.4% primarily because of an increase in sales amount of drilling mud with higher technical specifications from two of our major customers; (ii) a decrease in the unit cost of our drilling mud by approximately 1.5% from approximately RMB235.1 per tonne for the year ended 31 December 2013 to approximately RMB231.5 per tonne for the year ended 31 December 2014 primarily because of a decrease in our costs of consumables, materials and supplies mainly due to a reduction of the purchase price of coal; but (iii) partially offset by a decrease in the sales volume of our drilling mud by approximately 3.7%.

Gross profit for the sale of pelletising clay decreased by approximately 11.6% from approximately RMB4.1 million for the year ended 31 December 2013 to approximately RMB3.7 million for the year ended 31 December 2014. The decrease in our gross profit for the sale of pelletising clay was mainly attributable to (i) a decrease in the average selling price of our pelletising clay by approximately 4.4%; and (ii) a decrease in the sales volume of our pelletising clay by approximately 7.3%, primarily because of a decrease in the sale of our pelletising clay to a major customer to whom we include our transportation costs relating to product delivery incurred in our selling price. Such effects were partially offset by a decrease in the unit cost of our pelletising clay by approximately 4.3% from approximately RMB197.0 per tonne for the year ended 31 December 2013 to approximately RMB188.6 per tonne for the year ended 31 December 2014 primarily because of a decrease in our costs of consumables, materials and supplies mainly due to a reduction of the purchase price of coal. As a result of the offsetting effect of a decrease in the average selling price of our pelletising clay and a decrease in the unit cost of our pelletising clay, gross profit margin for the sale of pelletising clay remained stable at approximately 35.5% and 35.4% for the years ended 31 December 2013 and 2014, respectively.

Other income

Our other income increased by approximately 57.6% from approximately RMB0.7 million for the year ended 31 December 2013 to approximately RMB1.1 million for the year ended 31 December 2014. The increase in other income was mainly due to an increase in the net gain on financial assets at FVTPL by approximately RMB0.4 million because we entered into more contracts in respect of investment-linked structured deposits during the year ended 31 December 2014.

Selling and distribution expenses

Our selling and distribution expenses decreased by approximately 42.8% from approximately RMB1.8 million for the year ended 31 December 2013 to approximately RMB1.1 million for the year ended 31 December 2014. The decrease in selling and distribution expenses was mainly due to a decrease in transportation costs by approximately RMB0.8 million primarily because of decreased sales of our pelletising clay to a customer, which we were responsible for the delivery of our products and could include our transportation costs in our selling price.

Administrative and other expenses

Our administrative and other expenses remained stable and amounted to approximately RMB2.9 million and RMB2.9 million for the years ended 31 December 2013 and 2014, respectively.

Income tax expense

Our income tax expense increased by approximately 42.4% from approximately RMB1.8 million for the year ended 31 December 2013 to approximately RMB2.6 million for the year ended 31 December 2014. The increase in income tax expense was mainly due to an increase in profit before tax.

The effective tax rate remained stable at approximately 26.1% and 26.6% for the years ended 31 December 2013 and 2014, respectively.

Profit and total comprehensive income for the year

Due to the foregoing reasons, our profit and total comprehensive income increased by approximately 38.8% from approximately RMB5.1 million for the year ended 31 December 2013 to approximately RMB7.0 million for the year ended 31 December 2014.

DESCRIPTION OF SELECTED ITEMS OF THE COMBINED STATEMENTS OF FINANCIAL POSITION

The following table sets out our combined statements of financial position as at 31 December 2013, 31 December 2014 and 30 June 2015, as derived from the accountants' report of our Company as set out in Appendix I to this document.

	As at 31 December		As at 30 June
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets			
Property, plant and equipment	13,015	12,282	12,833
Prepaid lease payments	–	–	2,779
Intangible asset	3,224	3,181	3,158
Restricted bank balances	1,351	2,136	2,160
Deferred tax assets	1,432	1,296	730
	19,022	18,895	21,660
Current assets			
Inventories	3,869	2,026	2,152
Trade, bills and other receivables	5,916	8,457	10,405
Amount due from a related company	–	1,020	–
Amount due from a Controlling Shareholder	31	25	–
Financial assets at fair value through profit or loss	10,000	–	–
Prepaid lease payments	–	–	77
Bank balances and cash	12,634	23,631	24,334
	32,450	35,159	36,968

	As at 31 December		As at 30 June
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Current liabilities			
Trade and other payables	6,527	3,317	3,332
Income tax payables	1,087	1,247	346
Amount due to a Controlling Shareholder	–	–	4,521
Amount due to a related company	1,945	–	68
	9,559	4,564	8,267
Net current assets	**22,891**	**30,595**	**28,701**
Total assets less current liabilities	**41,913**	**49,490**	**50,361**
Capital and reserves			
Share capital	–	–	–
Reserves	36,784	43,809	43,898
	36,784	43,809	43,898
Non-current liabilities			
Asset retirement obligations	4,489	5,121	5,943
Deferred income	640	560	520
	5,129	5,681	6,463
	41,913	**49,490**	**50,361**

Property, plant and equipment

The following table sets out the carrying values of our property, plant and equipment as at the respective balance sheet dates indicated:

	Buildings	Machinery and equipment	Dismantlement asset	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2013	6,931	3,920	2,052	112	–	**13,015**
As at 31 December 2014	6,474	3,385	2,340	83	–	**12,282**
As at 30 June 2015	6,238	3,284	2,977	69	265	**12,833**

Our property, plant and equipment represented buildings, machinery and equipment, dismantlement asset, motor vehicles and construction in progress. The decrease in property, plant and equipment by approximately 5.6% from approximately RMB13.0 million as at 31 December 2013 to approximately RMB12.3 million as at 31 December 2014 was mainly attributable to: (i) the depreciation charges of approximately RMB1.4 million; and (ii) disposals of our property, plant and equipment, mainly obsolete machinery and equipment, of approximately RMB0.3 million, the aggregate effect of which was partially offset by: (i) the adjustment of the asset retirement obligations of approximately RMB0.3 million; and (ii) capital expenditures on property, plant and equipment, mainly machinery and equipment used in our business operation of approximately RMB0.7 million.

The increase in property, plant and equipment by approximately 4.5% from approximately RMB12.3 million as at 31 December 2014 to approximately RMB12.8 million as at 30 June 2015 was mainly attributable to: (i) the adjustment of the asset retirement obligations of approximately RMB0.7 million; and (ii) capital expenditures on property, plant and equipment, mainly machinery and equipment and construction in progress for certain infrastructures used in our business operation, of approximately RMB0.6 million, the aggregate effect of which was partially offset by the depreciation charges of approximately RMB0.6 million.

Prepaid lease payments

The prepaid lease payments represented the prepayments for land use right in the PRC and is amortised over its useful lives of 37 years on a straight-line basis.

The following table sets out our prepaid lease payments as at the respective balance sheet dates indicated:

	As at 31 December		As at 30 June
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Current assets	–	–	77
Non-current assets	–	–	2,779
Total	**–**	**–**	**2,856**

On 20 June 2015, we obtained ownership certificates of our land use right at a consideration of approximately RMB2.9 million.

Intangible asset

The following table sets out the carrying values of our intangible asset as at the respective balance sheet dates indicated:

	Mining right
	RMB'000
As at 31 December 2013	3,224
As at 31 December 2014	3,181
As at 30 June 2015	3,158

Our intangible asset represented the mining right acquired by our Group for mining in our Huanghu Bentonite Mine. Our mining right is amortised on a UOP basis over our total proved and probable reserves. The decrease in the carrying value of our mining right was attributable to the amortisation charged during the Track Record Period.

Restricted bank balances

Our restricted bank balances amounted to approximately RMB1.4 million, RMB2.1 million and RMB2.2 million as at 31 December 2013, 31 December 2014 and 30 June 2015, respectively.

Our restricted bank balances represented the restricted cash placed in the PRC banks, which carried at interest rates ranging from 3.25% to 3.30% per annum, for the settlement of asset retirement obligations for future environmental rehabilitation.

Inventories

Our inventories comprised materials and supplies, work-in-progress and finished goods. The table below sets out a breakdown of our inventories as at the respective balance sheet dates and the average inventory turnover days for the years/periods indicated:

	As at 31 December		As at 30 June
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Materials and supplies	1,421	1,298	1,181
Work-in-progress	926	587	485
Finished goods	1,522	141	486
Total	**3,869**	**2,026**	**2,152**

	Year ended 31 December		Six months ended 30 June
	2013	**2014**	**2015**
	Days	*Days*	*Days*
Average inventory turnover days[(1)]	51.4	60.8	48.2

Note:

(1) Average inventory turnover days is equal to the average of the opening and closing balances of inventories of the relevant year/period divided by cost of sales of the relevant year/period and multiplied by 365 days for the years ended 31 December 2013 and 2014, or 182 days for the six months ended 30 June 2015.

Materials and supplies mainly comprised ancillary raw materials, such as coal for rotary drum-drying, sodium carbonate used for processing bentonite ore into the final products, packaging bags, consumables and spare parts used in the production.

Work-in-progress mainly comprised our bentonite ore stored in the warehouse.

Finished goods mainly comprised the final form of our drilling mud and pelletising clay to be delivered to our customers after the relevant processing stages have been completed.

Our inventories decreased by approximately 47.6% from approximately RMB3.9 million as at 31 December 2013 to approximately RMB2.0 million as at 31 December 2014. Such decrease was mainly attributable to a significant decrease in our finished goods by approximately RMB1.4 million as we had higher level of finished goods at the end of 2013 that were delivered to customers after year end.

Our inventories remained stable and amounted to approximately RMB2.0 million as at 31 December 2014 and approximately RMB2.2 million as at 30 June 2015.

Our average inventory turnover days was approximately 51.4 days, 60.8 days and 48.2 days for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, respectively. Such range of average inventory turnover days is generally in line with our inventory policy under which we generally maintain a certain level of bentonite ore and materials and supplies for not less than three days to approximately three months, depending on the type of inventory, for our production purposes.

As at the Latest Practicable Date, all of our materials and supplies, work-in-progress and finished goods as at 30 June 2015 had been subsequently utilised or sold.

Trade, bills and other receivables

Our customers generally settle payments for our products by bank remittance or bank acceptance bills and credit periods ranging from five days upon receipt of our invoice to three months from receipt of our goods or invoice were typically allowed for customers with good repayment history during the Track Record Period. The table below sets out a breakdown of our trade, bills and other receivables as at the respective balance sheet dates and the average trade and bills receivables turnover days for the years/periods indicated:

	As at 31 December		As at 30 June
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	1,240	3,325	3,836
Less: allowance for impairment of trade receivables	–	–	(50)
	1,240	**3,325**	**3,786**
Bills receivables	4,601	4,790	4,440
Trade deposits paid	35	35	47
Prepayments	–	57	1,799
Other receivables	40	250	333
Total	**5,916**	**8,457**	**10,405**

	Year ended 31 December		Six months ended 30 June
	2013	**2014**	**2015**
	Days	*Days*	*Days*
Average trade and bills receivables turnover days[(1)]	67.7	83.7	97.8

Note:

(1) Average trade and bills receivables turnover days is equal to the average of the opening and closing balances of trade and bills receivables of the relevant year/period divided by revenue of the relevant year/period and multiplied by 365 days for the years ended 31 December 2013 and 2014 and 182 days for the six months ended 30 June 2015.

Our trade receivables comprised outstanding amounts receivable by us from our customers from the sale of our products, net of any allowances for impairment.

Our bills receivables mainly represented bank acceptance bills received from our customers for the settlement of our trade receivables.

Our trade deposits paid mainly comprised the amounts prepaid to our suppliers for the purchase of materials and supplies for our production.

Our prepayments mainly comprised the amounts prepaid for the supply of electricity and deferred professional service fees in relation to the Listing which are expected to be charged directly to equity upon the completion of the Listing.

Our other receivables mainly comprised our electricity deposits.

Our trade, bills and other receivables increased by approximately 43.0% from approximately RMB5.9 million as at 31 December 2013 to approximately RMB8.5 million as at 31 December 2014. Such increase was mainly attributable to: (i) an increase in our trade and bills receivables primarily due to an increase in our revenue towards the end of 2014; and (ii) an increase in our trade receivables that were past due but not impaired by approximately RMB1.6 million, which was mainly attributable to the delay in settlement by one of our customers which was a state-owned enterprise and was under restructuring during the relevant period.

Our trade, bills and other receivables then increased by approximately 23.0% from approximately RMB8.5 million as at 31 December 2014 to approximately RMB10.4 million as at 30 June 2015. Such increase was mainly attributable to an increase in deferred professional service fees incurred in relation to the Listing which are expected to be charged directly to equity upon the completion of the Listing.

Our average trade and bills receivables turnover days increased from approximately 67.7 days for the year ended 31 December 2013 to approximately 83.7 days for the year ended 31 December 2014, and further increased to approximately 97.8 days for the six months ended 30 June 2015, which was primarily due to (i) the outstanding trade receivables of approximately RMB1.1 million and RMB1.0 million from the abovementioned state-owned enterprise which was under restructuring as at 31 December 2014 and 30 June 2015, respectively; and (ii) the increase in the proportion of revenue contributed by customers with revolving credit arrangement during the Track Record Period.

During the Track Record Period, our Group granted credit periods ranging from five days upon receipt of our invoice to three months from receipt of our goods or invoice to our customers. During the Track Record Period, we also offered revolving credit limits to two major customers. The revolving credit limit provides for a predetermined credit limit that may be outstanding at any one time, and which is determined on a case-by-case basis after taking into account various factors, among others, background of customers, credit history of customers, length of business relationship and historical transaction amount with the customers. The total revenue generated from these two customers amounted to approximately RMB13.8 million, RMB16.0 million and RMB9.1 million for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, respectively, representing approximately 46.1%, 52.5% and 59.4% of our total revenue for the relevant periods, respectively. For further details on the revolving credit arrangement with those customers and the corresponding internal control measures, please refer to "Business – Sales and marketing – Payment terms and credit control" of this document.

The table below sets out an ageing analysis of our trade receivables, net of allowance for impairment, by past due date as at the respective balance sheet dates indicated.

	As at 31 December		As at 30 June
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Neither past due nor impaired	1,177	1,701	2,483
Past due but not impaired:			
Within 30 days	63	376	267
31 to 60 days	–	492	36
61 to 90 days	–	57	–
More than 90 days	–	699	1,000
Total	**1,240**	**3,325**	**3,786**

Our Directors are of the view that it is not necessary to provide for impairment loss in respect of our trade receivables that were past due but not impaired as these balances were either subsequently settled or there has not been a significant change in the credit quality and these balances are still considered recoverable.

In respect of the trade receivables that were past due more than 90 days but not impaired of approximately RMB0.7 million and RMB1.0 million as at 31 December 2014 and 30 June 2015, respectively, they were principally due from the abovementioned state-owned enterprise which was undergoing restructuring as at 31 December 2014 and 30 June 2015. Given that: (i) the state-owned enterprise has resumed its production as at the Latest Practicable Date; (ii) the state-owned enterprise has provided to our Group a repayment schedule in July 2015 in respect of the outstanding trade receivables to be settled by the end of 2015; and (iii) approximately 57.0% of the trade receivables from the state-owned enterprise was subsequently settled as at the Latest Practicable Date, our Directors are of the view that it is not necessary to provide for impairment loss in respect of such trade receivables due to subsequent recoverability.

As at 31 December 2013, 31 December 2014 and 30 June 2015, all of our bills receivables aged within 180 days.

Our Group held charges on customers' building properties and motor vehicles as collaterals over our trade receivables of approximately RMB0.9 million and RMB1.5 million as at 31 December 2014 and 30 June 2015, respectively, due from two major customers with revolving credit limit arrangements. For the remaining balances of our trade receivables as at 31 December 2013, 31 December 2014 and 30 June 2015, we did not hold any collateral over these balances.

As at the Latest Practicable Date, approximately 88.6% of our total trade receivables as at 30 June 2015 were subsequently settled. In particular, approximately 57.0% of the past due but not impaired trade receivables from the abovementioned state-owned enterprise of approximately RMB1.0 million as at 30 June 2015, were subsequently settled. The remaining portion of our total trade receivables as at 30 June 2015 were subsequently fully settled.

Amounts due from (to) a related company and a Controlling Shareholder

As at 31 December 2013, we had approximately RMB1.9 million due to a related company which was fully repaid in December 2014.

As at 31 December 2014, we had approximately RMB1.0 million due from the same related company mentioned above, which was fully settled in April 2015.

As at 30 June 2015, we had approximately RMB4,521,000 and RMB68,000 due to Mr. Li, our Controlling Shareholder and a related company, respectively. The amount due to a Controlling Shareholder mainly represented payments of our listing expenses.

All such amounts due from and to the abovementioned related company and a Controlling Shareholder were non-trade in nature, unsecured, non-interest bearing and repayable on demand. Mr. Li, our Controlling Shareholder, has direct equity interests in the abovementioned related company.

As at the Latest Practicable Date, all amounts due: (i) from a related company and a Controlling Shareholder; and (ii) to a related company, were fully settled. Our Directors confirm that the outstanding amount due to a Controlling Shareholder will be fully settled before the Listing with external short-term debt financing.

Financial assets at FVTPL

As at 31 December 2013, we held two contracts of investment-linked structured deposit with the PRC banks, each with a term of two months and with principal amounts of approximately RMB6.0 million and RMB4.0 million. Our Group did not have a right for early redemption.

The return of our investment-linked structured deposits were determined by reference to the performance of the underlying investment portfolio managed by the relevant PRC banks.

As at the Latest Practicable Date, our Group ceased to invest or hold any investment-linked structured deposit. Our Directors confirm that our Group will not continue to invest in any investment-linked structured deposit after the Listing.

Trade and other payables

The table below sets out a breakdown of our trade and other payables as at the respective balance sheet dates and the average trade payables turnover days for the years/periods indicated:

	As at 31 December		As at 30 June
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	1,000	670	882
Other payables and accruals	3,177	2,451	2,448
Advances from customers	2,350	196	2
Total	**6,527**	**3,317**	**3,332**

	Year ended 31 December		Six months ended 30 June
	2013	2014	2015
	Days	*Days*	*Days*
Average trade payables turnover days[(1)]	15.3	17.2	17.9

Note:

(1) Average trade payables turnover days is equal to the average of the opening and closing balances of trade payables of the relevant year/period divided by cost of sales of the relevant year/period and multiplied by 365 days for the years ended 31 December 2013 and 2014 and 182 days for the six months ended 30 June 2015.

Our trade payables mainly comprised the amounts payable to: (i) our suppliers for the supply of electricity and the purchase of materials and supplies; and (ii) our third party contractors for extraction services, air-drying services, transportation services and processing services.

Our other payables and accruals mainly comprised the amounts payable to: (i) our staff for the salaries, social security contribution and other benefits; (ii) logistic companies for the delivery of our products to our customers; and (iii) professional parties for the professional services in relation to the Listing.

Our advances from customers mainly represented our customers' deposits for the purchase of our products.

Our trade and other payables decreased by approximately 49.2% from approximately RMB6.5 million as at 31 December 2013 to approximately RMB3.3 million as at 31 December 2014. Such decrease was mainly attributable to: (i) a decrease in trade payables primarily due to a decrease in payables to our electricity supplier because our Group prepaid certain amount for the supply of electricity near the end of 2014; (ii) a decrease in other payables and accruals mainly due to a decrease in accrued staff bonuses; and (iii) a decrease in advances from customers for customer orders in respect of which our products had not yet been delivered.

Our trade and other payables remained stable and amounted to approximately RMB3.3 million and RMB3.3 million as at 31 December 2014 and as at 30 June 2015, respectively.

Our average trade payable turnover days remained relatively stable at approximately 15.3 days, 17.2 days and 17.9 days for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, respectively.

The table below sets out an ageing analysis of our trade payables as at the respective balance sheet dates indicated, based on the invoice date.

	As at 31 December		As at 30 June
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Within 30 days	932	563	709
31 to 60 days	3	5	112
61 to 90 days	–	3	9
91 to 365 days	36	41	–
Over 365 days	29	58	52
Total	**1,000**	**670**	**882**

As at the Latest Practicable Date, approximately 94.1% of our trade payables as at 30 June 2015 were subsequently settled.

Our Directors confirm that our Group did not have any material default in payment of trade and other payables during the Track Record Period.

Based on our Group's average trade and bills receivables turnover days and average trade payables turnover days during the Track Record Period, it is estimated that our Group had cash flow mismatch between making payment to suppliers and receiving payment from customers of up to approximately 79.9 days during the Track Record Period. Our Group generally managed the exposure from such cash flow mismatch by maintaining its cash and bank balances as buffer against any unexpected liquidity requirement. As at 30 June 2015, our Group had cash and bank balances of approximately RMB24.3 million. Our Group has also implemented internal control measures to monitor its outstanding balances/trade receivables of our customers. For details, please refer to "Business – Sales and marketing – Payment terms and credit control" of this document.

Asset retirement obligations

As at 31 December 2013, 31 December 2014 and 30 June 2015, our asset retirement obligations amounted to approximately RMB4.5 million, RMB5.1 million and RMB5.9 million, respectively.

Our asset retirement obligations represented the net present value of the provisions for the restoration costs of approximately RMB15.3 million for the closure of our mining site, including dismantling mining-related structures and the reclamation of land upon exhaustion of bentonite reserves. The increase was due to: (i) the adjustments on the change in discount rate, which was referenced to a premium of 0.5% over the five-year lending rate stipulated by The People's Bank of China; and (ii) the unwinding of discount recognised in the finance cost during the Track Record Period.

LIQUIDITY AND CAPITAL RESOURCES

Our liquidity requirements primarily relate to capital expenditures and working capital needs. During the Track Record Period, our working capital needs and other capital requirements were mainly financed by cash generated from our operating activities and advances from related parties. We did not experience any liquidity shortage during the Track Record Period. Going forward, we expect that our liquidity requirements will be primarily be satisfied by our internal resources, net proceeds from the **[REDACTED]** and/or other external financing.

We seek to manage our working capital to ensure the availability of sufficient cash flows to meet unexpected cash requirement arising from our business, which in turn safeguard our ability to continue as a going concern. We have also adopted capital management policies under which our Directors regularly review and manage our capital structure. As part of this review, our Directors consider the cost of capital and risks associated with each class of capital. Based on recommendations of our Directors, we will balance our overall capital structure through the payment of dividends, new share issues or issue of new borrowings.

Cash flows

As at 31 December 2013, 31 December 2014, 30 June 2014 and 30 June 2015, we had cash and cash equivalents of approximately RMB12.6 million, RMB23.6 million, RMB12.2 million and RMB24.3 million, respectively. The table below sets out a summary of our cash flows for the Track Record Period:

	Year ended 31 December		Six months ended 30 June	
	2013	2014	2014	2015
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Net cash from/(used in) operating activities	2,378	15,001	9	(1,551)
Net cash used in investing activities	(323)	(2,169)	(334)	(2,335)
Net cash from/(used in) financing activities	906	(1,835)	(78)	4,589
Net increase/(decrease) in cash and cash equivalents	2,961	10,997	(403)	703
Cash and cash equivalents as at beginning of year/period	9,673	12,634	12,634	23,631
Cash and cash equivalents as at end of year/period	12,634	23,631	12,231	24,334

Net cash from (used in) operating activities

For the year ended 31 December 2013, we had net cash from operating activities of approximately RMB2.4 million, which was primarily attributable to our operating cash flows before movements in working capital of approximately RMB8.5 million, as adjusted by an increase in trade and other payables of approximately RMB3.3 million which was in turn due to: (i) an increase in trade payables by approximately RMB0.4 million mainly because of an increase in purchase of materials and supplies towards the end of 2013; (ii) an increase in other payables and accruals by approximately RMB0.7 million mainly because of an increase in accrued staff bonus; and (iii) an increase in advances from customers by approximately RMB2.2 million for the customer orders in respect of which our products had not yet been delivered in 2013, the aggregate effect of which was partially offset by: (i) an increase in inventories of approximately RMB2.5 million mainly because we processed more products to meet the increased advances from customers for their sales orders in 2013; (ii) an increase in trade, bills and other receivables of approximately RMB0.5 million; (iii) an increase in investment-linked structured deposits, which were classified as financial assets at FVTPL, of approximately RMB5.0 million; and (iv) income tax payments of approximately RMB1.4 million for the year.

For the year ended 31 December 2014, we had net cash from operating activities of approximately RMB15.0 million, which was primarily attributable to our operating cash flows before movements in working capital of approximately RMB10.4 million, as adjusted by: (i) a decrease in inventories of approximately RMB1.8 million primarily because we produced relatively more finished goods towards the end of 2013 to meet the increased advances from our customers orders placed before the end of 2013; and (ii) a decrease in investment-linked structured deposits, which were classified as financial assets at FVTPL, of approximately RMB10.8 million, the aggregate effect of which was partially offset by: (i) an increase in trade, bills and other receivables of approximately RMB2.5 million primarily due to an increase in our revenue towards the end of 2014 and an increase in our trade receivables that were past due but not impaired (principally as a result of the delay in settlement by one of our customers which was a state-owned enterprise and was under restructuring during the relevant period); (ii) a decrease in trade and other payables of approximately RMB3.2 million primarily due to a decrease in payables to our electricity supplier as we started to make prepayment near the end of 2014 for the supply of electricity, a decrease in accrued staff bonuses and a decrease in advances from customers; and (iii) income tax payments of approximately RMB2.3 million for the year.

For the six months ended 30 June 2014, we had net cash from operating activities of approximately RMB9,000, which was primarily attributable to our operating cash flows before movements in working capital of approximately RMB3.7 million, as adjusted by: (i) a decrease in inventories of approximately RMB1.1 million; and (ii) a decrease in investment-linked structured deposits, which were classified as financial assets at FVTPL, of approximately RMB0.2 million, the aggregate effect of which was offset by: (i) an increase in trade, bills and other receivables of approximately RMB1.8 million, which was mainly due to increased trade receivables that were past due but not impaired; (ii) a decrease in trade and other payables of approximately RMB1.9 million mainly due to a decrease in advances from customers; and (iii) income tax payments of approximately RMB1.4 million for the period.

For the six months ended 30 June 2015, we had net cash used in operating activities of approximately RMB1.6 million, which was primarily attributable to our operating cash flows before movements in working capital of approximately RMB1.9 million, as adjusted by: (i) an increase in inventories of approximately RMB0.1 million; (ii) an increase in trade, bills and other receivables of approximately RMB2.0 million primarily as a result of an increase in deferred professional service fees incurred in relation to the Listing; and (iii) income tax payments of approximately RMB1.6 million for the period, the aggregate effect of which was partially offset by: (i) an increase in trade and other payables of approximately RMB15,000; and (ii) a decrease in investment-linked structured deposits, which were classified as financial assets at FVTPL, of approximately RMB0.3 million.

Net cash used in investing activities

For the year ended 31 December 2013, we had net cash used in investing activities of approximately RMB0.3 million, which was primarily attributable to purchase of property, plant and equipment, mainly machinery and equipment for our production, of approximately RMB0.4 million, the effect of which was partially offset by bank interest income received of approximately RMB0.1 million.

For the year ended 31 December 2014, we had net cash used in investing activities of approximately RMB2.2 million, which was primarily attributable to: (i) purchase of property, plant and equipment, mainly machinery and equipment for our production, of approximately RMB0.7 million; (ii) placement of restricted bank balances of approximately RMB0.8 million; and (iii) advance to a related company of approximately RMB1.0 million, the aggregate effect of which was partially offset by: (i) bank interest income received of approximately RMB0.1 million; and (ii) proceeds from disposal of machinery and equipment of approximately RMB0.2 million.

For the six months ended 30 June 2014, we had net cash used in investing activities of approximately RMB0.3 million, which was primarily attributable to purchase of property, plant and equipment, mainly machinery and equipment for our production, of approximately RMB0.6 million, the effect of which was partially offset by proceeds from disposal of machinery and equipment of approximately RMB0.2 million.

For the six months ended 30 June 2015, we had net cash used in investing activities of approximately RMB2.3 million, which was primarily attributable to: (i) purchase of property, plant and equipment, mainly machinery and equipment for our production and construction of road, of approximately RMB0.6 million; and (ii) acquisition of land use right of approximately RMB2.9 million, the aggregate effect of which was partially offset by: (i) bank interest income received of approximately RMB0.1 million; and (ii) repayment of an advance from a related company of approximately RMB1.0 million.

Net cash from (used in) financing activities

For the year ended 31 December 2013, we had net cash from financing activities of approximately RMB0.9 million, which was primarily attributable to the receipts of government grants of approximately RMB0.9 million, including a government grant of approximately RMB0.8 million designated for the purchase of plant and machinery and certain one-off subsidies of approximately RMB0.1 million given by the local government authorities.

For the year ended 31 December 2014, we had net cash used in financing activities of approximately RMB1.8 million, which was primarily attributable to repayment to a related company of approximately RMB1.9 million, the effect of which was partially offset by the receipts of government grants of approximately RMB0.1 million as subsidies for our contribution to the economy and technological innovation of Fanchang county.

For the six months ended 30 June 2014, we had net cash used in financing activities of approximately RMB78,000, which was attributable to the repayment to a related company.

For the six months ended 30 June 2015, we had net cash from financing activities of approximately RMB4.6 million, which was primarily attributable to advance from Mr. Li, our Controlling Shareholder of approximately RMB4.5 million to our Group for the payments of our listing expenses.

Sufficiency of working capital

Our Directors confirm that, after due and careful enquiry and taking into consideration the financial resources presently available to us, including our cash flow generated from our operating activities and the estimated net proceeds from the **[REDACTED]**, our Group has sufficient working capital for at least 125% of our present requirements for at least the next 12 months commencing from the date of this document.

Net current assets

The following table sets out our current assets and current liabilities as at the respective balance sheet dates indicated:

	As at 31 December		As at 30 June	As at 31 October
	2013	2014	2015	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)
Current assets				
Inventories	3,869	2,026	2,152	2,636
Trade, bills and other receivables	5,916	8,457	10,405	13,820
Amount due from a related company	–	1,020	–	–
Amount due from a Controlling Shareholder	31	25	–	–
Financial assets at fair value through profit or loss	10,000	–	–	–
Prepaid lease payments	–	–	77	77
Bank balances and cash	12,634	23,631	24,334	21,571
	32,450	35,159	36,968	38,104
Current liabilities				
Trade and other payables	6,527	3,317	3,332	11,445
Income tax payables	1,087	1,247	346	425
Amount due to a Controlling Shareholder	–	–	4,521	7,023
Amount due to a related company	1,945	–	68	–
	9,559	4,564	8,267	18,893
Net current assets	**22,891**	**30,595**	**28,701**	**19,211**

Our current assets mainly comprised, among others: (i) inventories; (ii) trade, bills and other receivables; (iii) financial assets at FVTPL; and (iv) bank balances and cash. Our current liabilities mainly comprised, among others: (i) trade and other payables; (ii) income tax payables; and (iii) amount due to a Controlling Shareholder. As at 31 December 2013, 31 December 2014, 30 June 2015 and 31 October 2015, our Group maintained a net current assets position.

Our net current assets increased by approximately 33.7% from approximately RMB22.9 million as at 31 December 2013 to approximately RMB30.6 million as at 31 December 2014. Such increase was mainly attributable to: (i) an increase in trade, bills and other receivables mainly due to an increase in trade receivables that were past due but not impaired (principally as a result of the delay in settlement by one of our customers which was a state-owned enterprise and was under restructuring during the relevant period); (ii) advances to a related company by our Group, which was subsequently fully settled in April 2015; (iii) a decrease in trade and other payables mainly due to a reduction of advances from customers; and (iv) the full settlement of amount due to a related company, the aggregate effect of which was partially offset by a decrease in inventories primarily because we produced relatively more finished goods towards the end of 2013 to meet the increased advances from our customers for their sales orders in 2013.

Our net current assets decreased by approximately 6.2% from approximately RMB30.6 million as at 31 December 2014 to approximately RMB28.7 million as at 30 June 2015. Such decrease was mainly attributable to: (i) the settlement of amount due from a related company in April 2015; and (ii) advance from Mr. Li, our Controlling Shareholder, to our Group for the payments of our listing expenses, the aggregate effect of which was partially offset by: (i) an increase in trade, bills and other receivables mainly due to an increase in deferred professional service fee in relation to the Listing; and (ii) a decrease in income tax payables due to the payments of outstanding EIT payable as at 31 December 2014.

Our net current assets decreased from approximately RMB28.7 million as at 30 June 2015 to approximately RMB19.2 million as at 31 October 2015 based on our unaudited management accounts. Such decrease was primarily due to: (i) a decrease in our bank balances and cash mainly as a result of the payment of deposit for land rehabilitation fees of approximately RMB3.1 million in September 2015 in accordance with our Group's approved land rehabilitation plan and the applicable PRC laws and regulations; (ii) an increase in our other payables mainly attributable to an increase in accruals for listing expenses incurred; and (iii) an increase in advance from Mr. Li, our Controlling Shareholder, to our Group for payment of our listing expenses, the aggregate effect of which was partially offset by an increase in other receivables mainly due to an increase in deferred professional service fee incurred in relation to the Listing.

INDEBTEDNESS

Borrowings

The following table sets out our borrowings as at 31 December 2013, 31 December 2014, 30 June 2015 and 31 October 2015 (being the latest practicable date for the purpose of this statement of indebtedness):

	As at 31 December		As at 30 June	As at 31 October
	2013	2014	2015	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)
Amount due to a Controlling Shareholder	–	–	4,521	7,023
Amount due to a related company	1,945	–	68	–
Total	**1,945**	**–**	**4,589**	**7,023**

As at 31 December 2013, 31 December 2014, 30 June 2015 and 31 October 2015, our borrowings mainly represented amounts due to related parties (including a related company and a Controlling Shareholder) which, in aggregate, amounted to approximately RMB1.9 million, nil, approximately RMB4.6 million and RMB7.0 million, respectively. Such borrowings did not contain any covenants and were unsecured, non-interest bearing and repayable on demand.

As at the Latest Practicable Date, all amount due to a related company was fully settled. Our Directors confirm that the outstanding amount due to a Controlling Shareholder will be fully settled before the Listing with external short-term debt financing.

Our Directors have confirmed that our Group has not had any material delay or default in payment with regards to any borrowings during the Track Record Period and up to the Latest Practicable Date.

Banking facilities

As at 31 December 2013, 31 December 2014, 30 June 2015 and 31 October 2015, our Group did not have any utilised or unutilised banking facilities.

Our Group did not obtain any banking facilities during the Track Record Period. Our Directors have confirmed that our Group did not experience any difficulty in obtaining credit facilities or withdrawal of facilities during the Track Record Period and up to the Latest Practicable Date. To the best knowledge and belief of our Directors, our Group will not have difficulties in obtaining new banking facilities or renewing banking facilities after the Listing.

As at the Latest Practicable Date, our Group did not have any utilised or unutilised banking facilities.

Contingent liabilities

As at 31 December 2013, 31 December 2014, 30 June 2015 and 31 October 2015, we had no contingent liabilities. We are currently not a party to any litigation that is likely to have a material adverse effect on our business, results of operations or financial condition.

Disclaimer

Save as disclosed above, our Group did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, finance leases, hire purchases commitments, guarantees or other material contingent liabilities as at 31 October 2015, being the latest practicable date for the preparation of this indebtedness statement in this document.

Material indebtedness change

As at the Latest Practicable Date, our Group was in progress to obtain external short-term debt financing of approximately HK$17.1 million from a commercial bank for settlement of the outstanding amount due to a Controlling Shareholder before the Listing. In arranging for such debt financing, our Group has pledged its bank deposits of RMB15.0 million with a commercial bank in the PRC as at the Latest Practicable Date.

Save as disclosed above, our Directors have confirmed that, up to the Latest Practicable Date, there has been no material change in indebtedness and contingent liabilities of our Group since 31 October 2015, being the latest practicable date for determining our indebtedness. Our Directors have further confirmed that as at the Latest Practicable Date, our Group did not have any plans to raise any material debt financing shortly after the Listing.

OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, we did not have any outstanding off-balance sheet guarantees, interest rate swap transactions, foreign currency and commodity forward contracts or any other off-balance sheet arrangements. We do not engage in trading activities involving non-exchange trade contracts.

CAPITAL EXPENDITURES

The following table sets out the actual and forecasted capital expenditures for the years/periods indicated:

	Capital costs by category						
	Actual			Forecasted			
	2013	2014	January – June 2015	July – December 2015	2016	2017	Forecasted Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Intangible assets	–	–	–	–	–	6,000	6,000
Machinery and equipment	287	698	305	63	3,990	425	4,478
Buildings	142	–	265	550	1,980	–	2,530
Land use right	–	–	2,863	–	–	–	–
Total	**429**	**698**	**3,433**	**613**	**5,970**	**6,425**	**13,008**

For the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, we incurred capital expenditures of approximately RMB0.4 million, RMB0.7 million and RMB3.4 million, respectively, comprising mainly expenditures for buildings, machinery and equipment and land use right.

We currently plan to use approximately RMB4.0 million, RMB6.0 million and RMB6.4 million for the years ending 31 December 2015, 2016 and 2017, respectively after the Listing. Our Group's forecasted capital expenditures on intangible assets for the year ending 31 December 2017 mainly represents payment for the patent of production technology to be developed by the relevant collaborating partners. For further details, please refer to "Future plans and use of proceeds" of this document.

As at the Latest Practicable Date, we financed our capital expenditure through capital contribution by the Shareholders and cash generating from our operation. We anticipate that our future capital expenditure can be satisfied by cash generating from our operation and the net proceeds from the **[REDACTED]**. Such plan may be subject to change based on the progress of implementation of our business plan, which can be impact by many factors including market conditions, future business outlook and other potential business opportunities.

Our Directors believe that such capital expenditure budget will be sufficient for our planned expenditure for the years ending 31 December 2015, 2016 and 2017.

ACTUAL AND FORECASTED OPERATING COSTS

Given that our Huanghu Bentonite Mine had been in operation since the beginning of the Track Record Period, during the Track Record Period and up to the Latest Practicable Date, we had not incurred any exploration expenses. The following table sets forth the actual operating costs between January 2014 and June 2015 and the forecasted operating costs from July 2015 to 2019 onwards for our mining operations in Huanghu Bentonite Mine as stated in the Independent Technical Report:

		Actual and forecasted operating costs						
			Actual		Forecasted			
	Unit	2014	January to June 2015	July to December 2015	2016	2017	2018	2019 onwards
Product								
Unprocessed clay	tonne	17,953	8,695	6,490	15,379	15,619	17,683	17,686
Pelletising clay	tonne	33,995	15,112	10,126	29,979	35,123	39,220	39,037
Drilling mud	tonne	39,959	23,634	21,030	45,917	42,928	47,935	47,712
Pelletising clay and drilling mud only	tonne	73,954	38,746	31,156	75,896	78,051	87,155	86,749
Total	tonne	91,907	47,441	37,646	91,275	93,670	104,838	104,435
Mining								
Unprocessed clay	RMB/tonne	6.3	5.3	7.1	6.8	6.3	6.2	6.4
Pelletising clay	RMB/tonne	8.5	5.1	8.1	7.7	7.1	7.1	7.3
Drilling mud	RMB/tonne	9.8	5.4	8.1	7.7	7.1	7.1	7.3
Air-drying								
Pelletising clay	RMB/tonne	15.0	13.5	18.3	18.3	18.3	18.3	18.3
Drilling mud	RMB/tonne	21.4	17.0	18.3	18.3	18.3	18.3	18.3
Transportation								
Pelletising clay	RMB/tonne	20.8	20.5	22.4	22.4	22.4	22.4	22.4
Drilling mud	RMB/tonne	22.8	22.5	22.4	22.4	22.4	22.4	22.4
Consumables								
Pelletising clay	RMB/tonne	21.9	21.5	21.5	21.5	21.5	21.5	21.5
Drilling mud	RMB/tonne	58.2	56.6	56.6	56.6	56.6	56.6	56.6
Fuel, electricity, water and other services								
Pelletising clay	RMB/tonne	48.2	55.4	58.9	58.9	58.9	58.9	58.9
Drilling mud	RMB/tonne	44.4	49.3	53.3	53.3	53.3	53.3	53.3
Workforce employment								
Pelletising clay	RMB/tonne	38.8	40.2	40.2	40.2	40.2	40.2	40.2
Drilling mud	RMB/tonne	41.2	37.9	47.5	47.5	47.5	47.5	47.5

		Actual and forecasted operating costs						
			Actual			Forecasted		
	Unit	2014	January to June 2015	July to December 2015	2016	2017	2018	2019 onwards
Product selling cost								
Pelletising clay	RMB/tonne	23.1	32.9	23.1	23.1	23.1	23.1	23.1
Drilling mud	RMB/tonne	6.8	6.2	6.8	6.8	6.8	6.8	6.8
On and off-site administration								
Pelletising clay	RMB/tonne	21.6	27.7	25.0	25.0	25.0	25.0	25.0
Drilling mud	RMB/tonne	21.6	27.8	25.1	25.1	25.1	25.1	25.1
Environmental protection and monitoring								
Pelletising clay	RMB/tonne	0.1	2.4	2.5	2.5	2.5	2.5	2.5
Drilling mud	RMB/tonne	0.1	2.4	2.5	2.5	2.5	2.5	2.5
Non-income taxes, royalties and other governmental charges								
Unprocessed clay	RMB/tonne	12.4	12.4	12.4	12.4	12.4	12.4	12.3
Pelletising clay	RMB/tonne	27.6	26.8	27.6	27.4	27.2	27.0	27.0
Drilling mud	RMB/tonne	29.6	28.3	27.6	27.4	27.2	27.0	27.0
Transportation of work force								
Unprocessed clay	RMB/tonne	–	–	–	–	–	–	–
Pelletising clay	RMB/tonne	–	–	–	–	–	–	–
Drilling mud	RMB/tonne	–	–	–	–	–	–	–
Contingency allowance								
Unprocessed clay	RMB/tonne	–	–	–	–	–	–	–
Pelletising clay	RMB/tonne	–	–	–	–	–	–	–
Drilling mud	RMB/tonne	–	–	–	–	–	–	–
Total operating cash cost								
Unprocessed clay	RMB	334,826	154,254	126,846	294,857	291,455	329,007	332,264
Pelletising clay	RMB	7,668,284	3,718,883	2,506,979	7,405,263	8,649,849	9,650,965	9,612,311
Drilling mud	RMB	10,222,649	5,986,630	5,658,609	12,328,708	11,494,277	12,825,445	12,773,405
Total	RMB	18,225,759	9,859,767	8,292,435	20,028,828	20,435,580	22,805,416	22,717,981
Total operating unit cash cost								
Unprocessed clay	RMB/tonne	18.7	17.7	19.5	19.2	18.7	18.6	18.8
Pelletising clay	RMB/tonne	225.6	246.1	247.6	247.0	246.3	246.1	246.2
Drilling mud	RMB/tonne	255.8	253.3	269.1	268.5	267.8	267.6	267.7

The table below sets out the impact of increases in transportation, consumables, fuel, electricity, water and other services and workforce employment on our total unit operating cash costs for the periods indicated. The 2%, 5% and 10% changes in transportation, consumables, fuel, electricity, water and other services and workforce employment are used for the sensitivity analysis based on our reasonable estimate of the magnitude of fluctuation in such indicators of our Group in the future. We made reference to percentage increases in estimated consumer price index and selling prices of drilling mud and pelletising clay in accordance with the Independent Technical Report. According to the Independent Technical Report, the consumer price index and the selling prices of drilling mud and pelletising clay are expected to increase by 2.0%, 9.7% and 5.2% in 2015 as compared to 2014, respectively. Because a number of assumptions have been applied, this sensitivity analysis is for illustrative purposes only, and the actual results may differ from the sensitivity analysis below.

					Transportation						Consumables						Fuel, electricity, water and other services						Workforce employment					
	0% Change	2%		5%		10%		2%		5%		10%		2%		5%		10%		2%		5%		10%	
	Amount	Amount	% changed	Amount	% changed	Amount	% changed	Amount	% changed	Amount	% changed	Amount	% changed	Amount	% changed	Amount	% changed	Amount	% changed	Amount	% changed	Amount	% changed	Amount	% changed
For the year ending and as at 31 December 2015 (forecast)																									
Total operating cash costs *(RMB/tonne)*	213.3	213.7	0.2%	214.2	0.4%	215.1	0.8%	214.1	0.3%	215.1	0.8%	216.9	1.7%	214.2	0.4%	215.5	1.0%	217.7	2.0%	214.0	0.3%	215.0	0.8%	216.8	1.6%
For the year ending and as at 31 December 2016 (forecast)																									
Total operating cash costs *(RMB/tonne)*	219.4	219.8	0.2%	220.4	0.4%	221.3	0.8%	220.1	0.3%	221.2	0.8%	223.0	1.6%	220.4	0.4%	221.7	1.1%	224.0	2.1%	220.2	0.3%	221.3	0.8%	223.1	1.7%

Save for the actual operating costs from January 2014 to June 2015, the above table is an estimate only and is subject to change. Our future actual operating costs any differ materially from the above forecasted operating costs as a result of numerous factors, including the factors described in "Risk factors" of this document. In addition to "Risk factors" of this document, please also refer to "Forward-looking statements" of this document for the risk of placing undue reliance on any forward-looking information.

According to the Independent Technical Report, the actual operating costs between January 2014 and June 2015 and the forecasted operating costs between July 2015 and 2019 as set out in the table above are based on:

1. contracts between us and contractors;

2. our actual operating costs between 2013 and June 2015;

3. a resource tax of RMB10 per tonne of our products;

4. a value added tax of 17% is levied for the sale of our products;

5. a value added tax of 17% is levied for the purchase of the consumables and fuel and electricity;

6. a city maintenance and construction levy of 5% of the total amount of value added tax generated by our mining operations;

7. an education levy of 3% of the total amount of value added tax generated by our mining operations;

8. a local education levy of 2% of the total amount of value added tax generated by our mining operations;

9. a resource compensation levy of RMB1.5 per tonne of our products (2% of sales revenue multiplied by a "coefficient" set by the provincial government, where the coefficient is currently set as 75);

10. our historical operating cost structure and operating margins;

11. the historical average unit costs charged by our major suppliers and contractors;

12. an additional air-drying facility commenced operation since the second quarter of 2015, which is expected to reduce our need for rotary drum drying and thereby lower our overall drying cost in the long run. As at the Latest Practicable Date, we had a total of four air-drying facilities, including the aforesaid air-drying facility; and

13. various measures implemented by us in response to the Independent Technical Consultant's control recommendations, such as (i) timely modification of mining plan which is expected to reduce mining cost; (ii) closely monitoring our transportation costs and exploring ways to better coordinate our transportation schedules; (iii) closely monitoring our operating expenses and negotiating with certain suppliers and contractors with the aim of securing long-term contracts that may be beneficial to us; and (iv) upgrading our current processing plant and processing machinery and equipment which is expected to improve our production efficiency.

CAPITAL AND LEASE COMMITMENTS

Capital commitments

As at 31 December 2013, 31 December 2014 and 30 June 2015, we had capital commitments of nil, nil and approximately RMB0.1 million, respectively, which were contracted, but not provided for in our combined financial statements. Such capital commitments were attributable to additions of property, plant and equipment.

Operating lease commitments

As at 31 December 2013, 31 December 2014 and 30 June 2014, our Group had no material operating lease commitments.

PROPERTY INTERESTS

Please refer to "Business – Properties" of this document for details of our property interests.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into certain related party transactions, and the details of which are disclosed in note A33 to the accountants' report as set out in Appendix I to this document. Our Directors are of the view that the related party transactions were conducted on arm's length basis, and would not distort our results of operations during the Track Record Period or cause our historical results over the Track Record Period not reflective of our expectations for our future performance.

LISTING EXPENSES

Our Directors are of the view that the financial results of our Group for the year ending 31 December 2015 is expected to be adversely affected by, among others, our listing expenses, the nature of which is non-recurring. Our total listing expenses, primarily consisting of fees paid or payable to professional parties and underwriting fees and commission, are estimated to be approximately RMB22.7 million (or approximately HK$27.7 million, based on the mid-point of the indicative **[REDACTED]** of **[REDACTED]** per **[REDACTED]** and **[REDACTED]** and assuming the **[REDACTED]** is not exercised). Among the estimated aggregate amount of our listing expenses, approximately RMB6.2 million is expected to be accounted for as a deduction from equity upon the Listing. The remaining amount of approximately RMB16.5 million is expected to be charged to our combined statements of profit or loss and other comprehensive income for the year ending 31 December 2015, of which approximately RMB3.7 million has been recognised by our Group for the six months ended 30 June 2015. Up to 30 June 2015, approximately RMB4.5 million out of our estimated total listing expenses of approximately RMB22.7 million has been paid by our Group, out of which approximately RMB1.8 million and

RMB1.0 million were recorded as prepayments and accruals as at 30 June 2015, respectively. Our Directors would like to emphasise that the amount of our listing expenses is a current estimate for reference only and the final amount to be recognised in our combined financial statements is subject to adjustment based on audit and the then changes in variables and assumptions.

Potential investors should note that our financial performance for the year ending 31 December 2015 is expected to be adversely affected by our estimated non-recurring listing expenses mentioned above, and may or may not be comparable to our financial performance in the past. Please also refer to "Risk factors – Risks relating to the **[REDACTED]** and our Shares" of this document.

SELECTED FINANCIAL RATIOS DISCUSSION

The table below sets out certain key financial ratios of our Group during the Track Record Period:

	Year ended 31 December/ As at 31 December		Six months ended 30 June/As at 30 June
	2013	**2014**	**2015**
Net profit margin before interest and tax *(Note 1) (%)*	23.8	32.5	10.0
Net profit margin *(Note 2) (%)*	16.9	23.1	0.6
Current ratio *(Note 3)*	3.4	7.7	4.5
Quick ratio *(Note 4)*	3.0	7.3	4.2
Gearing ratio *(Note 5)*	0.1	–	0.1
Debt-to-equity ratio *(Note 6)*	N/A	N/A	N/A
Return on assets *(Note 7) (%)*	9.8	13.0	N/A
Return on equity *(Note 8) (%)*	13.8	16.0	N/A
Interest coverage ratio *(Note 9)*	24.2	31.2	9.1

Notes:

1. Net profit margin before interest and tax is calculated based on the profit for the year/period netting off the interest and income tax expense for the year/period divided by revenue for the year/period, multiplied by 100%.

2. Net profit margin equals to profit for the year/period divided by revenue for the year/period, multiplied by 100%.

3. Current ratio equals to total current assets divided by total current liabilities as at the year/period end date.

4. Quick ratio equals to total current assets less inventories divided by total current liabilities as at the year/period end date.

5. Gearing ratio equals to total debt divided by total equity as at the year/period end date. Total debt of our Group refers to all borrowings of our Group as at year/period end date, which included amounts due to a related company and a Controlling Shareholder.

6. Debt-to-equity ratio equals to net debt divided by total equity as at the year/period end date. Net debt is defined to include all borrowings net of cash and cash equivalents.

7. Return on assets equals profit for the year divided by the closing balance of total assets, multiplied by 100%.

8. Return on equity equals profit for the year divided by the closing balance of total equity, multiplied by 100%.

9. Interest coverage ratio equals to profit the year/period netting off the interest and income tax expense for the year/period divided by interest for the year/period. Interest is defined to include all finance cost of our Group for the year/period.

Net profit margin before interest and tax and net profit margin

Our net profit margin before interest and tax and net profit margin increased from approximately 23.8% and 16.9%, respectively, for the year ended 31 December 2013 to approximately 32.5% and 23.1%, respectively, for the year ended 31 December 2014. The increase was mainly due to (i) a decrease in our cost of sales and selling and distribution expenses; and (ii) an increase in our revenue. Our net profit margin before interest and tax and net profit margin then decreased to approximately 10.0% and 0.6%, respectively, for the six months ended 30 June 2015. Such decrease was mainly due to the listing expenses of approximately RMB3.7 million recognised in the profit or loss for the six months ended 30 June 2015, which in turn significantly reduced our profit before interest and income tax expense and profit for the period.

Current ratio and quick ratio

Our current ratio and quick ratio increased from approximately 3.4 and 3.0, respectively for the year ended 31 December 2013 to approximately 7.7 and 7.3, respectively, for the year ended 31 December 2014. The increase was mainly due to: (i) an increase in trade and bills receivables primarily as a result of an increase in trade receivables that were past due but not impaired (principally as a result of the delay in settlement by one of our customers which was a state-owned enterprise and was under restructuring during the relevant period); (ii) a decrease in trade and other payables primarily as a result of decrease in advances from customers; and (iii) net fund transfers to a related company of approximately RMB3.0 million. Our current ratio and quick ratio then decreased to approximately 4.5 and 4.2, respectively, for the six months ended 30 June 2015. The decrease was mainly due to advance from Mr. Li, our Controlling Shareholder of approximately RMB4.5 million for the payments of our listing expenses during the six months ended 30 June 2015.

Gearing ratio

Our gearing ratio decreased from approximately 0.1 for the year ended 31 December 2013 to nil for the year ended 31 December 2014. The decrease was mainly due to repayment of amount due to a related company during the year ended 31 December 2014. Our gearing ratio then increased to approximately 0.1 for the six months ended 30 June 2015. The increase was mainly due to an advance from Mr. Li, our Controlling Shareholder for the payments of our listing expenses during the six months ended 30 June 2015.

Debt-to-equity ratio

Debt-to-equity ratio was not applicable to our Group as at 31 December 2013, 31 December 2014 and 30 June 2015 because our cash and cash equivalents exceeded our total borrowings as at the respective year/period end dates.

Return on assets and return on equity

Our return on assets and return on equity increased from approximately 9.8% and 13.8%, respectively, for the year ended 31 December 2013 to approximately 13.0% and 16.0%, respectively, for the year ended 31 December 2014. The increases in return on assets and return on equity were mainly due to the rate of increase in our profit for the year exceeded the rate of increase in our total assets or total equity, resulting from increases in our gross margin and profit margin.

Interest coverage ratio

Our interest coverage ratio increased from approximately 24.2 for the year ended 31 December 2013 to approximately 31.2 for the year ended 31 December 2014. The increase was mainly due to an increase in the profit before interest and tax for the year because of the abovementioned reasons. Our interest coverage ratio the decreased to approximately 9.1 for the six months ended 30 June 2015. The decrease was mainly due to a significant reduction of the profit before interest and tax because of the recognition of listing expenses of approximately RMB3.7 million in the profit or loss during the six months ended 30 June 2015.

UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following is a statement of unaudited pro forma adjusted combined net tangible assets of our Group which has been prepared in accordance with Rule 7.31 of the GEM Listing Rules for the purpose of illustrating the effect of the **[REDACTED]** as if the **[REDACTED]** had been completed on 30 June 2015. The statement of unaudited pro forma adjusted combined net tangible assets has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of our combined net tangible assets as at 30 June 2015 or at any future date following the **[REDACTED]**.

	Audited combined net tangible assets attributable to the owners of our Company as at 30 June 2015 *RMB'000 (Note 1)*	**Estimated net proceeds from the [REDACTED]** *RMB'000 (Note 2)*	**Unaudited pro forma adjusted combined net tangible assets attributable to the owners of our Company immediately after the completion of the [REDACTED]** *RMB'000*	**Unaudited pro forma adjusted combined net tangible assets per Share as at 30 June 2015** *RMB (Note 3)*	*HK$ (Note 4)*
Based on the **[REDACTED]** of **[REDACTED]** per Share	40,740	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Based on the **[REDACTED]** of **[REDACTED]** per Share	40,740	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**

Notes:

1. The audited combined net tangible assets of our Group attributable to the owners of our Company as at 30 June 2015 has been derived from our audited combined net tangible assets of our Group attributable to the owners of our Company of approximately RMB43.9 million after deducting intangible assets of approximately RMB3.2 million as at 30 June 2015 extracted from the accountants' report as set out in Appendix I to this document.

2. The estimated net proceeds from the **[REDACTED]** are based on **[REDACTED]** at the respective low and high end **[REDACTED]** of **[REDACTED]** to **[REDACTED]** per **[REDACTED]**, after deducting the underwriting fees, commissions and other related expenses payable by our Company in relation to the **[REDACTED]**. The estimated net proceeds do not take into account any Shares which may be issued upon the exercise of **[REDACTED]** and any options granted under the Share Option Scheme.

3. The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after adjustment for the estimated net proceeds from the **[REDACTED]** as described in note 2 above and on the basis that a total of **[REDACTED]** Shares were in issue as at 30 June 2015 (including Shares in issue as at the date of this document and those Shares are expected to be issued pursuant to the **[REDACTED]** but not taking into account any Shares which may be issued upon the exercise of **[REDACTED]** and any options granted under the Share Option Scheme).

4. Unaudited pro forma adjusted combined net tangible assets per Share is converted from Renminbi into Hong Kong dollar at the rate of HK$1.00:RMB0.82. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollar, or vice versa, at that rate of at any other rates or at all.

5. No adjustment had been made to the unaudited pro forma adjusted combined net tangible assets of our Group to reflect any trading result or other transactions of our Group entered into subsequent to 30 June 2015.

MARKET RISKS

We are exposed to various types of financial and market risks, including interest rate risk, currency risk, credit risk and liquidity risk, in our normal course of business. Our Directors manage and monitor our exposure to such risks to ensure that appropriate measures are implemented on a timely and effective manner.

Credit Risk

As at the end of each reporting period, our Group's maximum exposure to credit risk which will cause a financial loss to our Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of our respective recognised financial assets as stated in the combined statements of financial position.

During the Track Record Period, our Group offered revolving credit limits to two of our customers. The revolving credit limits provided for a predetermined credit limit that may be outstanding at any one time based on, among others, background of customers, credit history of customers, length of business relationship and historical transaction amount with the customers. Our Group generally evaluates the predetermined revolving credit limits granted to our customers annually.

In order to minimise the credit risk, our management 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, our 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, our Directors consider that our Group's credit risk is significantly reduced.

The credit quality of counterparty in respect of amounts due from a related company and a Controlling Shareholder is assessed by taking into account its financial position and other factors. Our Directors are of the opinion that the risk of default by the counterparties is low as the amounts were repaid.

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

Our Group's concentration of credit risk by geographical location is in the PRC, which accounted for all of our total trade receivables as at 31 December 2013, 31 December 2014 and 30 June 2015.

Our Group had concentration of credit risk as nil, approximately 26% and 29% of our total trade receivables was due from our Group's largest customer as at 31 December 2013, 31 December 2014 and 30 June 2015, respectively. As at 31 December 2013, 31 December 2014 and 30 June 2015, approximately 98%, 36% and 66% of our total trade receivables was due from our Group's five largest customers respectively.

Liquidity risk

In the management of the liquidity risk, we monitor and maintain a level of cash and cash equivalents we believe is adequate to finance our operations and mitigate the effects of fluctuations in cash flows.

Our financial liabilities are non-interest bearing and their maturity dates are repayable on demand or within one year as at the end of each reporting period.

Currency risk

Our business activities, assets and liabilities are denominated in our own functional currency. Our management considers our Group is not exposed to significant foreign currency risk as majority of our operations and transactions are denominated in the functional currency of our Company and its subsidiaries. Our Group currently does not have a foreign currency hedging policy. However, our management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk

We are exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on restricted bank balances and bank balances. Our management considers our Group's exposure of our restricted bank balances and bank balances to cash flow interest rate risk is not significant as our management does not anticipate significant fluctuation in interest rate on restricted bank balances and bank balances. As such, no sensitivity analysis is presented.

DIVIDENDS

No dividends have been declared by us during the Track Record Period nor has any dividend been proposed after 30 June 2015. Our Group currently does not have any pre-determined dividend payout ratio. Our historical dividend distribution record may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future. To the extent that profits are distributed as dividends, such portion of profits will not be available to be reinvested in our Group's operation.

The payment and the amount of any dividends, if paid, would depend on the results of operations, cash flows, financial position, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that our Directors may consider relevant. Holders of the Shares will be entitled to receive such dividends pro rata according to the amount paid up or credited as paid up on the Shares. The declaration, payment and amount of dividends will be subject to our Directors' discretion.

DISTRIBUTABLE RESERVES

As at 30 June 2015, our Company did not have any distributable reserves available for distribution to our Shareholders.

DISCLOSURE REQUIRED UNDER THE GEM LISTING RULES

Except as disclosed otherwise in this document, our Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

POST BALANCE SHEET EVENTS

Please refer to "Recent development" in this section and "Events after the reporting period" in the accountants' report as set out in Appendix I to this document.

RECENT DEVELOPMENT

Based on our unaudited management accounts, our Group recorded a slight decrease in revenue for the ten months ended 31 October 2015 as compared to the same period in 2014, which was mainly due to a decrease in sales volume mainly because of 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 decrease in the demand of our drilling mud, and the effect of which was partially offset by an increase in average selling price mainly because of an increase in sales amount of drilling mud with higher technical specifications from two of our major customers, while our gross profit and gross profit margin increased for the ten months ended 31 October 2015 as compared to the same period in 2014. Our Directors confirm that there was no material change in our business operation and business environment in which we are operating subsequent to the Track Record Period. Notwithstanding the above, we currently expect that our financial results for the years ending 31 December 2015 will be negatively impacted by the non-recurring listing expenses recognised and to be recognised as expenses in our combined statements of profit or loss and other comprehensive income. For further details regarding our listing expenses, please refer to "Listing expenses" in this section.

Potential investors should note that our financial information subsequent to the Track Record Period is unaudited and may not reflect the full year results for the year ending 31 December 2015 and may be subject to adjustments based on the audit.

Subsequent to the Track Record Period and up to the Latest Practicable Date, our Group has entered into collaboration agreements with three external institutions for the development of new technologies and new bentonite products to cater for the downstream markets other than iron ore pelletising and civil engineering. For further details, please refer to "Business – Research and development" of this document. In addition, Feishang Material has paid the deposit for land rehabilitation fees of approximately RMB3.1 million in accordance with its land rehabilitation plan approved by the Anhui Land and Resources Department and the applicable PRC laws and regulations. For further details, please refer to "Business – Legal proceedings and regulatory compliance – Regulatory non-compliance – 1. Non-compliance relating to land rehabilitation" of this document.

As at the Latest Practicable Date, our Group has pledged its bank deposits of RMB15.0 million with a commercial bank in the PRC for arranging external short-term debt financing for the settlement of outstanding amount due to a Controlling Shareholder before the Listing. Please refer to "Indebtedness" in this section for further details.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that since 30 June 2015, being the date of the latest audited financial statements of our Company, and up to the date of this document, there has been no material adverse change in our financial or trading position or prospects. Our Directors also confirm that there has been no events since 30 June 2015 which would materially affect the information shown in the accountants' report as set out in Appendix I to this document.

BUSINESS OBJECTIVES AND BUSINESS STRATEGIES

For a detailed description on our business objectives and strategies, please refer to "Business – Our business strategies" of this document.

IMPLEMENTATION PLANS

Our Group's implementation plans are set out below for each of the six-month periods up till 31 December 2017. Investors should note that the implementation plans and their scheduled times for attainment are formulated based on the bases and assumptions referred to in "Bases and assumptions" in this section. These bases and assumptions are inherently subject to many uncertainties, variables and unpredictable factors, and in particular, the risk factors set out in "Risk factors" in this document. We cannot assure that the plans of our Group will materialise in accordance with the expected time frame or that our business objectives will be accomplished at all. Based on our business objectives, we intend to carry out the following implementation plans:

For the period from the Latest Practicable Date to 31 December 2015		**Approximate amount of net proceeds to be utilised**
Improvement of plant and equipment	• Construction of new storage facilities for pelletising clay	**[REDACTED]**

For the six months ending 30 June 2016		**Approximate amount of net proceeds to be utilised**
Improvement of plant and equipment	• Completion of construction of new storage facilities for pelletising clay • Modification and/or improvement of our existing rotary drum dryer • Expansion of storage facilities for dried bentonite ore to be processed into drilling mud • Replacement of a forklift truck • Replacement of a transformer in the processing plant	**[REDACTED]**
Development of production technology for new products	• Payment of research and development fee to one of our collaborating partners, Southwest UST	**[REDACTED]**

For the six months ending 31 December 2016		**Approximate amount of net proceeds to be utilised**
Improvement of plant and equipment	• Completion of modification and/or improvement of our existing rotary drum dryer • Modification and/or improvement of our existing Raymond mill • Enhancement of electricity power capacity of our processing plant	**[REDACTED]**
Development of production technology for new products	• Payment of research and development fee to two of our collaborating partners, namely, Anhui PolyU DST and Suzhou Sinoma	**[REDACTED]**

For the six months ending 30 June 2017		**Approximate amount of net proceeds to be utilised**
Development of production technology for new products	• Payment of research and development fee to one of our collaborating partners, Southwest UST	**[REDACTED]**

For the six months ending 31 December 2017		**Approximate amount of net proceeds to be utilised**
Development of production technology for new products	• Payment of research and development fee to one of our collaborating partners, Suzhou Sinoma • Payment for the patent of production technology developed by the relevant collaborating partners, namely, Anhui PolyU DST, Suzhou Sinoma and Southwest UST	**[REDACTED]**

BASES AND ASSUMPTIONS

The business objectives and implementation plans set forth by our Directors are based on the following bases and assumptions:

- there will be no significant economic changes in respect of inflation, interest rate, tax rate and currency exchange rate in the PRC that will materially and adversely affect out business;
- we will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which our business strategies relate;
- there will be no material changes in the existing laws (whether in the PRC or any part of the world in which any member of our Group carries on or will carry on business), policies or industry or regulatory treatment relating to bentonite mining or the manufacture, sales, import and/or export of bentonite products, or in the political, economic or market conditions in which we operate;
- there will be no changes in the funding requirement for each of the near term business strategies described in this document from the amount as estimated by our Directors;
- there will be no material changes in the bases or rates of taxation applicable to our Group;
- there will be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of our Group or cause substantial loss, damage or destruction to our property or facilities;
- there will be no changes in the effectiveness of the licences and permits obtained by our Group;
- we will be able to retain our key management staff and the main operational departments;
- the **[REDACTED]** will be completed in accordance with and as described in "Structure and conditions of the **[REDACTED]**" in this document; and
- we will not be materially affected by the risk factors set out in "Risk factors" of this document.

REASONS FOR THE [REDACTED] AND USE OF PROCEEDS

Our Directors believe that the **[REDACTED]** will enhance our profile, strengthen our financial position and competitiveness, and provide us with additional capital to implement our business strategies and future plans as set out in this section. Furthermore, a public listing status on the Stock Exchange will allow us access to capital markets for future corporate finance exercises, which will assist in our future business development and strengthen our competitiveness.

Assuming that the **[REDACTED]** is not exercised at all, based on the **[REDACTED]** of **[REDACTED]** per **[REDACTED]**, being the mid-point of the indicative **[REDACTED]** of **[REDACTED]** to **[REDACTED]** per **[REDACTED]**, we will receive gross proceeds of approximately **[REDACTED]** million. The net proceeds from the **[REDACTED]** are estimated to be approximately **[REDACTED]** million, after deducting the underwriting commission and other estimated expenses in the amount of approximately **[REDACTED]** million, payable by our Company in relation to the **[REDACTED]**, not taking into account any exercise of the **[REDACTED]**. We intend to apply such net proceeds for the following purposes:

- approximately **[REDACTED]** million (or approximately **[REDACTED]**) of the net proceeds for development of production technology for new products; and
- approximately **[REDACTED]** million (or approximately **[REDACTED]**) of the net proceeds for improvement of plant and equipment.

The following table sets forth a summary of the amount of net proceeds of the **[REDACTED]** used under different plan for the periods indicated:

	From the Latest Practicable Date to 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	–	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Improvement of plant and equipment	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

FUTURE PLANS AND USE OF PROCEEDS

All our net proceeds from the **[REDACTED]** are expected to be utilised by 31 December 2017 for the implementation of our future plans, namely: (i) improvement of plant and equipment; and (ii) development of product technology for new products. Our Directors are of the view that the net proceeds from the **[REDACTED]** of approximately **[REDACTED]** million will be sufficient to finance our future business plans as scheduled up to 31 December 2017. In the event that the net proceeds from the issue of the **[REDACTED]** is insufficient to finance our future business plans, the shortfall will be financed by our internal resources and/or external financing.

Assuming that the **[REDACTED]** is not exercised at all, if the final **[REDACTED]** is set at the highest or lowest point of the indicative **[REDACTED]**, the net proceeds of the **[REDACTED]** will increase or decrease by approximately **[REDACTED]** million, respectively.

If the **[REDACTED]** is exercised in full, and assuming a **[REDACTED]** of **[REDACTED]** per **[REDACTED]**, being the mid-point of the indicative **[REDACTED]** of **[REDACTED]** to **[REDACTED]** per **[REDACTED]**, the additional net proceeds estimated to be received by our Company will be approximately **[REDACTED]** million, after deducting the underwriting commission and other estimated expenses in relation to the **[REDACTED]**.

If the **[REDACTED]** is exercised in full, and assuming a **[REDACTED]** of **[REDACTED]** and **[REDACTED]** per **[REDACTED]**, being the highest point and the lowest point of the indicative **[REDACTED]**, respectively, the additional net proceeds estimated to be received by our Company will be approximately **[REDACTED]** million and **[REDACTED]** million, respectively, after deducting the underwriting commission and other estimated expenses in relation to the **[REDACTED]**.

The net proceeds will be used in the same proportions as disclosed above irrespective of whether the **[REDACTED]** is determined at the highest or lowest point of the indicative **[REDACTED]** and whether the **[REDACTED]** is exercised.

As at the Latest Practicable Date, we had not identified any potential acquisition target or initiated negotiations for any acquisitions and we have no intention to acquire any company or business which would lead to a material change of our current principal business.

To the extent that the net proceeds from the **[REDACTED]** are not immediately required for the above purposes, it is the present intention of our Directors that such net proceeds will be placed as short-term interest-bearing deposits with authorised financial institutions.

UNDERWRITING

UNDERWRITER

[REDACTED]

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement, our Company is offering the **[REDACTED]** for subscription by way of **[REDACTED]**, on and subject to the terms and conditions in the Underwriting Agreement and this document, at the **[REDACTED]**.

Subject to, among other conditions, the listing division of the Stock Exchange granting the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this document, the **[REDACTED]** being agreed between the Sole Lead Manager and us in accordance with the Underwriting Agreement, and to certain other conditions set out in the Underwriting Agreement being fulfilled or waived on or before the dates and times specified in the Underwriting Agreement, the Underwriter has agreed to **[REDACTED]** for the **[REDACTED]** on the terms and conditions of the Underwriting Agreement and this document.

Grounds for termination

The obligations of the Underwriter to subscribe or procure subscribers for the **[REDACTED]** are subject to termination if certain events, including force majeure, shall occur at any time at or before 8:00 a.m. (Hong Kong time) on the Listing Date. The Sole Lead Manager shall have the right, in its sole and absolute discretion, to terminate with immediate effect the Underwriting Agreement if it sees fit by giving notice to the Company, upon the occurrence of any of the following events at or prior to 8:00 a.m. (Hong Kong time) on the Listing Date:

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

Undertakings

Undertakings pursuant to the Underwriting Agreement

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

Undertakings pursuant to the GEM Listing Rules

[REDACTED]

[REDACTED]

Fees, commission and expenses

Pursuant to the Underwriting Agreement, the **[REDACTED]** are being offered for subscription, subject to the terms and conditions in this document, at the **[REDACTED]** of **[REDACTED]** to **[REDACTED]** per **[REDACTED]**. The Underwriter will receive an underwriting commission of **[REDACTED]** of the aggregate **[REDACTED]** of all **[REDACTED]** (including any additional Shares that may be issued pursuant to the exercise of the **[REDACTED]**), which are to be borne by our Company. In connection with the **[REDACTED]**, our Company has agreed to pay to the Sole Lead Manager an **[REDACTED]** of the gross proceeds from the **[REDACTED]**. We may also in our sole discretion pay the Underwriter an additional incentive fee for the **[REDACTED]** offered by our Company under the **[REDACTED]**.

Assuming the **[REDACTED]** is **[REDACTED]** (being the mid-point of the indicative **[REDACTED]** range), the total underwriting commission, fees and expenses relating to the **[REDACTED]** and Listing (including the GEM Listing fees, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees, and printing) are estimated to be approximately RMB22.7 million (or approximately HK$27.7 million).

Underwriter's interest in our Company

Save as disclosed in this document and as contemplated pursuant to the Underwriting Agreement, none of the Underwriter or any of its close associates has any shareholding interests in any member of our Group nor has any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Shares.

SOLE SPONSOR'S INTERESTS

Save as provided for under the Underwriting Agreement, neither the Sole Sponsor nor any of its close associates has or may, as a result of the **[REDACTED]**, have any interest in any securities of our Company or any other member of our Group (including rights to subscribe for such securities).

Neither the Sole Sponsor nor any of its close associates will accrue any material benefit as a result of the successful outcome of the **[REDACTED]**, other than the following:

(a) in taking up the underwriting obligations under the Underwriting Agreement;

(b) by way of an underwriting commission to be paid to the Sole Sponsor for acting as the Underwriter to the **[REDACTED]** pursuant to the Underwriting Agreement;

(c) as an incentive fee to the Sole Sponsor for acting as the Sole Lead Manager pursuant to the Underwriting Agreement;

(d) by way of sponsor's fee to be paid to the Sole Sponsor for acting as the sponsor of the **[REDACTED]**;

(e) by way of service fee to be paid to the Sole Sponsor for acting as the compliance adviser of our Group upon Listing; and

(f) certain close associates of the Sole Sponsor whose usual and ordinary courses of business involve trading of and dealing in securities may derive commissions from the trading of and dealing in securities of our Company or provide margin financing in connection thereto or purchase or sell securities of our Company or hold securities of our Company for investment purposes after its Listing on GEM.

None of the directors and employees of the Sole Sponsor has any directorship in our Company or any other companies comprising our Group.

STRUCTURE AND CONDITIONS OF THE PLACING

[REDACTED]

STRUCTURE AND CONDITIONS OF THE PLACING

[REDACTED]

STRUCTURE AND CONDITIONS OF THE PLACING

[REDACTED]

[REDACTED]

The following is the text of a report, prepared for the purpose of incorporation in this document, received from the independent reporting accountants of our Company, SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong.



SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

[REDACTED]

The Board of Directors
Feishang Non-metal Materials Technology Limited

Celestial Capital Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information (the "Financial Information") regarding Feishang Non-metal Materials Technology Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the two years ended 31 December 2014 and six months ended 30 June 2015 (the "Track Record Period") for inclusion in the document of the Company dated **[REDACTED]** (the "Document") in connection with the listing of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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. Pursuant to a group reorganisation as detailed in the section headed "History, Reorganisation and Group structure" of the Document (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group on 17 September 2015. The Company is an investment holding company and has not carried out any business since the date of its incorporation save for the aforementioned Reorganisation.

At as 31 December 2013, 31 December 2014, 30 June 2015 and the date of this report, the Company has direct and indirect interests in the following subsidiaries comprising the Group:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Group		Principal activities
			Direct	Indirect	
Feishang International Holdings Limited ("Feishang International")	British Virgin Islands ("BVI") 5 February 2002	USD1	100%	–	Investment holding
Wuhu Feishang Non-metallic Material Company, Limited ("Feishang Material") *(Note i)* 蕪湖飛尚非金屬材料有限公司	The People's Republic of China (the "PRC") 21 June 2002	HK$25,000,000	–	100%	Bentonite mining, production and sales of drilling mud and pelletising clay
Shenzhen Zhuorui Business Management Consultant Company Limited* ("Zhuorui") 深圳市卓瑞企業管理諮詢有限公司	PRC 19 June 2015	RMB1,000,000	–	100% *(Note ii)*	Business management and consultation

Notes:

(i) The subsidiary is a wholly foreign owned enterprise established in the PRC

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

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

The companies now comprising the Group have adopted 31 December as their financial year end date.

No statutory audited financial statements have been prepared for Zhuorui since its date of establishment as it is not yet due to be issued.

No statutory audited financial statements have been prepared for the Company and Feishang International since their respective dates of incorporation as there are no statutory audit requirements under the relevant rules and regulations in their respective jurisdiction of incorporation. However, for the purpose of this report, we have reviewed all the relevant transactions of these companies since their respective dates of incorporation to the date of this report and carried out such procedures as we considered necessary for inclusion of the Financial Information in relation to these companies in this report.

The audited statutory financial statements of Feishang Material for the years ended 31 December 2013 and 2014 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by 安徽新中天會計師事務所有限公司, a firm of certified public accountants registered in the PRC.

BASIS OF PREPARATION

For the purpose of this report, the directors of the Company have prepared the combined financial statements of the Company and its subsidiaries now comprising the Group for the Track Record Period in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") (the "Underlying Financial Statements"). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Financial Information for the Track Record Period set out in this report has been prepared by the directors of the Company based on the Underlying Financial Statements on the basis of preparation set out in note 2 of Section A below, with no adjustments thereto, and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules").

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with IFRSs issued by the IASB, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the GEM Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an independent opinion on the Financial Information based on our procedures and to report our opinion thereon to you.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 30 June 2015.

OPINION

In our opinion, for the purpose of this report, and on the basis of preparation set out in note 2 of Section A below, the Financial Information gives a true and fair view of the financial position of the Group as at 31 December 2013, 31 December 2014 and 30 June 2015 and of their financial performance and cash flows for the Track Record Period.

CORRESPONDING FINANCIAL INFORMATION

The comparative combined statement of profit or loss and other comprehensive income, combined statement of changes in equity and combined statement of cash flows of the Group for the six months ended 30 June 2014 together with the notes thereon (the "June 2014 Financial Information") have been extracted from the Group's unaudited combined financial information for the same period, which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the June 2014 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our responsibility is to express a conclusion on the June 2014 Financial Information based on our review.

Our review of the June 2014 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical procedures and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the June 2014 Financial Information.

Based on our review, nothing has come to our attention that causes us to believe that the June 2014 Financial Information is not prepared, in all material aspects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with IFRSs.

A. FINANCIAL INFORMATION

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December		Six months ended 30 June	
		2013	2014	2014	2015
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Revenue	*8*	29,987	30,447	13,794	15,247
Cost of sales		(18,749)	(17,686)	(8,387)	(7,906)
Gross profit		11,238	12,761	5,407	7,341
Other income	*10*	698	1,100	427	482
Selling and distribution expenses		(1,847)	(1,057)	(487)	(644)
Administrative and other expenses		(2,940)	(2,911)	(1,930)	(5,653)
Finance cost	*11*	(296)	(317)	(156)	(168)
Profit before tax		6,853	9,576	3,261	1,358
Income tax expense	*12*	(1,792)	(2,551)	(996)	(1,269)
Profit and total comprehensive income for the year/period attributable to the owners of the Company	*13*	5,061	7,025	2,265	89
Earnings per Share					
Basic and diluted	*17*	N/A	N/A	N/A	N/A

COMBINED STATEMENTS OF FINANCIAL POSITION

		At 31 December		At 30 June
		2013	2014	2015
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	*18*	13,015	12,282	12,833
Prepaid lease payments	*19*	–	–	2,779
Intangible asset	*20*	3,224	3,181	3,158
Restricted bank balances	*26*	1,351	2,136	2,160
Deferred tax assets	*21*	1,432	1,296	730
		19,022	18,895	21,660
Current assets				
Inventories	*22*	3,869	2,026	2,152
Trade, bills and other receivables	*23*	5,916	8,457	10,405
Amount due from a related company	*24*	–	1,020	–
Amount due from a controlling shareholder	*24*	31	25	–
Financial assets at fair value through profit or loss	*25*	10,000	–	–
Prepaid lease payments	*19*	–	–	77
Bank balances and cash	*26*	12,634	23,631	24,334
		32,450	35,159	36,968
Current liabilities				
Trade and other payables	*27*	6,527	3,317	3,332
Income tax payables		1,087	1,247	346
Amount due to a controlling shareholder	*24*	–	–	4,521
Amount due to a related company	*24*	1,945	–	68
		9,559	4,564	8,267
Net current assets		22,891	30,595	28,701
Total assets less current liabilities		41,913	49,490	50,361

		At 31 December		At 30 June
		2013	2014	2015
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Capital and reserves				
Share capital	*30*	–	–	–
Reserves		36,784	43,809	43,898
		36,784	43,809	43,898
Non-current liabilities				
Asset retirement obligations	*28*	4,489	5,121	5,943
Deferred income	*29*	640	560	520
		5,129	5,681	6,463
		41,913	49,490	50,361

As at 30 June 2015, the Company was not yet incorporated so that its statements of financial position are not presented.

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Share capital *RMB'000 (Note 30)*	Other reserve *RMB'000 (Note i)*	Statutory reserve *RMB'000 (Note ii)*	Safety fund and production maintenance fund *RMB'000 (Note iii)*	Retained earnings *RMB'000*	Total *RMB'000*
At 1 January 2013	–	26,492	914	100	4,217	31,723
Profit and total comprehensive income for the year	–	–	–	–	5,061	5,061
Appropriation to statutory reserve	–	–	542	–	(542)	–
Appropriation and utilisation of safety fund and production maintenance fund, net	–	–	–	220	(220)	–
At 31 December 2013 and 1 January 2014	–	26,492	1,456	320	8,516	36,784
Profit and total comprehensive income for the year	–	–	–	–	7,025	7,025
Appropriation to statutory reserve	–	–	692	–	(692)	–
Appropriation and utilisation of safety fund and production maintenance fund, net	–	–	–	170	(170)	–
At 31 December 2014 and 1 January 2015	–	26,492	2,148	490	14,679	43,809
Profit and total comprehensive income for the period	–	–	–	–	89	89
Appropriation to statutory reserve	–	–	397	–	(397)	–
Appropriation and utilisation of safety fund and production maintenance fund, net	–	–	–	93	(93)	–
At 30 June 2015	–	26,492	2,545	583	14,278	43,898
At 1 January 2014 (audited)	–	26,492	1,456	320	8,516	36,784
Profit and total comprehensive income for the period	–	–	–	–	2,265	2,265
Appropriation to statutory reserve	–	–	140	–	(140)	–
Appropriation and utilisation of safety fund and production maintenance fund, net	–	–	–	55	(55)	–
At 30 June 2014 (unaudited)	–	26,492	1,596	375	10,586	39,049

Notes:

(i) Other reserve

It represents the capital contribution from the controlling shareholder of Feishang International during the fiscal year of 2002 to 2003.

(ii) Statutory reserve

As required by applicable laws and regulations, entities established and operated in 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, 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.

COMBINED STATEMENTS OF CASH FLOWS

	Year ended 31 December		Six months ended 30 June	
	2013	2014	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(Unaudited)	
OPERATING ACTIVITIES				
Profit before tax	6,853	9,576	3,261	1,358
Adjustments for:				
Depreciation of property, plant and equipment	1,938	1,442	685	646
Amortisation of intangible asset	53	43	15	23
Amortisation of prepaid lease payments	–	–	–	7
Government grants	(73)	(110)	–	–
Loss on disposal/written off of property, plant and equipment	47	125	12	16
Finance costs	296	317	156	168
Release of government grant for property, plant and equipment	(80)	(80)	(40)	(40)
Impairment loss on trade receivables	–	–	–	50
Net gain on financial assets at fair value through profit or loss	(404)	(761)	(344)	(279)
Bank interest income	(141)	(149)	(43)	(66)
Operating cash flows before movements in working capital	8,489	10,403	3,702	1,883
(Increase) decrease in inventories	(2,459)	1,843	1,149	(126)
Increase in trade, bills and other receivables	(539)	(2,541)	(1,827)	(1,998)
Increase (decrease) in trade and other payables	3,307	(3,210)	(1,852)	15
(Increase) decrease in financial assets at fair value through profit or loss	(5,046)	10,761	204	279
Cash generated from operations	3,752	17,256	1,376	53
Income tax paid	(1,374)	(2,255)	(1,367)	(1,604)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	2,378	15,001	9	(1,551)

	Note	Year ended 31 December 2013 RMB'000	2014 RMB'000	Six months ended 30 June 2014 RMB'000 (Unaudited)	2015 RMB'000
INVESTING ACTIVITIES					
Bank interest income received		141	149	43	66
Purchases of property, plant and equipment		(429)	(698)	(562)	(570)
Placement of restricted bank balances		(41)	(785)	–	(24)
Proceeds from disposal of property, plant and equipment		–	179	179	11
(Advance to) repayment from a related company		–	(1,020)	–	1,020
Repayment from a controlling shareholder		6	6	6	25
Payment to acquire land use right		–	–	–	(2,863)
NET CASH USED IN INVESTING ACTIVITIES		(323)	(2,169)	(334)	(2,335)
FINANCING ACTIVITIES					
Government grant received		873	110	–	–
Advance from a controlling shareholder		–	–	–	4,521
Advance from (repayment to) a related company		33	(1,945)	(78)	68
NET CASH FROM (USED IN) FINANCING ACTIVITIES		906	(1,835)	(78)	4,589
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		2,961	10,997	(403)	703
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD		9,673	12,634	12,634	23,631
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD, REPRESENTED BY BANK BALANCES AND CASH	*26*	12,634	23,631	12,231	24,334

NOTES TO THE FINANCIAL INFORMATION

1. Corporate Information

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. The addresses of the registered office and the principal place of business of the Company are detailed in the section headed "Corporate Information" in this Document.

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

The Financial Information are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company. RMB is the currency of the primary economic environment in which the principal subsidiary of the Company operate (the functional currency of the principal subsidiary).

2. Basis of Preparation of Financial Information

Feishang International, which is a holding company of Feishang Material and Zhuorui, is ultimately owned by Mr. Li Feilie, Laitan Investments Limited and Feishang Group Limited (the "Controlling Shareholders") since August 2002. Feishang Group Limited is a wholly-owned subsidiary of Laitan Investment Limited which is beneficially owned by Mr. Li Feilie. On 15 July 2015, the Company was incorporated in the Cayman Islands as an exempted company with limited liability. Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group on 17 September 2015. The Group comprising the Company and its subsidiaries resulting from the Reorganisation continued to be controlled by the Controlling Shareholders is regarded as a continuing entity.

Feishang Material is the only operating entity of the Group while the Company and Feishang International have not been involved in any other business prior to the Reorganisation and do not meet the definition of a business.

The Reorganisation 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 Financial Information 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 Track Record Period.

The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows including the results and cash flows of the companies now comprising the Group have been prepared as if the current group structure had been in existence throughout the Track Record Period or since their respective dates of incorporation or establishment up to 30 June 2015, where this is a shorter period. The combined statements of financial position of the Group as at 31 December 2013, 31 December 2014 and 30 June 2015 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as at those dates.

3. Application of New and Revised IFRSs and New Hong Kong Companies Ordinance

For the purpose of preparing and presenting the Financial Information for the Track Record Period, the Group has consistently adopted 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 IASB which are effective for the Group's financial year beginning on 1 January 2015 throughout the Track Record Period.

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 Track Record Period. As a result, the presentation and disclosures of certain information in the Financial Information conformed with the new requirements for the Track Record Period.

New and revised IFRSs issued but not yet effective

At the date of this report, the following new and revised IFRSs have been issued but are not yet effective. The Group has not early applied these statements and amendments:

IFRS 9	Financial Instruments[1]
IFRS 14	Regulatory Deferral Accounts[3]
IFRS 15	Revenue from Contracts with Customers[2]
Amendment to IAS 1	Disclosure Initiative[3]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[3]
Amendments to IAS 27	Equity Method in Separate Financial Statements[3]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception[3]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[3]
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle[3]

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

[2] *Effective for annual periods beginning on or after 1 January 2017. In July 2015, the IASB confirmed to defer the effective date by one year to 1 January 2018.*

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

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 Financial Instruments

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain simple debt instruments.

Key requirements of IFRS 9 are described below:

- 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 accounting periods. In addition, under IFRS 9, 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, IFRS 9 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 liability's 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 fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company anticipate that the application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRS 15 Revenue from Contracts with Customers

In July 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue 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.

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. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer

- Step 2: Identify the performance obligations in the contract

- Step 3: Determine the transaction price

- Step 4: Allocate the transaction price to the performance obligations in the contract

- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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 disclosures are required by IFRS 15.

The directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's Financial Information. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

Amendments to IAS 1 Disclosure Initiative

The amendments clarify that companies should use professional judgement in determining what information as well as where and in what order information is presented in the financial statements. Specifically, an entity should decide, taking into consideration all relevant facts and circumstances, how it aggregates information in the financial statements, which include the notes. An entity does not require to provide a specific disclosure required by a IFRS if the information resulting from that disclosure is not material. This is the case even if the IFRS contain a list of specific requirements or describe them as minimum requirements.

Besides, the amendments provide some additional requirements for presenting additional line items, headings and subtotals when their presentation is relevant to an understanding of the entity's financial position and financial performance respectively. Entities, in which they have investments in associates or joint ventures, are required to present the share of other comprehensive income of associates and joint ventures accounted for using the equity method, separated into the share of items that (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

Furthermore, the amendments clarify that:

(i) an entity should consider the effect on the understandability and comparability of its financial statements when determining the order of the notes; and

(ii) significant accounting policies are not required to be disclosed in one note, but instead can be included with related information in other notes.

The directors of the Company anticipate that the application of amendments to IAS 1 in the future may have a material impact on the disclosures made in the Group's Financial Information.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or

b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method and unit-of-production for depreciation for its property, plant and equipment, and unit-of-production for intangible asset respectively. The directors of the Company believe that both methods are the most appropriate methods to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors of the Company do not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on the Group's Financial Information.

Annual Improvements to IFRSs 2012-2014 Cycle

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held-for-distribution accounting is discontinued. The amendments apply prospectively.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets and clarify that the offsetting disclosures (introduced in the amendments to IFRS 7 Disclosure – Offsetting Financial

Assets and Financial Liabilities issued in December 2011 and effective for periods beginning on or after 1 January 2013) are not explicitly required for all interim periods. However, the disclosures may need to be included in condensed interim financial statements to comply with IAS 34 Interim Financial Reporting.

The amendments to IAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. These amendments would result in the depth of the market for high quality corporate bonds being assessed at currency level. The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are first applied. Any initial adjustment arising should be recognised in retained earnings at the beginning of that period.

The amendments to IAS 34 clarify the requirements relating to information required by IAS 34 that is presented elsewhere within the interim financial report but outside the interim financial statements. The amendments require that such information be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The directors of the Company do not anticipate that the application of these will have a material effect on the Group's Financial Information.

4. Significant Accounting Policies

The Financial Information has been prepared in accordance with IFRSs issued by the IASB. In addition, the Financial Information includes applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis except for certain financial instrument that is measured at fair value as explained in the accounting policies set out below. 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 Financial Information incorporates the financial information of the entities to be controlled by the Company upon the reorganisation. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its 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 over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year 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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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 leasehold land and 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 combined statements 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 an units-of-production basis over the estimated recoverable mineral reserves that directly benefit from the stripping activity.

The dismantlement asset and the capitalised stripping costs are depreciated on the units-of-production method utilising the total proven and probable reserves.

Dismantlement asset and capitalised stripping costs are depreciated on a unit-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 administrative 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 unit-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 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 each 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 a CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a 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 a 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 combined statements of financial position comprise cash at banks and on hand and short-term bank deposits with a maturity of three months or less. For the purpose of the combined statements of cash flows, cash and cash equivalents consist of cash at bank and on hand, and short-term bank deposits as defined above.

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 combined statements 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 combined statements 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 (other than financial assets at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into financial assets at FVTPL and 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, other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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 and is included in the 'other income' line item. Fair value is determined in the manner described in note 7c.

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, amounts due from a related company and a controlling shareholder, restricted bank balances 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, other than those at FVTPL, 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 or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the 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 other financial assets with the exception of trade and other receivables, amount due from a related company and amount due from a controlling shareholder 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 and other receivables, amount due from a related company and amount due from a controlling shareholder 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 Group are recognised at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities including trade and other payables and amounts due to a related company and a controlling shareholder 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 term of the relevant lease.

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 combined 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.

Retirement benefit costs

Payments to the state-managed retirement benefit schemes is 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 and sick leave 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 before tax" as reported in the combined statements 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 Financial Information 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 combined 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.

Fair Value Measurement

When measuring fair value except for the Group's leasing transactions net realisable value of inventories, value in use of a CGU and intangible assets for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

Level 1	–	Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2	–	Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3	–	Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 4, 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.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised and disclosures made in the Financial Information.

Ownership of the land and buildings

Despite the Group has paid the full purchase consideration as detailed in notes 18 and 19, formal titles of certain of the Group's rights to the use of the land and buildings were not yet granted from the relevant government authorities. Despite the

fact that the Group has not obtained the relevant legal titles, the directors of the Company determine to recognise these land and buildings on the ground that they expect no major difficulties in obtaining the legal titles in the future and the Group is in substance controlling these land and buildings. In the opinion of the directors of the Company, the absence of formal title to these land and buildings does not impair the value of the relevant assets to the Group.

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 2013, 31 December 2014 and 30 June 2015, the carrying amounts of property, plant and equipment were approximately RMB13,015,000, RMB12,282,000 and RMB12,833,000 respectively.

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 combined 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 2013, 31 December 2014 and 30 June 2015, the carrying amounts of dismantlement asset were approximately RMB2,052,000, RMB2,340,000 and RMB2,977,000 respectively while the carrying amounts of intangible asset were approximately RMB3,224,000, RMB3,181,000 and RMB3,158,000 respectively.

Impairment of property, plant and equipment

As at 31 December 2013, 31 December 2014 and 30 June 2015, the director of the Company reviewed the carrying amounts of property, plant and equipment of approximately RMB13,015,000, RMB12,282,000 and RMB12,833,000 respectively and identified if there was indication that those assets may suffer an impairment loss. Accordingly, the recoverable amount of the property, plant and equipment is estimated in order to determine the extent of the impairment loss. The estimates of the recoverable amounts of the property, plant and equipment require the use of assumptions such as cash flow projections and discount rates.

Based on the estimated recoverable amount, no impairment loss was recognised as at 31 December 2013, 31 December 2014 and 30 June 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 2013, 31 December 2014 and 30 June 2015, the carrying amounts of trade receivables were approximately RMB1,240,000, RMB3,325,000 and RMB3,786,000 respectively (net of allowance for doubtful debts of nil, nil and approximately RMB50,000 as at 31 December 2013, 31 December 2014 and 30 June 2015 respectively). The carrying amount of other receivables were approximately RMB40,000, RMB250,000 and RMB333,000 respectively, no impairment loss on other receivables was recognised for the Track Record Period.

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 2013, 31 December 2014 and 30 June 2015, the carrying amounts of inventories were approximately RMB3,869,000, RMB2,026,000 and RMB2,152,000 respectively, no allowance was recognised in respect of inventories for the Track Record Period.

Fair value measurements and valuation processes

Some of the Group's assets are measured at fair value for financial reporting purposes. The directors of the Company has to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset, the Company uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the director of the Company will determine the appropriate valuation techniques and inputs to the model.

The Company uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of its financial instruments. Note 7(c) provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets.

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 2013, 31 December 2014 and 30 June 2015, the carrying amounts of asset retirement obligations were approximately RMB4,489,000, RMB5,121,000 and RMB5,943,000 respectively.

Income taxes

As at 31 December 2013, 31 December 2014 and 30 June 2015, the Group has recognised deferred tax assets of approximately RMB1,432,000, RMB1,296,000 and RMB730,000 respectively. 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.

6. 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 during the Track Record Period.

The capital structure of the Group consists 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 borrowings.

7. Financial Instruments

a) Categories of financial instruments

	The Group		
	As at 31 December		As at 30 June
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Financial assets			
Loans and receivables (including cash and cash equivalents)	19,897	35,177	35,053
Financial assets at FVTPL	10,000	–	–
	29,897	35,177	35,053
Financial liabilities			
Financial liabilities at amortised cost	6,122	3,121	7,919

b) Financial risk management objectives and policies

The Group's major financial instruments include trade, bills and other receivables, amount due from (to) a related company, financial assets at FVTPL, restricted bank balances, bank balances and cash, trade and other payables and amount due from (to) a controlling shareholder.

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's business activities and its assets and liabilities were denominated in its own functional currency. The management considers the Group is not exposed to significant foreign currency risk as majority of its operations and transactions are denominated in the functional currency of the Company and its subsidiaries. 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.

(ii) Interest rate risk

The Group is exposured to cash flow interest rate risk in relation to the fluctuation of the prevailing market interest rate on restricted bank balances and bank balances. The management considers the Group's exposure of the restricted bank balances and bank balances to cash flow interest rate risk is not significant as the management does not anticipate significant fluctuation in interest rate on restricted bank balances and bank balances due to their short-term maturities. Hence, no sensitivity analysis is presented.

Credit risk

As at the end of each reporting period, 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 combined statements 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 quality of counterparty in respect of amounts due from a related company and a controlling shareholder is assessed by taking into account its financial position and other factors. The directors of the Company are of the opinion that the risk of default by the counterparty is low as the amount has been repaid.

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 2013, 31 December 2014 and 30 June 2015.

The Group has concentration of credit risk as nil, 26% and 29% of the total trade receivables was due from the Group's largest customer as at 31 December 2013, 31 December 2014 and 30 June 2015 respectively. As at 31 December 2013, 31 December 2014 and 30 June 2015, 98%, 36% and 66% of the total trade receivables was due from the Group's five largest customers respectively.

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.

All financial liabilities are non-interest bearing and their maturity dates are repayable on demand or within one year as at the end of each reporting period.

c) Fair value measurements recognised in the combined statements of financial position

The following table provides an analysis of financial instruments that are measured at fair value at the end of each reporting period for recurring measurement, grouped into Level 2 based on the degree to which the fair value is observable in accordance with the Group's accounting policy.

	As at 31 December 2013 Level 2 *RMB'000*
Assets	
Derivative financial instruments – investment-linked structured deposits	10,000

The valuation technique adopted was discounted cash flows and the key inputs were the prevailing observable interest rates discounted at a rate that reflected the credit risk of various counterparties.

There were no transfers between levels of fair value hierarchy during years the Track Record Period.

The directors of the Company consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values due to their immediate or short-term maturities.

8. Revenue

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

9. 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 contributing over 10% of the total revenue of the Group for the years ended 31 December 2013 and 2014 and six months ended 30 June 2014 and 2015 are as follows:

	Year ended 31 December		Six months ended 30 June	
	2013	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(Unaudited)	
Customer A	8,096	9,040	4,547	4,672
Customer B	5,729	6,944	3,005	4,382
Customer C	5,717	3,555	1,540	2,210
Customer D	3,300	N/A[1]	N/A[1]	N/A[1]
Customer E	N/A[1]	3,304	N/A[1]	N/A[1]

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

Information from major products

The following is an analysis of the Group's revenue from sales of its major products to external customers for the years ended 31 December 2013 and 2014 and six months ended 30 June 2014 and 2015 are as follows:

	Year ended 31 December		Six months ended 30 June	
	2013	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(Unaudited)	
Drilling mud	18,319	19,123	9,580	10,212
Pelletising clay	11,668	10,342	4,214	4,560
Unprocessed clay	–	982	–	475
	29,987	30,447	13,794	15,247

10. Other Income

	Year ended 31 December		Six months ended 30 June	
	2013	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(Unaudited)	
Bank interest income	141	149	43	66
Government grants *(Note)*	73	110	–	–
Release of government grant for property, plant and equipment *(note 29)*	80	80	40	40
Recovery of bad debts	–	–	–	89
Net gain on financial assets at FVTPL	404	761	344	279
Others	–	–	–	8
	698	1,100	427	482

Note: Government grants were received from local government authority of which the Group fulfilled all conditions or contingencies relating to those subsidies.

11. Finance Cost

	Year ended 31 December		Six months ended 30 June	
	2013	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(Unaudited)	
Unwinding of discount on provision for dismantlement *(note 28)*	296	317	156	168

12. Income Tax Expense

	Year ended 31 December		Six months ended 30 June	
	2013	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(Unaudited)	
Current tax:				
PRC Enterprise Income Tax ("EIT")	2,063	2,415	987	703
Deferred taxation *(note 21)*:				
Current year/period	(271)	136	9	49
Attributable to change in tax rate	–	–	–	517
	1,792	2,551	996	1,269

(i) 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 during the Track Record Period and the six months ended 30 June 2014.

(ii) 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 BVI.

(iii) 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%.

(iv) 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.

(v) As at 31 December 2013, 31 December 2014 and 30 June 2015, 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 RMB1,069,800, RMB1,761,500 and RMB2,158,300, respectively. No deferred tax liabilities have been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary difference and it is probable that such differences will not be reversed in the foreseeable future.

The income tax expense for the years ended 31 December 2013 and 2014 and six months ended 30 June 2014 and 2015 can be reconciled to the profit before tax per the combined statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December		Six months ended 30 June	
	2013	2014	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(Unaudited)	
Profit before tax	6,853	9,576	3,261	1,358
Tax at the tax rate of 25%	1,713	2,394	815	339
Preferential income tax rates applicable to a subsidiary	–	–	–	(519)
Tax effect of expenses not deductible for tax purpose	79	157	181	932
Decrease in opening deferred tax assets resulting from a decrease in applicable tax rate	–	–	–	517
Income tax expense	1,792	2,551	996	1,269

Details of the deferred tax are set out in note 21.

13. Profit for the Year/Period

	Year ended 31 December		Six months ended 30 June	
	2013	2014	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(Unaudited)	
Profit for the year/period has been arrived at after charging:				
Directors' emoluments *(note 14)*	59	60	31	78
Salaries, wages and other benefits	3,653	2,871	1,609	1,593
Contribution to defined contribution retirement benefits scheme (excluding directors' emoluments) *(note a)*	667	450	149	39
	4,379	3,381	1,789	1,710
Amount included in inventories	(366)	420	247	135
Total staff costs	4,013	3,801	2,036	1,845

	Year ended 31 December		Six months ended 30 June	
	2013	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(Unaudited)	
Auditor's remuneration	9	9	9	9
Amortisation of intangible asset	53	43	15	23
Amortisation of prepaid lease payments	–	–	–	7
Professional expenses incurred in connection with the Company's listing	–	–	–	3,695
Amount of inventories recognised as an expenses	18,436	17,308	8,241	7,729
Exchange loss, net	–	–	–	16
Depreciation of property, plant and equipment	1,938	1,442	685	646
Loss on disposal/written off of property, plant and equipment (included in administrative and other expenses)	47	125	12	16
Impairment loss on trade receivables	–	–	–	50
Research and development cost *(note b)*	801	899	888	664
Lease payments paid under operating lease in respect of plant and equipment	–	462	–	558

Notes:

a) Retirement benefits contribution to defined contribution of Feishang Material for the years ended 31 December 2013 and 2014, and six months ended 30 June 2014 and 2015 mainly comprised cost of RMB1,165,000, RMB910,000, RMB344,000 (unaudited) and RMB418,000 respectively, offset by the reversal of provision for prior years/periods of RMB488,000 and RMB448,000, RMB189,000 (unaudited) and RMB363,000 respectively. The Group reversed the provision for retirement benefits costs after (i) considering the relevant local rules and regulations; and (ii) a written confirmation received by the Group from the Fanchang Country Human Resources and Social Security Bureau on 30 July 2015 confirming that it has not issued and will not issue an order requiring Feishang Material to repay additional social insurance or impose administrative penalty on Feishang Material.

b) Staff cost of approximately RMB307,000, RMB388,000, RMB388,000 (unaudited) and RMB183,000 are included in the research and development cost for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2014 and 2015 respectively.

14. Directors' Emoluments

Details of directors' emoluments are 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**	**Employer's contributions to retirement benefits scheme**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2013				
Executive directors				
Mr. Xu Chengyin *(note)*	–	–	–	–
Mr. Zhang Pingwu *(note)*	–	49	10	59
Total	–	49	10	59
Year ended 31 December 2014				
Executive directors				
Mr. Xu Chengyin *(note)*	–	–	–	–
Mr. Zhang Pingwu *(note)*	–	48	12	60
Total	–	48	12	60
Six months ended 30 June 2014 (unaudited)				
Executive directors				
Mr. Xu Chengyin *(note)*	–	–	–	–
Mr. Zhang Pingwu *(note)*	–	25	6	31
Total	–	25	6	31

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**	**Employer's contributions to retirement benefits scheme**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Six months ended 30 June 2015				
Executive directors				
Mr. Xu Chengyin *(note)*	–	31	8	39
Mr. Zhang Pingwu *(note)*	–	31	8	39
Total	–	62	16	78

Note: The remuneration represents remuneration received from the Group by the respective directors in their capacity as an employee of the subsidiaries during the Track Record Period and six months ended 30 June 2014.

No emolument was paid or payable to the executive director, namely Mr. Chen Gongbao, and the then director, namely Mr. Li Feilie (resigned on 18 September 2015) during the Track Record Period and the six months ended 30 June 2014.

No chief executive was appointed during the Track Record Period and the six months ended 30 June 2014.

The directors of the Company did not waive or agree to waive any emolument paid by the Group during the Track Record Period and six months ended 30 June 2014. No emoluments were paid by the Group to three directors in their capacity as directors of the Company or the subsidiaries as an incentive payment for joining the Group or as compensation for loss of office during the Track Record Period and the six months ended 30 June 2014.

Mr. Chan Chin Hung Alex, Mr. Zheng Shuilin and Mr. Duan Xuechen were appointed as the Company's independent non-executive directors on 12 December 2015. During the Track Record Period and the six months ended 30 June 2014, the independent non-executive directors had not yet been appointed and did not receive any remuneration.

15. Employees' Emoluments

Of the five individuals with the highest emoluments for the Track Record Period and for the six months ended 30 June 2014 in the Group, one, one, two and one were the directors of the Company whose emoluments is set out in Note 14. The emoluments of the remaining four, four, three and four highest paid individuals for the Track Record Period and the six months ended 30 June 2014 were as follows:

	Year ended 31 December		Six months ended 30 June	
	2013	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(Unaudited)	
Salaries, allowances, and other benefits	139	136	76	78
Contribution to defined contribution retirement benefits scheme	40	46	23	24
	179	182	99	102

Their emoluments were within the following bands:

	Year ended 31 December		Six months ended 30 June	
	2013	**2014**	**2014**	**2015**
	Number of individuals	*Number of individuals*	*Number of individuals*	*Number of individuals*
			(Unaudited)	
Nil to HK$1,000,000 (equivalent to approximately: 31/12/2013: RMB781,000; 31/12/2014: RMB800,000; 30/6/2014: RMB795,000; 30/6/2015: RMB800,000)	4	4	4	3

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 during the Track Record Period and the six months ended 30 June 2014.

16. Dividend

No dividend was paid or declared by the Group during the Track Record Period and the six months ended 30 June 2014 nor has any dividend been proposed since the end of each reporting period.

17. Earnings per Share

Earnings per share information is not presented as its inclusion, for the purpose of the Financial Information, is not considered meaningful.

18. Property, Plant and Equipment

	Buildings	Machinery and equipment	Dismantlement asset	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At 1 January 2013	9,728	15,657	2,257	401	–	28,043
Additions	142	287	–	–	–	429
Disposal/written off	–	(457)	–	–	–	(457)
At 31 December 2013	9,870	15,487	2,257	401	–	28,015
Asset retirement obligations adjustment *(note 28)*	–	–	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 *(note 28)*	–	–	654	–	–	654
Additions	–	305	–	–	265	570
Disposal/written off	(21)	(225)	–	–	–	(246)
At 30 June 2015	9,836	13,991	3,226	401	265	27,719
ACCUMULATED DEPRECIATION						
At 1 January 2013	2,495	10,558	171	248	–	13,472
Charge for the year	444	1,419	34	41	–	1,938
Eliminated on disposal/ written off	–	(410)	–	–	–	(410)
At 31 December 2013	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 period	225	390	17	14	–	646
Eliminated on disposal/ written off	(10)	(209)	–	–	–	(219)
At 30 June 2015	**3,598**	**10,707**	**249**	**332**	**–**	**14,886**
CARRYING VALUES						
At 31 December 2013	**6,931**	**3,920**	**2,052**	**112**	**–**	**13,015**
At 31 December 2014	**6,474**	**3,385**	**2,340**	**83**	**–**	**12,282**
At 30 June 2015	**6,238**	**3,284**	**2,977**	**69**	**265**	**12,833**

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.

As at 31 December 2013, 31 December 2014 and 30 June 2015, the Group was in the process of obtaining the certificates of ownership for buildings with carrying values of approximately RMB1,006,000, RMB950,000 and RMB942,000 respectively from the relevant PRC government authorities. In the opinion of the directors of the Company, the absence of formal title to these properties does not impair their values to the Group as the Group has paid in full purchase consideration of these buildings and the probability of being evicted on the ground of an absence of formal title is remote.

19. Prepaid Lease Payments

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

	At 31 December		At 30 June
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Current assets	–	–	77
Non-current assets	–	–	2,779
	–	–	2,856

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

As at 31 December 2013 and 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 rights during the six months ended 30 June 2015.

20. Intangible Asset

	Mining right *RMB'000*
COST	
At 1 January 2013, 31 December 2013, 31 December 2014 and 30 June 2015	3,537
AMORTISATION	
At 1 January 2013	260
Charge for the year	53
At 31 December 2013	313
Charge for the year	43
At 31 December 2014	356
Charge for the period	23
At 30 June 2015	379
CARRYING VALUES	
At 31 December 2013	3,224
At 31 December 2014	3,181
At 30 June 2015	3,158

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.

21. Deferred Taxation

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

	At 31 December		At 30 June
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Deferred tax assets	1,432	1,296	730

The following is the deferred tax assets (liabilities) recognised by the Group and movements thereon during the Track Record Period:

	Temporary difference on allowance, accrued liabilities and deferred income	Temporary difference on asset retirement obligations	Accelerated tax depreciation	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2013	1,034	1,049	(922)	1,161
Credit (charge) to profit or loss	242	74	(45)	271
At 31 December 2013	1,276	1,123	(967)	1,432
Credit (charge) to profit or loss	(166)	158	(128)	(136)
At 31 December 2014	1,110	1,281	(1,095)	1,296
Effect of change in tax rate	(443)	(512)	438	(517)
Credit (charge) to profit or loss	(58)	124	(115)	(49)
At 30 June 2015	609	893	(772)	730

22. Inventories

	At 31 December		At 30 June
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Materials and supplies	1,421	1,298	1,181
Work-in-progress	926	587	485
Finished goods	1,522	141	486
	3,869	2,026	2,152

23. Trade, Bills and Other Receivables

	At 31 December		At 30 June
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	1,240	3,325	3,836
Less: allowance for impairment of trade receivables	–	–	(50)
	1,240	3,325	3,786
Bills receivables	4,601	4,790	4,440
Trade deposits paid	35	35	47
Prepayments	–	57	1,799
Other receivables	40	250	333
	5,916	8,457	10,405

The Group offers revolving credit to two of its customers amounted nil, RMB937,000 and RMB1,469,000 as at 31 December 2013, 31 December 2014 and 30 June 2015 respectively. 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 for the coming year. 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 nil, approximately RMB937,000 and RMB1,469,000 as at 31 December 2013, 31 December 2014 and 30 June 2015 respectively. 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 RMB1,240,000, RMB2,388,000 and RMB2,317,000 as at 31 December 2013, 31 December 2014 and 30 June 2015 respectively, 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 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 each reporting period.

	At 31 December		At 30 June
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Within 30 days	1,177	1,272	1,940
31 to 60 days	63	757	747
61 to 90 days	–	242	99
91 to 180 days	–	684	–
More than 180 days	–	370	1,000
Total	1,240	3,325	3,786

As at 31 December 2013, 31 December 2014 and 30 June 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:

	Year ended 31 December		Six months ended 30 June
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year/period	–	–	–
Impairment losses recognised on trade receivables	–	–	50
At the end of the year/period	–	–	50

Included in the allowance for impairment of trade receivables are individually impaired trade receivables with an aggregate balances of nil, nil and approximately RMB50,000 as at 31 December 2013, 31 December 2014 and 30 June 2015 respectively 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:

	At 31 December		At 30 June
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Past due but not impaired:			
Within 30 days	63	376	267
31 to 60 days	–	492	36
61 to 90 days	–	57	–
More than 90 days	–	699	1,000
Total	63	1,624	1,303

Included in the Group's trade receivable are debtors with aggregate carrying amount of approximately RMB63,000, RMB1,624,000 and RMB1,303,000 as at 31 December 2013, 31 December 2014 and 30 June 2015 respectively which were past due as at the end of the respective 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 2013, 31 December 2014 and 30 June 2015 were 53 days, 112 days and 234 days respectively.

24. Amounts due from (to) a Related Company/a Controlling Shareholder

Details of the amount due from a related company disclosed pursuant to section 161B of the predecessor Hong Kong Companies Ordinance is as follows:

				Maximum amount outstanding		
						During the six months
			At	During the year ended		ended
	At 31 December		30 June	31 December		30 June
	2013	2014	2015	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Dr./(Cr.)	Dr./(Cr.)	Dr./(Cr.)			
蕪湖市飛尚實業發展有限公司 ("Feishang Development") *(Note)*	(1,945)	1,020	(68)	N/A	1,088	1,020
Mr. Li Feilie	31	25	(4,521)	37	31	25

Note: Mr. Li Feilie, the controlling shareholder of the Company has direct equity interests in the above company.

The amounts due from (to) a related company/a controlling shareholder are unsecured, non-interest bearing and repayable on demand.

25. Financial Assets at Fair Value Through Profit or Loss

	At 31 December		At 30 June
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Unlisted investments stated at Fair value	10,000	–	–

The financial assets at FVTPL as at 31 December 2013 represented two 2-month contracts of investment-linked structured deposits with banks, with principal amounts of RMB6,000,000 and RMB4,000,000. The Group do not have the right for early redemption.

The return of the investment-linked deposits are determined by reference to the performance of investment portfolio managed by the relevant banks.

26. Restricted bank balances 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 3.25% to 3.30% per annum during the Track Record Period.

Cash and cash equivalents

Cash and cash equivalents include the following for the purposes of the combined statement of cash flows:

	At 31 December		At 30 June
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Cash at bank and in hand	11,404	22,364	23,058
Short-term bank deposits less than three months	1,230	1,267	1,276
Cash and cash equivalents	12,634	23,631	24,334

At 31 December 2013, 31 December 2014 and 30 June 2015, bank balances and short-term bank deposits carried at prevailing market rates ranging from 0.35% to 3.06% per annum.

27. Trade and Other Payables

	At 31 December		At 30 June
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	1,000	670	882
Other payables and accruals	3,177	2,451	2,448
Advance from customers	2,350	196	2
	6,527	3,317	3,332

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

	At 31 December		At 30 June
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Within 30 days	932	563	709
31 to 60 days	3	5	112
61 to 90 days	–	3	9
91 to 365 days	36	41	–
Over 1 year	29	58	52
Total	1,000	670	882

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.

28. 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 movements thereon during the Track Record Period:

	Year ended 31 December		Six months ended 30 June
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year/period	4,193	4,489	5,121
Adjustment on change in discount rate	–	315	654
Unwinding of discount *(note 11)*	296	317	168
At the end of the year/period	4,489	5,121	5,943

The asset retirement obligation is calculated at the net present value of estimated future net cash flows of the restoration costs, amounting to approximately RMB15,305,000, discounted at 7.05%, 6.65% and 5.90% at 31 December 2013, 2014 and 30 June 2015 respectively.

29. Deferred Income

	At 31 December		At 30 June
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Analysed as:			
Current liabilities (included in other payables)	80	80	80
Non-current liabilities	640	560	520
	720	640	600

Note: During the year ended 31 December 2013, the Group received government grants of RMB800,000, 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 Track Record Period and the six months ended 30 June 2014, government grants released to the combined statements of profit or loss and other comprehensive income amounted to approximately RMB80,000, RMB80,000, RMB40,000 and RMB40,000 respectively.

30. Share Capital

The share capital as at 31 December 2013, 31 December 2014 and 30 June 2015 represent the share capital of Feishang International.

On 15 July 2015, the Company was incorporated in Cayman Islands as an exempted company with limited liabilities under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of Cayman Islands with an authorised share capital of HK$100,000 divided into 10,000,000 shares of HK$0.01 each. At the date of incorporation, 1 fully paid share of HK$0.01 each was issued at par.

31. 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 years ended 31 December 2013 and 2014 and the six months ended 30 June 2014 and 2015, the total amount contributed by the Group to this scheme and charged to the combined statement of profit or loss and other comprehensive income amounted to approximately RMB677,000, RMB462,000, RMB155,000 and RMB55,000 respectively.

32. Capital Commitment

	At 31 December		At 30 June
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Contracted, but not provided for:			
Property, plant and equipment	–	–	106

33. Related Party Transactions

Save as disclosed elsewhere in the Financial Information, 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 Track Record Period and the six months end 30 June 2014 was as follow:

	Year ended 31 December		Six months ended 30 June	
	2013	2014	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(Unaudited)	
Short-term benefits	49	48	25	62
Post-employment benefits	10	12	6	8
	59	60	31	70

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

(b) During the Track Record Period and the six months ended 30 June 2014, a trademark owned by a related company, which is beneficially owned by the ultimate controlling shareholder, were used by the Group at nil consideration.

(c) During the Track Record Period and the six months ended 30 June 2014, Feishang Development provides part of it's property to the Group for administrative purpose at nil consideration.

B. EVENTS AFTER THE REPORTING PERIOD

The following significant events took place subsequent to 30 June 2015.

a) Reorganisation

The Group comprising the Company and its subsidiaries underwent a reorganisation to rationalise the Group's structure in preparation for the listing of the Company's shares on the Growth Enterprise Market of the Stock Exchange. Details of the Reorganisation are set out in the section headed "History, Reorganisation and Group structure" of the Document. As a result of the Reorganisation, the Company became the holding company of the Group on 17 September 2015.

b) Share Option Scheme

Pursuant to the written resolutions of the sole shareholder of the Company passed on 12 December 2015, the Company has conditionally adopted a share option scheme, details of which are set out in section headed "Share Option Scheme" in Appendix V to the Document.

c) Banking facilities

The Group is in progress to obtain an external short-term debt financing of approximately HK$17,100,000 from a commercial bank for the settlement of outstanding amount due to a Controlling Shareholder before the Listing. On 7 December 2015, the Group has pledged its bank deposits of RMB15,000,000 with a commercial bank in the PRC for arranging this external debt financing.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group, the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2015.

Yours faithfully,

SHINEWING (HK) CPA Limited
Certified Public Accountants
Tang Kwan Lai
Practising Certificate Number: P05299
Hong Kong

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out in this Appendix does not form part of the Accountants' Report prepared by the reporting accountants of the Company, SHINEWING (HK) CPA Limited as set out in Appendix I to this document, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with "Financial Information" of this document and the Accountants' Report as set out in Appendix I to this document.

(A) UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted combined net tangible assets of the Group (the "Unaudited Pro Forma NTA") prepared in accordance with Rule 7.31 of the GEM Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the **[REDACTED]** on the audited combined net tangible assets of the Group attributable to the owners of the Company as at 30 June 2015 as if the **[REDACTED]** had taken place on 30 June 2015.

This Unaudited Pro Forma NTA has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the audited combined net tangible assets of the Group as at 30 June 2015 or at any future dates following the **[REDACTED]**. It is prepared based on the audited combined net tangible assets attributable to owners of the Company as at 30 June 2015 as set out in the Accountants' Report of the Group, the text of which is set out in Appendix I to this document, and adjusted as described below.

	Audited combined net tangible assets attributable to the owners of the Company as at 30 June 2015 *RMB'000* *(Note 1)*	**Estimated net proceeds from the [REDACTED]** *RMB'000* *(Note 2)*	**Unaudited pro forma adjusted combined net tangible assets attributable to the owners of the Company immediately after the completion of the [REDACTED]** *RMB'000*	**Unaudited pro forma adjusted combined net tangible assets per Share as at 30 June 2015** *RMB* *(Note 3)*	*HK$* *(Note 4)*
Based on the **[REDACTED]** of **[REDACTED]** per Share	40,740	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Based on the **[REDACTED]** of **[REDACTED]** per Share	40,740	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**

Notes:

1. The audited combined net tangible assets of the Group attributable to owners of the Company as at 30 June 2015 has been derived from the audited combined net tangible assets of the Group attributable to the owners of the Company of approximately RMB43,898,000 after deducting intangible assets of approximately RMB3,158,000 as at 30 June 2015 extracted from the Accountants' Report set out in Appendix I to this document.

2. The estimated net proceeds from the **[REDACTED]** are based on **[REDACTED]** at the respective low and high end **[REDACTED]** of **[REDACTED]** to **[REDACTED]** per **[REDACTED]**, after deducting the underwriting fees, commissions and other related expenses payable by the Company in relation to the **[REDACTED]**. The estimated net proceeds do not take into account any Shares which may be issued upon the exercise of **[REDACTED]** and any options granted under the Share Option Scheme.

3. The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after adjustment for the estimated net proceeds from the **[REDACTED]** as described in note 2 and on the basis that a total of **[REDACTED]** Shares were in issue as at 30 June 2015 (including Shares in issue as at the date of this document and those Shares are expected to be issued pursuant to the **[REDACTED]** but not taking into account any Shares which may be issued upon the exercise of **[REDACTED]** and any options granted under the Share Option Scheme).

4. Unaudited pro forma adjusted combined net tangible assets per Share is converted from Renminbi into Hong Kong dollar at the rate of HK$1.00:RMB0.82. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollar, or vice versa, at that rate of at any other rates or at all.

5. No adjustment had been made to the unaudited pro forma adjusted combined net tangible assets of the Group to reflect any trading result or other transactions of the Group entered into subsequent to 30 June 2015.

(B) ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

[REDACTED]

[REDACTED]

Independent Technical Report of the Huanghu Bentonite Project

Feishang Non-metal Materials Technology Limited

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SRK Project Number FAR002

[REDACTED]

Compiled by	**Peer Reviewed by**
Susan Border Associate, Industrial Minerals	Anthony Stepcich Principal Consultant Project Evaluations

Authors:
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EXECUTIVE SUMMARY

SRK Consulting (Hong Kong) Limited ("SRK") has been commissioned by Feishang Non-metal Materials Technology Limited ("Feishang" or the "Company") to prepare an Independent Technical Report ("ITR", or "Report") on its Huanghu Bentonite Project (the "Project"), located in Fanchang County, Anhui Province of the People's Republic of China. The ITR is prepared in a format which meets the requirements for a proposed listing on the Growth Enterprise ("GEM") Board of the Stock Exchange of Hong Kong Limited ("HKEx" or "Stock Exchange").

The Scope of Works for the ITR includes a review and reporting of the following technical aspects:

- Geology and Resources;
- Mining Methods and Ore Reserves;
- Environment, Permits and Social Impacts;
- Capital and Operating Costs;
- Bentonite Quality and Marketing; and
- Risk Assessment.

Work Programme

The work programme included a review of the information provided by Feishang. SRK consultants and associates visited the site in December 2014, January 2015 and June 2015. This Report comprises the results of the investigations, Resource and Reserve estimates and discussion with Feishang.

Project Background and Current Status

The Project is located 40 km southwest of Wuhu, the nearest major regional centre, and is around 10 km south of the Yangtze River. The Project constitutes six facilities, located in four areas and clustered within a 15 km diameter area

- An open-pit mine (the "Mine"), and two drying facilities located at Huanghu;
- Two separate contractor's drying facilities, located at Digang and Suncun; and
- A separate processing plant, located at Keshuan.

The mine has been in operation for eleven years, and currently produces drilling mud and pelletising clay. Both products are sold locally and regionally.

Geology and Resources

The Mine extracts bentonite from altered Cretaceous volcanic rocks of the Fanchang Basin. The original rocks, mainly andesitic tuff and andesite, have been largely altered to grey and green clays. Calcium montmorillonite is virtually the only clay mineral present. Two major zones of economic bentonite are known. The larger V1 orebody, currently being mined is sub-horizontal and around 1,200 m by 900 m. It is thicker in the centre, up to 45 m thick, but thins towards the edge of the deposit. Some areas of less altered and unaltered andesite exist within the main orebody, and are separated during mining as internal waste. Two smaller orebodies, V2 and V3, exist to the west of V1.

The original exploration of the deposit was carried out by the Anhui Province Geology Bureau Team 322, who drilled 35 vertical holes, at a spacing of 100 m to 200 m, in 2002. Core is no longer available from this programme, but SRK has inspected the reports and analyses. Quality control records show satisfactory results from duplicate tests. In 2015, five validation holes were drilled under the supervision of SRK, one of these being a twin of a 2002 hole. In addition mapping and trench sampling was carried out to verify the surface geology and the extent of the bentonite.

Drill samples were subject to standard commercial tests for bentonite, including methylene blue absorption (the amount of dye a clay can absorb, which can be used to estimate the quantity of active montmorillonite in the sample), colloid index, and swelling capacity, and selected samples were also tested for moisture content, mineralogy by XRD, and chemistry. All tests show the Resource is suitable for treatment in the current plant to produce saleable products. The Resource has been estimated using a minimum active montmorillonite content of 35%, which is the cut-off used in current operations.

SRK has estimated the Mineral Resource according to the 2012 edition of the Joint Ore Reserves Committee Code ("JORC Code"). The validated data was used to build a geological model of the Huanghu deposit. Quality distribution was modelled using ordinary kriging method within V1, and, due to limited data, by inverse distance square weighted method for V2 and V3.

The Resource estimate results are shown in Table ES-1.

Table ES-1: Resource statement for the Huanghu Bentonite deposit, as at 1 July 2015

Domain	Category	DMT	Active Montmorillonite (%)	Colloid Index (ml/15g)	Swelling Capacity (ml/g)
V1	Measured	1,781,000	45.2	54.9	7.6
	Indicated	5,467,000	47.7	63.9	9.1
	Inferred	4,388,000	48.7	69.9	10.2
V2	Inferred	2,317,000	50.8	51.4	6.1
V3	Inferred	835,000	56.7	57.9	7.2
Subtotal	Measured + Indicated	7,248,000	47.0	61.7	8.8
	Inferred	7,540,000	50.2	62.9	8.6
Total	Measured + Indicated + Inferred	14,788,000	48.7	62.3	8.7

Notes:

Differences may occur due to rounding.
35% active montmorillonite cut-off grade applied.
Dry metric tonnes ("DMT").

Mining and Ore Reserves

The Company's current open pit mining operation has been focused on the orebody V1 since 2004. Most of the overburden in the centre of V1, has now been stripped. Mining benches have been constructed at elevations of 32 m above sea level ("mASL"), 25 mASL, 17 mASL, and 9 mASL. The Mine adopts a top-down horizontal bench cutting method with the following parameters:

- Highest stripping elevation of 69 mASL;
- Highest mining elevation of 57 mASL;
- Lowest mining elevation of -23 mASL;
- Bench height of 8 m, each divided into two equal slices;
- Bench stope angle of 50°;
- Mining loss rate of 3%;
- Mining recovery rate of 95%; and
- Stripping ratio of around 0.6 tonnes of rock per tonne of ore ("t/t").

The Mine adopts road-and-truck transportation for development. The mining system involves several phases, including:

- Land clearing;
- Overburden stripping and storage for rehabilitation;
- Ore mining;
- Stockpiling, air-drying;
- Transport; and
- Waste disposal.

SRK opines that the development scheme is suitable for this type of mine. Surface mining operations is relatively straightforward and the mining equipment selected can meet the requirements of operation. Weather condition is the most challenging aspect for mining/stripping as well as air-drying activities as the bentonite ore is sensitive to moisture. Based on weather records of the past three years, SRK opines the planned 250 working days of mining/stripping and air-drying per year, is likely to be achieved.

A preliminary design report ("PDR") was compiled by Shandong Qianshun Mining and Metallurgy Technology Co., Ltd ("SQMT"), an accredited Chinese design institute for Huanghu Bentonite Project in September 2014. This report contains a higher level of detail than a feasibility study report.

Based on the Mineral Resource block model and parameters recommended by the PDR, production records, and the latest topographic survey data as at 30 June 2015, SRK optimised the open pit and detailed the final pit using a series of Lerchs Grossman ("LG") pit shells in Whittle and Surpac software packages while maximizing the cash flow of the deposit. Major results are as follows:

- The highest open pit elevation is 73 mASL, the elevation of the pit floor is -23 mASL, and the elevation for the main access is 14 mASL;
- Open pit size: 782 m long by 366 m wide;
- The bench height is 8 m and the bench slope angle is 50°; the overall pit slope angle is around 27° with benches 5 m wide;
- Ramp width is 6 m for single-lane roads, with a maximum gradient of 8% and the minimum transition length (gradient: up to 8%) of 60 m; the minimum turning radius is 15 m;
- Bench slope angle of 50°;

- Mining loss rate of 3%, and
- The total ore within final pit limits is 6,444 thousand dry metric tonnes ("DMT") with a total of 5,156kt of waste and an average stripping ratio of 0.80 t/t in the pit.

Modifying Factors considered in determining the economic cut-off grade as 35% active montmorillonite included mining, processing, costs and sale prices. SRK considers Feishang's production history shows that the products that have been produced from this clay resource are compliant with applicable standards and can be produced economically and marketed successfully.

After applying the Modifying Factors, SRK estimated the Ore Reserves of Huanghu Bentonite Project in accordance with the JORC Code and presents this estimate in Table ES-2, inclusive of Mineral Resources. The economically mineable parts of the Measured and Indicated Resources within the current mining license scope, including diluting materials and allowances of losses, were classified as Proven and Probable Ore Reserves respectively.

Table ES-2: Ore Reserve statement for the Huanghu Bentonite Project, as at 1 July, 2015

Ore Reserve Category	Marketable Category	DMT	WMT	Active Montmorillonite	Colloid Index	Swelling Capacity
				%	ml/15g	ml/g
Proved	Unprocessed Clay	165,000	206,000	38.7	47.3	5.8
	Drilling Mud	673,000	842,000	47.6	66.6	9.5
	Pelletising clay	882,000	1,103,000	44.9	48.0	6.6
	Subtotal Proved Ore	**1,720,000**	**2,151,000**	**45.4**	**55.2**	**7.7**
Probable	Unprocessed Clay	203,000	254,000	39.4	48.4	6.8
	Drilling Mud	3,388,000	4,239,000	48.8	69.4	10.0
	Pelletising clay	1,133,000	1,417,000	45.6	47.3	6.7
	Subtotal Probable Ore	**4,724,000**	**5,910,000**	**47.6**	**63.2**	**9.1**
Total	Unprocessed Clay	368,000	460,000	39.1	47.9	6.4
	Drilling Mud	4,061,000	5,081,000	48.6	68.9	9.9
	Pelletising clay	2,014,000	2,520,000	45.3	47.6	6.7
	Total Ore	**6,444,000**	**8,061,000**	**47.0**	**61.1**	**8.7**

Notes:

Ore Reserves reported include Mineral Resources.
Ore Reserves which are suitable for production of drilling mud may also be used to produce pelletising clay, and not vice versa.
Wet Metric Tonne ("WMT"), with an assumed moisture content of approximately 25.1%.

Based on the selected mining method and mining equipment, established auxiliary facilities, estimated working days, stripping ratio, geotechnical conditions, water and power supplies, as well as the historical production records, SRK considers the proposed mining capacity is reasonable and adequate to ensure the processing plant production plan can be met.

Processing

Ore at the Huanghu Bentonite mine is calcium bentonite. Beneficiation and milling are conducted in the processing plant using methodologies chosen based on the ore type and its properties. The plant produces two products: bentonite for metallurgical pellets and bentonite for trenchless directional drilling in civil engineering. Both products meet national quality standards and are universally recognized by users. The current production capacity of the processing plant is 115,000 tonnes of pelletising clay and drilling mud products per year. The actual production plan is based on a number of factors, including the delivery dates and sales tonnages of the Company's products, historical sales demand and the production capacity.

The processing plant is 15 km away from the Mine, and the plant layout has room for improvement, as it used the site of an old bearing manufacturing plant. The plant includes some older equipment, but plant products are of good marketable quality. In SRK's view, ideally a new more efficient processing plant should then be built nearer the mine to replace the current one.

The plant does have a well-equipped laboratory. SRK suggests improving the laboratory's research and development abilities to enable the development of new products based on the properties of the feedstock bentonite and requirements of customers, in order to meet market demand and enlarge the Company's market share.

Marketing

The markets for both of Feishang's main products, drilling mud and pelletising clay, have been expanding, and the drilling mud market is forecast to continue to expand, with a 15% increase in consumption predicted over the next five years in the east China. The market for pelletising clay is forecast to be more challenging, with no increase in market size predicted for the next few years. Any consequent loss in sales of pelletising mud may be offset by increasing sales of drilling mud. Drilling mud has been the more profitable product in recent years.

Prices will reflect market conditions, with price increases (in real terms) forecast for the next five years for drilling mud, but a slight drop in real price for pelletising clay. SRK anticipate production of both products to remain profitable.

Costs

The Project has a relatively long mine life, and some property, plant and equipment will require replacement and refurbishment. Feishang has prepared a plan, detailing the timing and costs for major plant and equipment items that are expected to require refurbishment or replacement at the processing plant in the next 5 years (2015-2019). The sustaining capital totals RMB8,000,800, of which the larger items include an addition of a product storage silo, a milling machine and an electricity capacity upgrade. All these cost items are scheduled to take place in 2016. The unit operating cash cost is estimated at 246 RMB/t and 268 RMB/t for pelletising clay and drilling mud respectively in 2019.

Environment, Permits and Social Impacts

The following table summarises the status of the key operational licenses and permits for the Huanghu Bentonite Project.

Table ES-3: Key operational licences and permits status

Project	Business License	Mining License	Safety Production Permit	Processing Plant Land Use Permit	Water Use Permit	Site Discharge Permit
Huanghu Bentonite Project	Y	Y	Y	Y	n/a	Y

Notes:

'Y' denotes the licence/permit is granted.
'N' means the licence/permit is not available.
'n/a' indicates that the licence/permit is not applicable.

For other temporary land/forest use approvals, please refer to the Project's Legal opinion from Commerce & Finance Law Offices.

The table below summarises the status of the environmental assessments and approvals for the Project.

Table ES-4: Status of the environmental assessment and approvals

Project	Environmental Impact Assessment Report (EIA)	Approval for EIA[1]	Water and Soil Conservation Plan (WSCP)	Approval for WSCP[2]	Environmental Final Checking and Acceptance Approval[3]
Huanghu Bentonite Project	Y	Y	Y	Y	Y

Notes:

"Y" denotes the license/permit is granted and has been sighted by SRK.
"N" means the license/permit has not been completed or is not available.
"n/a" indicates that it is not applicable.
1 Environmental Impact Assessment
2 Water and Soil Conservation Report
3 Formal environmental approval to commence operating

SRK notes that these sighted EIA reports have been compiled in accordance with relevant Chinese laws and regulations. SRK has reviewed these EIA reports and approvals and conducted an environmental site visit against recognized international industry environmental management standards, guidelines, and practices. At the time of the site visit, SRK observed that the Project was generally being operated in accordance with the Project environmental management and approval conditions.

SRK has reviewed the Safety Assessment Reports and Safety Operation Procedure as provided by the Company, and is of the opinion that the documentation covers items that are generally in line with recognised Chinese industry practices and Chinese safety regulations.

Risks Assessments

The risks identified for the Project have been rated as low to medium. The initial assessment result, recommendations and company responses, together with a risk rating are shown in Table ES-5. It is the opinion of SRK that the above risks can be generally managed if detailed risk assessments and control procedures are implemented, action specified in the Company Responses are carried out, Chinese standards, and regulatory requirements are followed. SRK is also satisfied with the Company Responses, and the identified risks will be lowered if the actions stated in the Responses are implemented.

Table ES-5: Risk assessment, control recommendation and company response

Factor	Potential Risk	Control Recommendation	Company Response	Risk Rating
Geology and Resources				
Physio-chemical properties	Quality lower than expected, resulting in lower quality products, may lead to product rejection, loss of sales	Strengthen quality control testing and careful selective mining. Waste should be eliminated during mining and processing.	The Company will continue to closely monitor our quality control measures and explore better practices to improve our existing quality control measures.	Low
Internal waste	Internal waste layers are larger than modelled	Pit mapping and additional drilling to ensure the extent and distribution of waste rock layers	The Company will continue to closely monitor the deviations of geometry of the deposit from the model and will consider conducting pit mapping and additional drilling if any material deviation is identified.	Medium
Mining				
Geotechnical conditions	Geotechnical conditions are not ideal as anticipated, resulting in greater potential for pit slope failures, lower production	Conduct more detailed geotechnical analysis to identify potential issues. Monitor slope stability regularly and implement slope support measures as needed.	The Company will continue to regularly monitor and assess the slope stability so as to allow for timely rectification of any potential geotechnical issues identified.	Medium
Mine plan/management	Failure to meet production targets	Monitor production progress and revise mine plan as necessary.	The Company will continue to regularly review the production data so as to allow for timely modification of the mine plan to cater for the current needs.	Low
Hydrological conditions	Siltation and/or contamination of drainage	Conduct a more detailed hydrogeological analysis to identify and address potential issues.	The Directors of the Company are of the view that the water drainage system is currently operating normally. The Company will continue to regularly inspect and monitor the condition of the ditches and settling ponds to identify and rectify any potential issue in a timely manner.	Low
Waste rock management	Not enough space for waste rock back-filling	Temporary waste dump should be planned.	The Directors of the Company are of the view that the Company still has sufficient space for waste rock backfilling. The Company will design and build a temporary waste dump when the need arises.	Low

Factor	Potential Risk	Control Recommendation	Company Response	Risk Rating
Costs				
General increase in OPEX/CAPEX	Reduced profit margins	Secure long term contracts with contractors, confirm procurement orders with suppliers in advance and monitor capital expenditure regularly.	The Company will continue to closely monitor operating expenses and capital expenditure and will incur additional capital expenditure only after taking into consideration sufficiency of funds as well as operational needs.	Low
Increase in transport costs	Reduced profit margins, increase vulnerability to competitors	Streamline the current transportation process from the Mine to the processing plant and off-site air-drying facilities with the aim of increasing productivity and lowering costs. Explore the feasibility of moving the processing plant nearer to the Mine and eliminating off-site air-drying.	The Company will continue to closely monitor transportation costs and explore ways to better coordinate transportation schedules between: (i) the Mine; (ii) off-site air-drying facilities at Digang town and Suncun town; and (iii) the processing plant. The Company will also explore the feasibility of relocating the processing plant nearer to the Mine.	Medium
Market				
Reduced market	Loss of sales	Market research, develop new products or product uses	The Company intends to enhance research and development capabilities, including the development of new production technologies and new products.	Low
Increased competition	Loss of sales, or reduced sales price	Build relationship with customers, acquire potential competitors	The Company intends to further enhance business relationships with existing customers as well as broaden the customer base.	Medium

Factor	Potential Risk	Control Recommendation	Company Response	Risk Rating
Processing				
Processing Technology	High quality product can only be produced using appropriate processing technology	The current processing technology should be maintained. The addition of modification reagents should be fully automated and volumes should be strictly controlled.	The Company intends to upgrade the current processing plant and processing machinery and equipment.	Low
Processing Equipment	Equipment configuration can further be optimised. Aging of equipment will influence the production of high-quality products, breakdowns may lead to loss of production	Current equipment is a mixture of new and old machines and production lines are not well laid out. Both equipment and layout require significant upgrades. Alternatively, a new modern processing plant could be built near the Mine to replace the current plant. Large-scale equipment should be installed and automation should be used.	The Company intends to upgrade the current processing plant and processing machinery and equipment.	Medium
Environment				
Water management and discharges	Pollution of the surface water and groundwater, flooding of open pit	Construct well designed surface water drainage/flood collection system for the Mine. Develop fully functioning water monitoring programme.	The Directors of the Company are of the view that the water drainage system is currently operating normally. The Company will regularly inspect and monitor the condition of the ditches and settling ponds so as to ensure that any potential issue is identified and rectified in a timely manner. In addition, the Company will explore the feasibility of constructing a well-designed surface water drainage/flood collection system and developing an optimal water monitoring system.	Low
Dust emission	Fugitive dust pollution	Use appropriate measures to reduce dust emission at the Mine.	A water truck is currently used to control dust emissions. The Company will also closely monitor dust emission levels on an on-going basis.	Low
Noise emission	Noise emission by machineries at the Mine	Use of equipment with mufflers and shock absorbers. Enclosures for noisy equipment where appropriate at the Mine.	The Company has provided the employees working at the Mine with hearing protection gear, and will request them to wear when operating noisy equipment.	Low

TABLE OF CONTENTS

Executive Summary III-2

Disclaimer III-25

List of Abbreviations III-26

1 Introduction and Scope of Report III-32

1.1 Reporting standard III-32

1.2 Work programme III-33

1.3 Project team III-33

1.4 Corporate capability III-34

1.5 Project team expertise III-35

2 Competent Person's Statement III-37

2.1 Mineral Resources and Ore Reserves III-37

2.1.1 Stock Exchange requirements III-37

2.2 Statement of SRK's independence III-38

2.3 Representation III-38

2.4 Indemnities III-38

2.5 Consents III-39

2.6 Limitations III-39

3 Project Description III-40

3.1 Location and mineral tenure III-40

3.2 Accessibility, local resources and infrastructure III-42

3.3 Climate and physiography III-42

3.4 Project history III-44

4 Geological Setting and Mineralisation III-45

4.1 Bentonite mineralisation III-45

4.2 Regional geology III-46

4.3 Local geology III-48

5 Exploration and Data Verification III-50

5.1 Historical exploration III-51

5.1.1 Methylene blue absorption test III-51

5.1.2 Sampling and Quality Control/Quality Assurance (QA/QC) III-52

5.2 Data verification III-55

5.2.1 Drilling and sampling III-56

5.2.2 Analysis of infill and twin holes III-57

5.2.3 Surface sampling III-57

5.3 Bentonite quality tests III-59

5.3.1 Mineralogical examination III-59

5.3.2 Cation exchange capacity III-60

5.3.3 pH Value III-62

5.3.4 Geochemical analysis III-62

5.3.5 Particle size distribution III-63

5.3.6 Moisture III-63

5.3.7 Whiteness III-64

6 Mineral Resources Estimation III-64

6.1 Introduction III-64

6.2 Mineral Resource estimation procedures III-65

6.3 Database compilation and validation III-66

6.4 Geological modelling III-67

6.5 Exploratory data analysis III-68

6.5.1 Statistical analysis III-68

6.5.2 Compositing III-71

6.5.3 Top-cutting III-71

6.5.4 Variography III-72

6.6 Block model and grade estimation III-75

6.6.1 Block model parameters III-75

6.6.2 Grade interpolation III-75

6.7 Model validation III-76

6.8 Density III-78

6.9 Classification III-78

6.10 Resource estimate statement III-79

6.11 Grade sensitivity analysis III-80

7 Mining and Ore Reserves III-81

7.1 Mining technological conditions III-81

7.1.1 Geotechnical conditions III-81

7.1.2 Hydrology and hydrogeology conditions III-82

7.2 Ore Reserves estimates III-82

7.2.1 Reserve block model III-83

7.2.2 Economic Reserve cut-off grade III-83

7.2.3 Dilution and ore loss III-83

7.2.4 Pit optimisation III-84

7.2.5 Pit optimisation results III-85

7.2.6 Ore Reserve classification III-87

7.2.7 Ore Reserve statement III-87

7.2.8 Potential impacts to Ore Reserve estimate III-88

7.3 Current open pit development III-88

7.4 Open pit mining methods III-90

7.5 Mine services III-93

7.5.1 Mine drainage and dewatering III-93

7.5.2 Water supply III-93

7.5.3 Power supply III-94

7.5.4 Maintenance facilities III-94

7.6 Mining equipment III-94

7.7 Mining Capacity and Work Schedule III-95

7.8 Development and mining schedule III-95

7.9 Conclusions III-96

8 Processing III-96

8.1 Processing plant status III-96

8.2 Product specifications III-97

8.3 Pelletising clay III-97

8.3.1 Development test and product quality III-98

8.3.2 Production technology and equipment III-99

8.4 Drilling mud III-102

8.4.1 Product development and product quality III-103

8.4.2 Production technology and equipment III-104

8.5 Historical production records and future plan III-106

8.6 Conclusions and recommendations III-107

9 Workforce Assessment III-108

10 Costs III-109

10.1 Sustaining capital III-109

10.2 Operating costs III-110

10.3 Economic viability III-114

11 Clay Quality and Marketing Review III-116

11.1 China's bentonite markets III-116

11.2 Feishang's current markets III-118

11.3 Competition III-119

11.4 Feishang's market outlook III-120

11.4.1 Resource quality III-120

11.4.2 Sales volume III-120

11.4.3 Prices III-122

12 Environment, Permits and Social Impacts III-124

12.1 Operational licences and permits III-124

12.1.1 Business licence III-124

12.1.2 Mining licence III-124

12.1.3 Site discharge permit III-125

12.1.4 Land use permit III-125

12.1.5 Safety production permit III-125

12.2 Environmental, social, health and safety (ESHS) review process, scope and standards III-126

12.3 Status of ESHS approvals and permits III-126

12.4 Environmental conformance and compliance III-127

12.5 Key environmental, social, and health and safety aspects III-127

12.5.1 Site ecological assessment III-127

12.5.2 Water management III-128

12.5.3 Waste rock management III-128

12.5.4 Dust and gas emissions III-128

12.5.5 Noise emissions III-129

12.5.6 General waste management III-130

12.5.7 Hazardous materials management III-130

12.5.8 Emergency response plan III-130

12.5.9 Occupational health and safety III-130

12.5.10 Site closure planning and rehabilitation III-131

12.5.11 Environmental protection and management plan III-133

12.5.12 Social aspects III-133

13 Risk Assessment III-135

14 References III-140

LIST OF TABLES

Table 1-1: SRK team members and responsibility III-33

Table 1-2: Selected examples of ITR prepared by SRK III-34

Table 3-1: Mining licence details III-41

Table 3-2: Coordinates of the mining licence (XIAN 80 39 zone map projection) .. III-41

Table 3-3: Production records between 2004 and June 2015 ..... III-44

Table 5-1: Duplicates vs original CEC results III-54

Table 5-2: Collars of validation drill holes III-56

Table 5-3: Surface sampling results III-58

Table 5-4: Qualitative analysis for whole rock by XRD III-60

Table 5-5: Clay minerals qualitative analysis by XRD III-60

Table 5-6: Cation exchange capacity analysis III-61

Table 5-7: Whole rock analysis (%) III-62

Table 5-8: Particle size distribution analysis III-63

Table 6-1: Drill holes used for the Resource estimate III-66

Table 6-2: Basic statistical information for raw assay data within domains III-69

Table 6-3: Basic statistical information of active montmorillonite assay data for each domain III-71

Table 6-4: Basic statistics for active montmorillonite grade on 2 m composites for each domain III-71

Table 6-5: Details of the search parameters of active montmorillonite used for the Huanghu deposit III-75

Table 6-6: Comparison of composites and blocks for active montmorillonite of the Huanghu deposit III-76

Table 6-7: Mineral Resource statement for the Huanghu bentonite deposit as at 1 July, 2015 ..... III-80

Table 7-1: Definition of products III-83

Table 7-2: Pit optimisation parameters III-85

Table 7-3: Inventory for the optimum pit III-86

Table 7-4: Comparison of optimised shell and designed final pit III-87

Table 7-5: Ore reserve statement for the Huanghu Bentonite Project as at 1 July 2015 ..... III-88

Table 7-6: Parameters of haul roads III-89

Table 7-7: Air-drying and drum-drying data between 2014 and June 2015 ..... III-93

Table 7-8: List of major mine equipment III-94

Table 7-9: Working days record between 2013 and June 2015 ..... III-95

Table 7-10: Mining and Production schedule III-96

Table 8-1: Recommended Chinese national standards for pelletising clay III-98

Table 8-2: Quality indicators of pelletising clay III-99

Table 8-3: Main equipment – pelletising clay production lines III-102

Table 8-4: Recommended Chinese national standards for bentonite drilling mud ... III-103

Table 8-5: Quality indicators for drilling mud bentonite III-104

Table 8-6: Main equipment – drilling mud bentonite production lines III-105

Table 8-7: Historical production records of pelletising clay III-106

Table 8-8: Historical production records of drilling mud bentonite III-106

Table 9-1: Workforce numbers of the Project III-108

Table 10-1: Sustaining capital 2015-2019 (RMB'000) III-109

Table 10-2: Actual and forecast operating costs III-112

Table 10-3: Sensitivity analysis for after-tax NPV III-116

Table 11-1: Feishang sales record summary III-118

Table 11-2: Historical and forecast drilling mud and pelletising clay prices (RMB/t product) III-123

Table 12-1: Details of the business licences III-124

Table 12-2: Details of the mining licence III-124

Table 12-3: Details of the site discharge permit III-125

Table 12-4: Details of the land use permit III-125

Table 12-5: Details of the safety production permit III-125

Table 12-6: EIA report and approval III-126

Table 12-7: FCA report and approval III-126

Table 12-8: WSCP report and approval III-126

Table 13-1: Risk assessment probability III-135

Table 13-2: Risk assessment and control recommendation III-136

LIST OF FIGURES

Figure 3-1: Location map of the Bentonite Project III-40

Figure 3-2: Distribution of Mining Licence III-42

Figure 3-3: Wuhu long-term average temperatures III-43

Figure 3-4: Wuhu long-term average amount and days of rainfall III-43

Figure 4-1: Geological map of the Fanchang Basin III-47

Figure 4-2: Local geological setting of Huanghu Bentonite Project III-48

Figure 4-3: Cross section of exploration line 8 ..... III-49

Figure 4-4: Cross section of exploration line 4 ..... III-49

Figure 4-5: Andesitic tuff (A) altered to various type of bentonite (B & C) III-50

Figure 5-1: Scatter plot of Nanjing Laboratory duplicate vs original samples (methylene blue absorption) III-52

Figure 5-2: Scatter plot of Nanjing Laboratory duplicate vs original samples (Colloid index) III-53

Figure 5-3: Scatter plot of Nanjing laboratory duplicate vs original samples (swelling capacity) III-53

Figure 5-4: Scatter plot of Nanjing laboratory vs Anhui laboratory (methylene blue absorption) III-55

Figure 5-5: Location of historic and validation drill holes III-55

Figure 5-6: Twin holes VZK801 analysis (active montmorillonite content) III-57

Figure 5-7: Surface channel sampling III-58

Figure 5-8: Moisture analysis result III-63

Figure 5-9: Natural whiteness of bentonite III-64

Figure 6-1: General relationship between exploration results, mineral resources and ore reserves (JORC 2012) III-65

Figure 6-2: Domains distribution interpreted in the Huanghu deposit III-68

Figure 6-3: Frequency statistics of active montmorillonite within domains III-69

Figure 6-4: Frequency statistics of colloid index/swelling capacity within domains III-70

Figure 6-5: Modelled and experimental variogram of downhole for active montmorillonite (V1) III-72

Figure 6-6: Modelled and experimental variogram of major axis for active montmorillonite (V1) III-73

Figure 6-7: Modelled and experimental variogram of semi-major Axis for active montmorillonite (V1) III-73

Figure 6-8: Modelled and experimental variogram of minor axis for active montmorillonite (V1) III-74

Figure 6-9: Modelled variogram of three axes for active montmorillonite (V1) III-74

Figure 6-10: Montmorillonite swath plot of the V1 domain along the East-west direction III-77

Figure 6-11: Montmorillonite swath plot of the V1 domain along the South-north direction III-77

Figure 6-12: Montmorillonite swath plot of the V1 domain along the horizontal direction III-77

Figure 6-13: Relationship diagram between density and active montmorillonite of the Huanghu deposit III-78

Figure 6-14: Resource classification distribution of V1 domain (prior to mining depletion) III-79

Figure 6-15: Grade-tonnage curve of Huanghu bentonite deposit as at 1 July, 2015 .. III-80

Figure 7-1: Pit by pit optimisation result III-85

Figure 7-2: Plan view of final pit design III-86

Figure 7-3: Haul roads in pit III-90

Figure 7-4: Conceptual mining scheme III-91

Figure 7-5: Mining cycle scheme III-91

Figure 8-1: Production process for standard pelletising clay III-100

Figure 8-2: Ore drying III-100

Figure 8-3: Rotary drum dryer III-101

Figure 8-4: Milling system III-101

Figure 8-5: Production process for standard drilling mud III-105

Figure 10-1: After-tax NPV sensitivity analysis of the Project III-115

Figure 11-1: Historical and forecast consumption in East China III-117

Figure 11-2: Bentonite consumption in East China by sector (2009 – 2019) III-121

Figure 11-3: Historical and forecast growth rate of major bentonite uses III-122

Figure 11-4: Drilling mud and pelletising clay long-term price III-123

LIST OF APPENDICES

Appendix A: JORC Table 1

Appendix B: Variogram

DISCLAIMER

The opinions expressed in this Report have been based on the information supplied to SRK Consulting (Hong Kong) Limited ("SRK") by Feishang Non-metal Materials Limited ("Feishang"). The opinions in this Report are provided in response to a specific request from Feishang to do so. SRK has exercised all due care in reviewing the supplied information. Whilst SRK has compared key supplied data with expected values, the accuracy of the results and conclusions from the review are entirely reliant on the accuracy and completeness of the supplied data. SRK does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from commercial decisions or actions resulting from them. Opinions presented in this Report apply to the site conditions and features as they existed at the time of SRK's investigations, and those reasonably foreseeable. These opinions do not necessarily apply to conditions and features that may arise after the date of this Report, about which SRK had no prior knowledge nor had the opportunity to evaluate.

LIST OF ABBREVIATIONS

Abbreviation	Meaning
AIG	Australian Institute of Geoscientists
Andesite	A pale coloured volcanic rock with 52%-63% SiO_2
Aquifer	An underground layer of water-bearing permeable rock, rock fractures or unconsolidated materials (gravel, sand, or silt) from which groundwater can be extracted using a water well
Archean	A geological eon before the Proterozoic Eon before 2,500 million years ago
ARD	Acid rock drainage
Augite	A common rock-forming single chain inosilicate mineral with formula $(Ca,Na)(Mg,Fe,Al,Ti)(Si,Al)_2O_6$
AusIMM	The Australasian Institute of Mining and Metallurgy
Azimuth & Dip	Refer to the orientation or attitude of a geological feature or drill hole
Basin	Refer to types of geological depressions
Bentonite	Clay, consisting mainly of smectite minerals which are absorbent phyllosilicate (layer-silicate) clay minerals
Berm	Refers to dirt and rock piled alongside a haulage road or along the edge of a dump point
Breccia	A term most often used for clastic sedimentary rocks that are composed of large angular fragments
Calcite	A calcium carbonate mineral ($CaCO_3$)
Cambrian	First geological period of the Paleozoic Era, lasting from 541.0 to 485.4 million years ago
CEC	Cation Exchange Capacity
Clastic rock	Composed of fragments, or clasts, of pre-existing minerals and rock
Clay	A stiff, sticky fine-grained earth
Colloid index	Capacity of forming thick gels when mixed with water or other fluids
Craton	A stable interior portion of a continent characteristically composed of ancient crystalline basement rock

Abbreviation	Meaning
Cretaceous	A geological period and system extends from 145.5 to 65.5 million years ago
Cristobalite	A mineral composed of the same elements as Quartz but has a different crystal structure
Cut-off grade	A level of mineral in an ore below which it is not economically feasible to mine it
Dilution	Rock that is, by necessity, removed along with the ore in the mining process, subsequently lowering the grade of the ore
DM	Drilling mud
DMT	Dry metric tonnes
Dolomite	An anhydrous carbonate mineral composed of calcium magnesium carbonate ($CaMg(CO_3)_2$)
Dyke	A subvertical sheet-like intrusion of magma or sediment
EIA	Environmental Impact Assessment
Feldspar	A group of common rock-forming minerals with compositions ($KAlSi_3O_8 – NaAlSi_3O_8 – CaAl_2Si_2O_8$)
Footwall	A block of rock lies on the underside of an inclined fault or of a vein/unit of mineral
Grade	Defined as the amount of active montmorillonite
Gravel	An unconsolidated mixture of rock fragments or pebbles
Hanging wall	A block of rock lies above an inclined fault or of a vein/unit of mineral
Hematite	A mineral of iron(III) oxide (Fe_2O_3)
IDW	Inverse Distance Square Weighted Method
Illite	A non-expanding, clay-sized, micaceous mineral
ITR	Independent Technical Report
JORC Code	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC), December 2012
Jurassic	A geological period and system extends from 201.3 to 145 million years ago

Abbreviation	Meaning
Ktpa	Thousand tonnes per annum
kV	Kilovolts
kW	Kilowatts
Laboratory duplicate	Used to determine the precision of the intra-laboratory analytical process for a specific sample matrix
Lava	A type of igneous rock that is formed when molten magma from a volcano hardens
LG	Lerchs Grossman
LoM	Life of mine
M	Million
mASL	Meter above sea level
Magmatism	Process responsible for mountain formation
MBT	Methylene Blue Test, the amount of dye a clay can absorb, which can be used to estimate the quantity of active montmorillonite in the sample
Mesozoic	An interval of geological time from about 252 to 66 million years ago
Mineral Resource	A concentration or occurrence of solid material of economic interest in or on the Earth's crust in such form, grade (or quality), and quantity that there are reasonable prospects for eventual economic extraction
Mining bench	A narrow, strip of land cut into the side of an open-pit mine
ml/g	Millilitres per gram
mmol/100 g	Millimoles per hundred grams
Montmorillonite	Containing magnesium and aluminium, is the most common of the smectite mineral group
MPa	Megapascal
Mt	Million tonne
N	Newton
Neoproterozoic	An interval of geological time from 1,000 to 541 million years ago
OK	Ordinary Kriging

Abbreviation	Meaning
Open pit mining	A surface mining technique of extracting rock or minerals from the earth by their removal from an open pit or borrow
Ore	A naturally occurring mineral containing a valuable constituent (as metal) for which it is mined and worked
Ore body	A connected mass of ore in a mine or suitable for mining
Ore Reserve	An economical minable part of a Mineral Resource where appropriate assessments and studies have been carried out to show that the deposit can be mined at a profit after consideration of all factors impacting a mining operation
Orogenic belt	Develop when a continental plate is crumpled and pushed upwards to form mountain ranges
Overburden	Material that lies above an area that lends itself to economical exploitation, such as the rock, soil, and ecosystem that lies above a coal seam or ore body
Paleozoic	An interval of geological time from 542 to 251 million years ago
PDR	Preliminary Design Report
Plagioclase	A series of tectosilicate minerals within the feldspar family
PC	Pelletising clay
Porosity	A measure of the void (i.e., "empty") spaces in a material
Precambrian	An interval of geological time from 4.6 billion years ago to the beginning of the Cambrian Period, about 541 million years ago
Proterozoic	A geological eon representing the time just before the proliferation of complex life on Earth
Protolith	An original, unmetamorphosed rock from which a given metamorphic rock is formed
Pyrite	A mineral of iron sulphide (FeS_2)
Pyroxene	A group of igneous rock-forming mostly dark coloured minerals mainly composed of iron, magnesium, aluminium and silicon
Quality	Related to the inherent physic-chemical properties of the clay, either in its natural and modified form, and is a measure of likely industrial performance
Quartz	A silicon mineral SiO_2

Abbreviation	Meaning
Ramp	An incline connecting two levels in an open pit or underground mine
Residue	Materials left over after the process of separating the valuable fraction from the uneconomic fraction
Rhyolite	An acid volcanic rock
Rpm	Revolutions per minute
Silicate mineral	Rock-forming minerals, constituting approximately 90 percent of the crust of the Earth
Siltstone	A fine-grained granular sedimentary rock
Specific gravity	The ratio of the density of a substance to the density (mass of the same unit volume) of a reference substance
SRK	SRK Consulting (Hong Kong) Limited
Stockpiling	A pile or storage location for bulk materials
Stope	Openings made in the process of extracting ore
Stripping ratio	Refer to the ratio of the volume of overburden (or waste material) required to be handled in order to extract some volume of ore
Swelling capacity	Degree of swelling in the presence of water or other fluids
Tpa	Tonnes per annum
Tpd	Tonnes per day
Trachyandesite	An extrusive igneous rock
Triassic	A geological period and system extends from roughly 250 to 200 million years ago
Tuff	A type of rock made of volcanic ash ejected from a vent during a volcanic eruption
Tuffite	A tuff containing both pyroclastic and detrital materials, but predominantly pyroclasts
UCS	Uniaxial Compressive Strength
UC	Unprocessed clay
Unconformity	Gaps in the geological record that may indicate episodes of crustal deformation, erosion, and sea level variations
VALMIN	Code for the technical assessment and valuation of mineral and petroleum assets and securities for independent expert reports (2005)

Abbreviation	**Meaning**
WMT	Wet metric tonnes
Viscosity	Internal property of a fluid that offers resistance to flow
Volcanic	Formed by or associated with a volcano
XRD	X-ray Powder Diffraction, provides definitive information on the mineralogical composition of a bentonite
1 hectare	0.01 km^2
1 tonne	1000 kg
1 μm	1×10^{-6} m

1 INTRODUCTION AND SCOPE OF REPORT

SRK Consulting (Hong Kong) Limited ("SRK") has been commissioned by Feishang Non-metal Materials Technology Limited ("Feishang" or the "Company") to prepare an Independent Technical Report ("ITR", or "Report") on its Huanghu Bentonite Project (the "Project"), located in Fanchang County, Anhui Province of the People's Republic of China ("PRC"). The ITR is required to be compliant with the requirements for a proposed listing on the Growth Enterprise Market ("GEM") Board of the Stock Exchange of Hong Kong Limited ("Stock Exchange" or "HKEx").

The Scope of Works for the ITR includes a review and reporting of the following technical aspects:

- Geology;
- Mineral Resources;
- Mining Methods and Ore Reserves;
- Environment, Permits and Social Impacts;
- Capital and Operating Costs;
- Bentonite Quality and Marketing; and
- Risk Assessment.

1.1 Reporting standard

This Report has been prepared to the standard of, and is considered by SRK to be, a Technical Assessment Report under the guidelines of the VALMIN Code.

The VALMIN Code (2005) is the code adopted by The Australasian Institute of Mining and Metallurgy ("AusIMM") and Australian Institute of Geoscientists ("AIG") and the standard is binding upon all AusIMM and AIG members. The VALMIN Code incorporates the JORC Code (2012) for the reporting of Mineral Resources and Ore Reserves. This Report is not a Valuation Report and does not express an opinion as to the value of the Project.

In this Report, identified Mineral Resources and Ore Reserves are quoted using categorisation in accordance with the JORC Code (2012).

Certain amounts and percentage figures included in this Report have been subject to rounding adjustments. As a result, any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding. Where information is presented in thousands or millions of units, amounts may have been rounded up or down.

The effective date of this Report is 1 July 2015. There has been no material change of the Mineral Resource and Ore Reserve estimates of the Project since the effective date of this Report.

1.2 Work programme

The work programme of this commission included:

- Review of the information supplied by the Company.
- Site visit, by Jinhui Liu between 19-21 December 2014, 12-19 January 2015 and 22-24 June 2015, and Susan Border, Gavin Chan, Falong Hu, Langliang Niu, and Nan Xue between 20 and 22 January 2015.
- Resource and Reserve estimation.
- Discussion with Feishang.
- Preparation of this ITR.

1.3 Project team

SRK has utilised a multidisciplinary team, comprising Consultants and Associates from various offices to complete this project (Table 1-1).

Table 1-1: SRK team members and responsibility

Consultant/Associate	Role	Office
*Gavin Chan	Project Management, Geology and Resource Review; Project Economics Review	SRK Hong Kong
*Jinhui Liu	Geology and Resource Review	SRK Hong Kong
*Susan Border	Competent Person on Bentonite Resources and Reserves, Bentonite Quality Review and Project Economics Review	Associate, Sydney
*Langliang Niu	Processing Review	SRK China
*Falong Hu	Mining Review	SRK China
*Nan Xue	Environmental and Permitting Review	SRK China
Rodney Brown	Peer Review – Resources	SRK Australia
Anthony Stepcich	Peer Review – Overall Report	SRK Australia

* *represents consultant/associate who undertook the site visit*

1.4 Corporate capability

SRK is an independent, international group providing specialised consultancy services. Among SRK's clients are many of the world's mining companies, exploration companies, financial institutions, Engineering, Procurement and Construction Management ("EPCM") and construction firms, and government bodies.

Formed in Johannesburg in 1974, the SRK Group now employs some 1,500 staff internationally in over 50 permanent offices in 20 countries on six continents. A broad range of internationally recognised associate consultants complements the core staff.

The SRK Group's independence is ensured by the fact that it is strictly a consultancy organisation, with ownership by staff. SRK does not hold equity in any projects or companies. This permits SRK's consultants to provide clients with conflict-free and objective support on crucial issues.

SRK has prepared numerous independent technical reports for submission to HKEx. Selected examples are shown Table 1-2.

Table 1-2: Selected examples of ITR prepared by SRK

Company	Year	Project Nature
Yanzhou Coal Limited	2000	Sale of Jining III Coal Project to the listed operating company
Chalco (Aluminium Corporation of China)	2001	Listing on HKEx and New York Stock Exchange
Zijin Gold Mining Group	2004	Listing on HKEx
Lingbao Gold Limited	2005	Listing on HKEx
China Coal Energy Company Limited	2006	Listing on HKEx
Sino Gold Mining Limited	2007	Dual Listing on HKEx
Xinjiang Xinxin Mining Industry Co., Ltd.	2007	Listing on HKEx
Kiu Hung International Holding Limited	2008	Acquisition of shareholding in mining projects in Inner Mongolia, China
Hao Tian Resource Group	2009	Very Substantial Acquisition of two coal projects in Inner Mongolia, China
Green Global Resources Holdings Ltd	2009	Acquisition of shareholding in an iron project in Mongolia
North Mining Shares Company Limited	2009	Acquisition of a molybdenum mining project in Shanxi, China
New Times Energy Corporation Ltd	2010	Acquisition of shareholding in gold projects in Hebei, China

Company	Year	Project Nature
United Company RUSAL Limited	2010	Listing on HKEx
Citic Dameng Holdings Limited	2011	Listing on HKEx
China Hanking Holdings Limited	2011	Listing on HKEx
China Nonferrous Metal Mining Group Co Ltd	2012	Listing on HKEx
Minmetals Resources Limited	2012	Acquisition of Anvil Mining Limited
Jinchuan Group International Resources	2013	Very Substantial Acquisition of the mineral assets of the Metrorex Ltd in the Democratic Republic of Congo and the Republic of Zambia
Wise Goal Enterprises Limited	2013	Very Substantial Acquisition of a galuberite project in Guangxi, China
Hengshi Mining Investments Limited	2013	Listing on HKEx
Future Bright Mining Holdings Limited	2015	Listing on HKEx

1.5 Project team expertise

Susan Border, Associate, BSc, GradDip (Industrial Mineral Science), FAIG, FAusIMM. Susan has 35 years' experience in the minerals industry working mainly in Africa, Australia and Asia. She specialises in project assessment, exploration management and resource and reserve estimation. Susan's broad experience includes periods as a mine geologist, consultant and exploration manager. Susan is the director and principal of Geos Mining and has specialist experience in a wide range of metals and industrial minerals. Susan has been involved in the preparation of numerous independent technical reports for stock exchange listings since the early 1980s.

Gavin Chan, General Manager (Hong Kong) and Principal Consultant (Geology), PhD, MAusIMM. Gavin has over 10 years of academic and commercial experience in geosciences, and has worked on numerous deposit styles including ophiolitic chromite, lode gold, sediment-hosted CuCo, iron ore, uranium, molybdenum, phosphate and manganese. Gavin has previously worked in Niger, Sierra Leone, Tibet, Cyprus, Syria, New Zealand and Australia. His expertise lies in geological mapping, 3D modelling, geological due diligence, valuation, fatal flaw and project analysis.

Jinhui Liu, Senior Consultant (Geology), BSc, MSc, MAusIMM. Jinhui has over 11 years' experience in geological modelling and resource estimation and is experienced in the review of geology and resource projects and implementation of Quality Assurance and Quality Control (QA/QC) in regard to exploration programmes. He has completed many due diligence projects in various countries.

Nan Xue, Senior Consultant (Environmental) MSc, MAusIMM. Nan holds a Master's degree in environmental science from Nankai University in Tianjin. He has four years' experience in environmental impact assessment, environmental planning and environmental management. He has been involved in a number of large EIA projects and pollution source surveys for SINOPEC, as well as the environmental planning project funded by UNDP. He has particular expertise in construction project engineering analysis, pollution source calculations and impact predictions. In recent years after he joined SRK, Nan Xue has been involved in a number of due diligence projects.

Falong Hu, Consultant (Mining) BEng, MAusIMM. Falong has a Bachelor's degree in Mining Engineering from Central South University. Before joining SRK he worked as an on-site and head office mining engineer at Sino Gold Mining Limited (which later merged with Eldorado Gold Corp.) and Silvercorp Metals Inc. He is familiar with underground mine production systems and has been involved in mine design, scheduling, and development; underground mining production; longhole blasting; rock mechanics; ventilation; back-fill; and cost accounting. He is also proficient in digital modeling using Gemcom Surpac.

Lanliang Niu, Principal Consultant (Processing) BEng, MAusIMM, MCAMRA. Lanliang has 25 years' experience in processing, hydrometallurgical testing and studies, mine technical support, and production management, and he is competent in both theoretical study and actual production. He has specific expertise in the processing of precious metals, nonferrous metals, ferrous metals, and some non-metal, as well as processing test design, data processing, and plant design and operation. He is actively acquainted with the new development and applications of processing technologies, facilities, and reagents. He has received two national awards for his achievements in this area. Since joining SRK, Lanliang has been responsible for ore processing/metallurgical and economic analysis scopes of work and involved in more than 70 independent technical review projects.

Rodney Brown, Principal Consultant (Resource Evaluations) BSc, MAIG. Rodney is a geologist with over 25 years' experience in the mining industry, comprising 16 years in consulting and nine years in operations. Rodney has experience in a variety of terrains and commodities, including gold, iron ore, bauxite, mineral sands, silver, lead, zinc, copper, molybdenum, manganese, nickel and industrial minerals. He has conducted due diligence reviews, ore body modelling, mineral resource and reserve estimation, statistical and geostatistical analyses, and mine geology studies for deposits in a number of regions, including Australia, Africa, Russia, Europe, Middle East, South America, North America, India, Central and South East Asia. Rodney is highly proficient in various mining related software systems.

Anthony Stepcich, Principal Consultant (Project Evaluations) MSc MAusIMM(CP). Anthony is a Mining Engineer with 22 years' experience in the mining industry, having gained both underground and open-pit metalliferous experience, and open-pit coal experience. Anthony has postgraduate qualifications in finance and economics. He specialises in open-pit design and scheduling and project evaluations. Anthony is a Competent Person for the reporting of Ore Reserves in accordance with JORC Code (2012). Anthony is also an Expert in accordance with the VALMIN Code (2005) for the public reporting of valuations across multiple commodities. Anthony has experience working in Australia and Indonesia.

2 COMPETENT PERSON'S STATEMENT

2.1 Mineral Resources and Ore Reserves

The information in this Report that relates to Mineral Resources and Ore Reserves is based on work done by Susan Border, Gavin Chan, Jinhui Liu and Falong Hu. Statements relating to Resources and Reserves have been compiled under the supervision of Susan Border, a Fellow of AusIMM, who is an Associate of SRK Consulting (Hong Kong) Limited and is employed by Geos Mining, an independent Sydney-based consultancy. Susan Border takes overall responsibility for the Mineral Resource and Ore Reserve Estimates.

Susan Border has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration, and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the "The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (The JORC Code, 2012). Susan Border consents to the inclusion in this Report of the matters based on her information in the form and context in which it appears.

2.1.1 Stock Exchange requirements

Susan Border meets the requirements of Competent Person, as set out in Chapter 18A of the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules").

Ms. Border:

- Is a Fellow of good standing of The Australasian Institute of Mining and Metallurgy ("FAusIMM").
- Has more than five years' experience relevant to the style of mineralisation and type of deposit under consideration.
- Is independent of the issuer applying all of the tests in sections 18A.21 and 18A.22 of the GEM Listing Rules.

- Does not have any economic or beneficial interest (present or contingent) in any of the reported assets.
- Has not received a fee dependent on the findings outlined in the ITR.
- Is not an officer, employee of a proposed officer for the issuer or any group, holding or associated company of the issuer.
- Takes overall responsibility for the ITR.

2.2 Statement of SRK's independence

Neither SRK nor any of the Project team members of this Report has any material present or contingent interest in the outcome of this Report, nor do they have any pecuniary or other interest that could be reasonably regarded as being capable of affecting their independence or that of SRK.

SRK has no prior association with Feishang in regard to the mineral assets that are the subject of this Report. SRK has no beneficial interest in the outcome of the technical assessment being capable of affecting its independence.

SRK's fee for completing this Report is based on a fixed price contract. The payment of that professional fee is not contingent upon the outcome of this ITR.

2.3 Representation

Feishang has represented in writing to SRK that full disclosure has been made of all material information and that, to the best of its knowledge and understanding, such information is complete, accurate, and true.

2.4 Indemnities

As recommended by the VALMIN Code, Feishang has provided SRK with an indemnity under which SRK is to be compensated for any liability and/or any additional work or expenditure resulting from any additional work required:

- Which results from SRK's reliance on information provided by Feishang or to Feishang not providing material information; or
- Which relates to any consequential extension workload through queries, questions or public hearings arising from this Report.

2.5 Consents

SRK consents to this Report being included, in full, in Feishang's document in relation to its proposed listing on the GEM of the HKEx, in the form and context in which the technical assessment is provided, and not for any other purpose.

2.6 Limitations

SRK, after due enquiry and subject to the Limitations of the Report hereunder, confirms that:

- The input, handling, computation and output of the geological data and Resource and Reserve information has been conducted professionally and accurately and to the high standards commonly expected within the Geoscience profession.

- In conducting this assessment, SRK has assessed and addressed all activities and technical matters which might reasonably be considered to be relevant and material to such an assessment conducted to internationally accepted standards. Based on observations, interviews with appropriate staff and a review of available documentation, SRK is, after reasonable enquiry, satisfied that there are no outstanding relevant material issues other than those indicated in this report. However, it is impossible to dismiss absolutely the possibility that parts of the site or adjacent properties may give rise to additional issues.

- The conclusions presented in this report are professional opinions based solely upon SRK's interpretations of the documentation received, interviews and conversations with personnel knowledgeable about the site and other available information, as referenced in this report. These conclusions are intended exclusively for the purposes stated herein.

For these reasons, prospective readers should make their own assumptions and their own assessments of the subject matter of this report.

Opinions presented in this Report apply to the site's conditions and features as they existed at the time of SRK's investigations, and those reasonably foreseeable. These opinions cannot necessarily apply to conditions and features that may arise after the effective date of this Report, about which SRK has had no prior knowledge, nor had the opportunity to evaluate.

3 PROJECT DESCRIPTION

3.1 Location and mineral tenure

The Project is located in Fanchang, Wuhu city, Anhui province, PRC. The Project constitutes six facilities, located in four areas and clustered within a 15 km diameter area (Figure 3-1):

- An open-pit mine (the "Mine"), and two in-pit drying facilities located at Huanghu;
- Two separate contractor's drying facilities, located at Digang town and Suncun town; and
- A separate processing plant, located at Xiao Keshan.

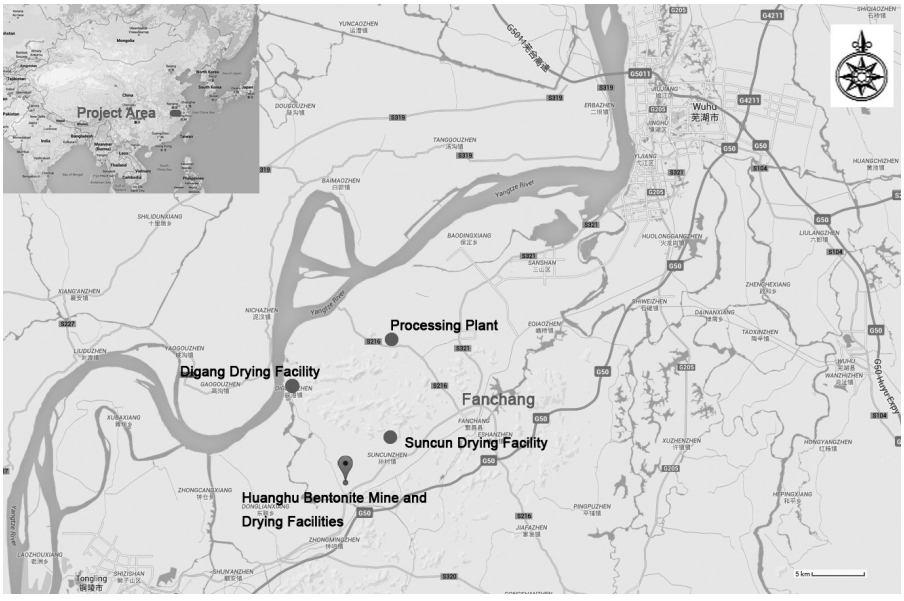


Figure 3-1: Location map of the Bentonite Project

Source: Google Map.

The Mine is covered by a mining licence (C3400002010127120099654), covering 7.2982 km^2 (Table 3-2). The approved mining elevations are between 57 m and -23 m above sea level ("mASL"). The licence was granted on 9 September 2015 and is valid to 9 March 2019. The current Mining Licence is held by Wuhu Feishang Non-metallic Material Co., Ltd. Figure 3-2 and Table 3-1 show the layout and coordinates of the mining licence.

Based on the confirmation issued by Anhui Land and Resources Department on 18 August 2015, the mining licence was issued according to the laws and regulations of PRC and the mining licence is currently in good standing.

Table 3-1: Mining licence details

Item	Description
License Number	C3400002010127120099654
Owner	Wuhu Feishang Non-metallic Material Co., Ltd.
Mine Name	Wuhu Feishang Non-Metallic Material Co., Ltd. Huanghu Bentonite mine
Location	Xiaokeshan, Xingangzhen, Fanchang County, Wuhu City
Mineral species	Bentonite
Mining method	Open pit
Production capacity	230,000 m^3/year (equivalent to approximately 400,000 tpa)
Mine area	7.2982km^2
Valid period	From 9 September, 2015 to 9 March, 2019
Elevation limit	From 57 m to -23 mASL

Table 3-2: Coordinates of the mining licence (XIAN 80 39 zone map projection)

Vertex	Easting	Northing
1	3436007.58	39598949.82
2	3436007.60	39601054.84
3	3436952.60	39601054.83
4	3436952.62	39602949.84
5	3434387.60	39602949.86
6	3434387.60	39602549.86
7	3434052.59	39602549.86
8	3434052.58	39601054.85
9	3435087.59	39601054.84
10	3435087.58	39598949.83

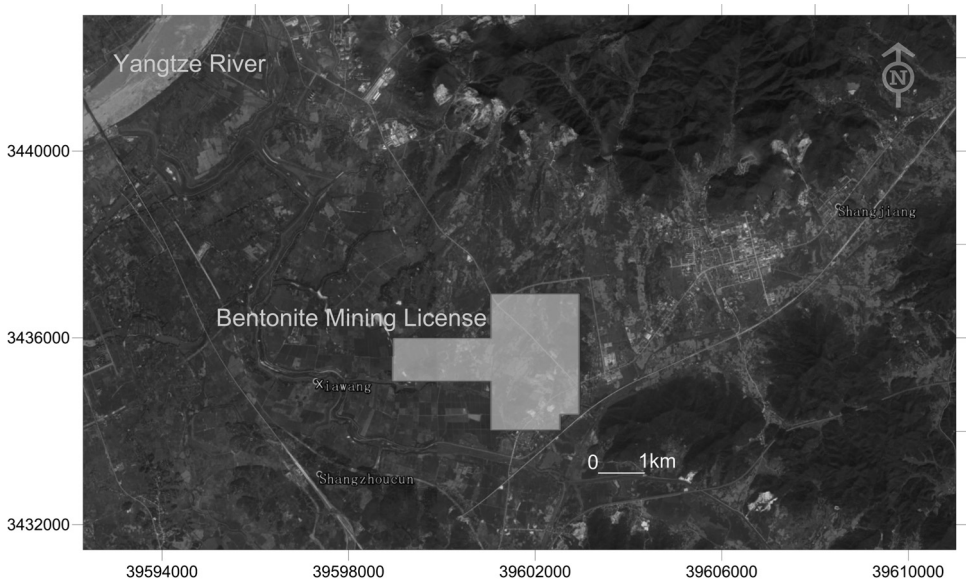


Figure 3-2: Distribution of Mining Licence

3.2 Accessibility, local resources and infrastructure

The Mine is approximately 130 km to the southwest of Nanjing, the capital of Jiangsu Province and 40 km to the southwest of Wuhu city. Access to the Mine from Nanjing is through Freeway G4211 for 132 km, and then a paved provincial road for approximately 7 km. The Mine is connected with the Digang town and Suncun town drying facilities by a 13 km and 5.5 km long paved road respectively. The Digang town and Suncun town drying facilities are located 18 km and 25 km by road away from the processing plant respectively. An alternative direct route from the Mine to the processing plant is through the paved provincial road S321 and S216 for approximately 15 km.

The closest commercial airfield is at Nanjing, where there are daily flights to other major cities in China and Hong Kong. The closest major regional centre is at Wuhu city, which has a population of about 3.6 million and is used as the main source of supplies for the Project.

SRK considers the current infrastructure of the Project area is considered adequate for the volumes set out in the production schedule (Section 7.8) of ore and products to be transported between the Mine, the drying facilities, the processing plant and customers.

3.3 Climate and physiography

The climate of the Project area is classified as a sub-tropical climate. Summer temperatures are warm to hot and winter is cool to cold. The closest major regional centre to the Project area is Wuhu, where the average monthly temperatures range from 3°C to 28.3°C. June and July are the rainy months, with precipitations of 208.8 and 167.4 mm. The average monthly precipitation is 98.8 mm. Long-term average monthly temperatures, amount and days of rainfall are shown in Figure 3-3 and Figure 3-4 respectively.

The Project area is located on the south bank of Yangtze River and is characterised by low relief open land. The elevation ranges from 6.5 m to 89.9 m.

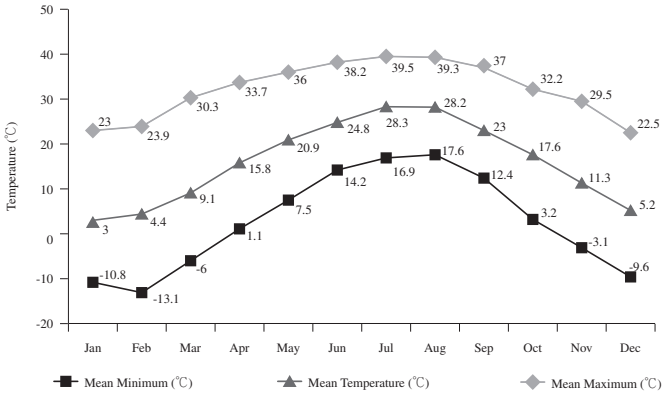


Figure 3-3: Wuhu long-term average temperatures

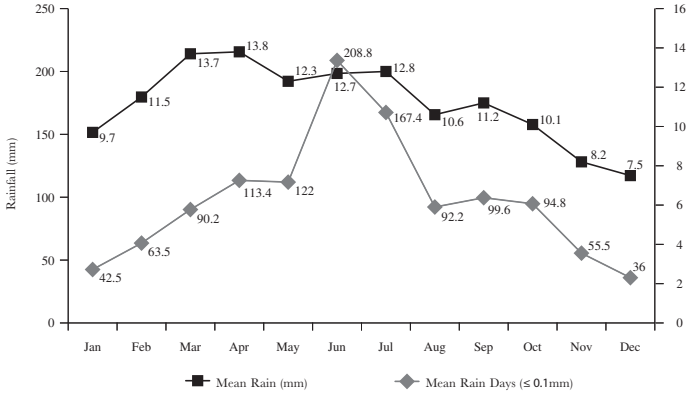


Figure 3-4: Wuhu long-term average amount and days of rainfall

Source: CMA Public Meteorological Service Center.

3.4 Project history

In 2002, an exploration licence was granted and converted to a mining licence in 2004. The mining licence was renewed twice in 2010 and 2015 respectively and is valid until 2019.

In 2004, mining operation commenced at the Mine, and a bentonite processing plant, was built upon the old bearing manufacturing plant. The initial products were activated clay and pelletising clay.

In December 2005, Feishang ceased to produce activated clays, and commercial production of drilling mud began in 2010. In 2014, Feishang commenced selling unprocessed clay (Table 3-3).

Table 3-3: Production records between 2004 and June 2015

Type	Air-dried and rotary drum dried ore	Pelletising clay	Drilling mud	Unprocessed clay
Year/Unit	WMT	WMT	WMT	WMT
2004*	34,460	42,291		
2005	53,856	45,060		
2006	60,424	60,066		
2007	59,290	60,418		
2008	58,072	51,719	2,307	
2009	50,493	45,859	2,631	
2010	73,462	54,140	21,385	
2011	77,868	25,340	53,260	
2012	61,439	30,730	31,800	
2013	110,022	39,030	53,753	
2014	87,206	33,995	39,959	17,953
January-June 2015	46,665	15,112	23,634	8,695

Note:

The assumed moisture content of air-dried and rotary drum dried ore, pelletising clay, drilling mud and unprocessed ore is 10-13%, 10%, 10% and 25.1% respectively.

* In 2004, pelletising clay was produced from ores exploited from the Mine and partly from another mine.

4 GEOLOGICAL SETTING AND MINERALISATION

4.1 Bentonite mineralisation

Bentonite is a clay, consisting mainly of smectite minerals which are absorbent phyllosilicate (layer silicate) clay minerals. Montmorillonite, containing magnesium and aluminium, is the most common of the smectite mineral group. Bentonite is commonly formed by the alteration of volcanic tuff beds.

Montmorillonite has a crystal structure composed of stacked layers. The bonds between the layers are weak and water, cations and compounds can be absorbed between the layers and on the surface of the clay. Interlayer cations are readily exchanged for others (exchangeable cations). Montmorillonite structure has resulted in a number of useful properties, including absorbency, swelling in the presence of water, and the formation of thick gels when mixed with water or other fluid.

Based on these physical and chemical properties, bentonite can be processed (dried, purified and modified) to produce various products for use in different applications. Bentonite and its products are widely used in metallurgy, casting, the chemicals industry, drilling, environmental protection, food, ceramics, medicine, and other fields. As processing technology develops, the range of products and their applications has been expanding in recent years. At present, bentonite is processed into more than 500 different products. The major use of bentonite is for foundry use, metallurgical pelletising, and drilling mud. In China, the recommended Chinese National Standard GB/T20973 2007 (Bentonite) sets out the quality requirements, testing methods and inspection rules for these three products.

The most common cations between the layers of naturally occurring montmorillonite are calcium and sodium. Natural sodium bentonite swells more than natural calcium bentonite. Natural calcium bentonites may be modified by interaction with sodium chemicals to increase their swelling capacity.

The bentonite mineralisation at Huanghu is considered to have formed through a two-stage process. Andesitic rocks underwent low-temperature hydrothermal alteration, followed by percolation of groundwater. Through the processes of hydrothermal alteration and interaction with groundwater, the feldspar and other silicate minerals in the original andesitic tuff breccia gradually alter to montmorillonite and other low-temperature alteration minerals.

X-ray powder diffraction (XRD) shows that the principal mineral of the Huanghu bentonite is montmorillonite, with a wide range of accessory minerals, including quartz, plagioclase, feldspar, calcite, dolomite, pyrite, hematite, pyroxene and cristobalite.

Calcium is the dominant exchangeable cation, and the Huanghu bentonite deposit is therefore classified as calcium bentonite.

4.2 Regional geology

The Mine is located along the northern margin of the Yangtze Craton (Figure 4-1), adjacent to the Dabie orogenic belt and south of the North China Craton, where the basement is represented by Proterozoic and late Archean rocks. The basement is unconformably overlain by Precambrian clastic rocks, dolomite, and siliceous rocks, and Cambrian to Early Triassic sedimentary rocks. Mesozoic magmatism and associated polymetallic Cu-Fe-Au mineralisation is widespread in the region, where the magmatic rocks were emplaced into the Neoproterozoic basement and Paleozoic to Triassic sediments. The volcanic rocks occur mainly within sedimentary basins, distributed along the Yangtsze River. The Cretaceous volcanic rocks which represent the protolith of the Huanghu bentonite deposit occurring in one of the basins, known as the Fanchang Basin.

The Mesozoic volcanic sequence within the Fanchang Basin is further divided into four Formations. The lowermost Jurassic Zhongfenchun Formation consists of siltstone, tuffite, trachyandesite and rhyolite, which passes into the Jurassic Chisha Formation that is composed of trachytic to rhyolitic lavas.

The overlying Cretaceous Kedoushan Formation comprises three Members: the Lower Member is represented by tuffaceous siltstone; the Middle Member consists of andesite and andesitic tuff and the Upper Member contains rhyolite and rhyolitic tuff.

The uppermost Jurassic Sanliangshan Formation is represented by tuffaceous siltstone and trachytic tuffaceous breccia.

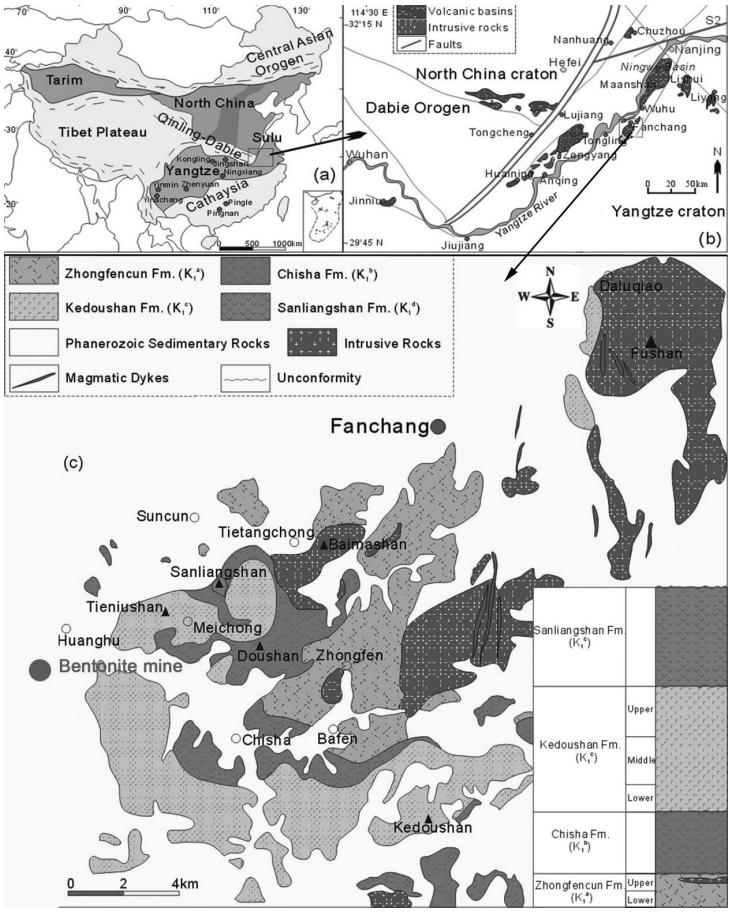


Figure 4-1: Geological map of the Fanchang Basin

Source: Tang et al., 2012.

Notes:

(a) Major tectonic units of China and neighboring countries;

(b) Mesozoic volcanic rocks and coeval intrusive rocks along the boundaries of the Yangtze Craton; the North China Craton and the Dabie Orogen;

(c) Geological map of the Fanchang area

4.3 Local geology

Within the mining licence, the Mesozoic volcanic sequence is represented by the Chisha Formation (J_3C), unconformably overlain by the Upper Member of the Kedoushan Formation (K_1K^2) (Figure 4-2).

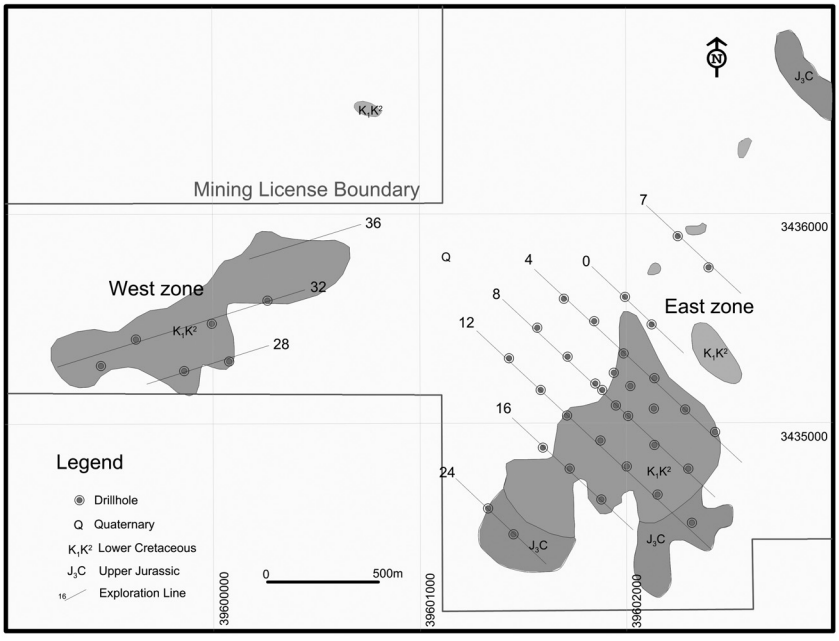


Figure 4-2: Local geological setting of Huanghu Bentonite Project

The Upper Member of the Kedoushan Formation can further be subdivided into three sections. The lower section is andesitic breccia lava, which passes into andesitic tuff breccia and tuff. The upper section consists of andesite and andesitic tuff which hosts the bentonite mineralisation. Andesites cropping out in the pit or intersected by drill holes are plagioclase-phyric with elongated amygdales. The bentonite beds are mainly grey and green and are weathered to yellowish brown to red.

Two major zones of bentonite mineralisation are present in the area (East Zone and West Zone), in which three major orebodies (known as V1, V2, and V3) are delineated. Of these, the V1 orebody is the largest and is located in the East Zone. Two other smaller orebodies, V2 and V3, are situated in the West Zone.

In the East Zone, the V1 orebody is defined between the exploration line 0 and 16. The orebody is bowl-shaped, centered on the drill hole ZK801 and thins toward the edge. The sub-horizontal orebody extends approximately 1,200 m in the north-south direction and up to 900 m wide. Unaltered andesitic layers of few meters thick were occasionally intersected in the drill holes (Figure 4-3 and Figure 4-4).

In the West Zone, the drilling to date indicates that the V2 and V3 orebodies are separated by an andesitic tuff layer of 11-21 m thick. The thickness of the V2 and V3 orebodies are 5.8-9.6 m and 2.5-6.0 m respectively. The dimensions of these two bodies are approximately 1,200 m long and 300 m wide.

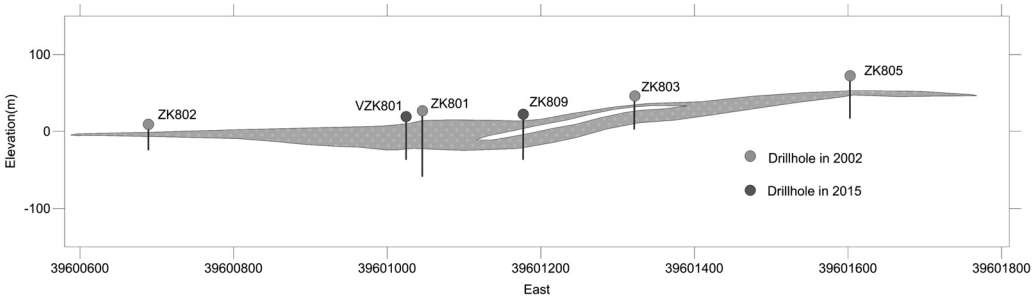


Figure 4-3: Cross section of exploration line 8

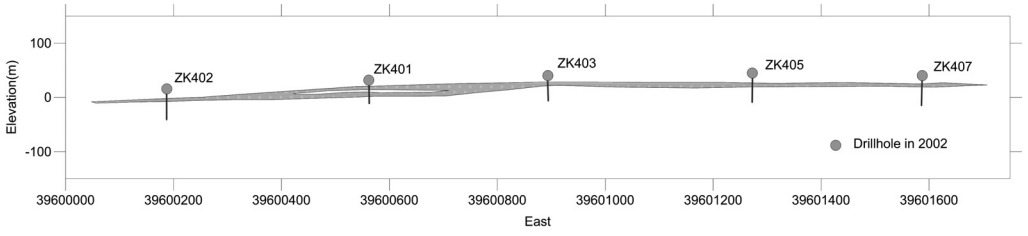


Figure 4-4: Cross section of exploration line 4



Figure 4-5: Andesitic tuff (A) altered to various type of bentonite (B & C)

5 EXPLORATION AND DATA VERIFICATION

The physical and chemical properties of bentonite vary between and within deposits, due to the differences in the degree of chemical substitution within the clay structure, the type of exchangeable cations present, and the type and amount of impurities. All of these properties can have an impact on its application. In bentonite exploration, both the geological continuity (tonnage) and content of montmorillonite (grade) as well as quality of the montmorillonite have to be determined.

In the context of the Huanghu deposit, the grade is defined as the content of active montmorillonite as determined by methylene blue adsorption test ("MBT"), while the quality is related to the inherent physico-chemical properties of the clay, either in its natural and modified form, and is a measure of likely industrial performance for different uses.

5.1 Historical exploration

The first systematic exploration programme on bentonite in the mining licence area was conducted by the Anhui Province Geology Bureau Team 322 ("Team 322") in 2002.

The exploration work comprised:

- A total of 35 vertical diamond holes for a total of 1,308.26 m. The drill spacing was between 100 m and 200 m;
- Geological mapping at a scale of 1:5000; and
- A total of 172 samples were taken for chemical and physical properties analysis, including methylene blue test, colloid index, swelling capacity and natural whiteness. In addition, five composite whole rock assay, two particle size samples, 33 cation exchange capacity ("CEC") samples, seven mineral identification samples, 20 specific gravity samples, 20 moisture samples and two mechanics samples were taken for analysis.

The data collected in the 2002 exploration programme have been documented, but the drill cores are no longer available for inspection (Team 322, 2002).

5.1.1 Methylene blue absorption test

All the physical and chemical tests were performed according to the Chinese National Standard (DZG93-06: Non-metallic mineral physical and chemical properties testing procedures). The MBT was employed to determine the amount of active clays in the sample, based on the amount of methylene blue dye absorbed by the sample. The methylene blue capacity gives an estimate of the total CEC. The methylene blue capacity and the CEC are not necessarily equivalent, with the methylene blue capacity normally being somewhat less than the actual CEC. However, this test is sensitive to the reactive clay content and has the advantage of being relatively rapid. This analytical method has been widely accepted in the industry to infer the active clay content. The active montmorillonite content was calculated by a formula:

$M = B / K \times 100$

where

M is the active montmorillonite content;

B is the methylene blue capacity; and

K is a conversion factor (0.442).

In this report, if montmorillonite content is referred to, unless specified it means the active montmorillonite content as measured by MBT.

5.1.2 Sampling and Quality Control/Quality Assurance (QA/QC)

Core recovery data for the historic drill cores were recorded as per unit. The average core recovery is 83% which is considered by SRK to be reasonable.

The cores were geological logged and halved by a core saw along the core's long axis. One half of the core was put in a plastic bag that was further put in a cloth bag. All of the samples were sent to Nanjing Integrated Minerals Testing Centre ("Nanjing Laboratory") for analysis. The collars were picked up by a total station survey.

For MBT, colloid index, swelling capacity and natural whiteness analysis, a total of 20 laboratory duplicates were re-analysed, representing approximately 12% of the samples. Six CEC laboratory duplicates were also assayed. Figure 5-1, Figure 5-2 and Figure 5-3 show the laboratory duplicate sample results, which shows a strong correlation. Table 5-1 shows the laboratory duplicate results of CEC by Nanjing laboratory, which indicates that only minor differences between the duplicate and original results.

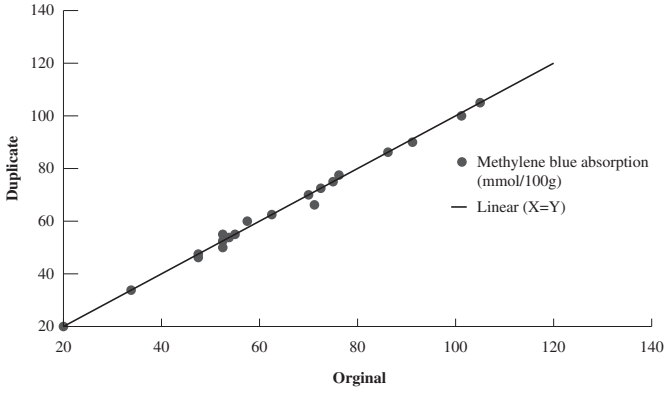


Figure 5-1: Scatter plot of Nanjing Laboratory duplicate vs original samples (methylene blue absorption)

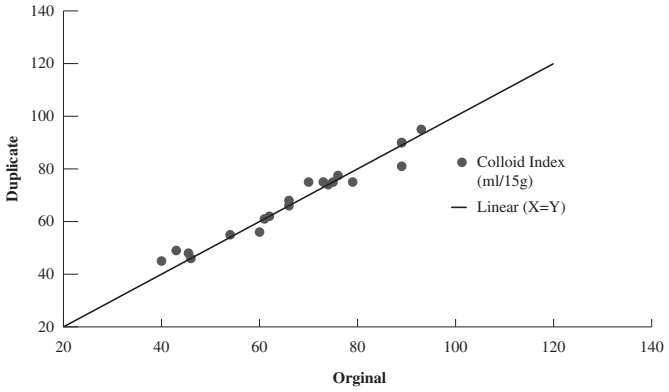


Figure 5-2: Scatter plot of Nanjing Laboratory duplicate vs original samples (Colloid index)

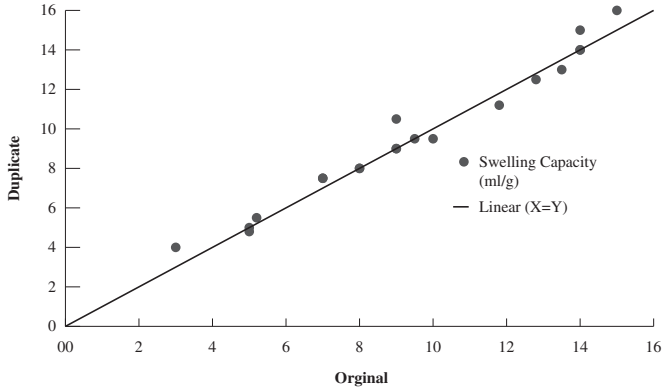


Figure 5-3: Scatter plot of Nanjing laboratory duplicate vs original samples (swelling capacity)

Table 5-1: Duplicates vs original CEC results

Sample	CEC			EK			ENa			E1/2Ca^{2+}			E1/2Mg^{2+}		
	Primary	Checking	Absolute Difference	Primary	Checking	Absolute Difference	Primary	Checking	Absolute Difference	Primary	Checking	Absolute Difference	Primary	Checking	Absolute Difference
ZK801-H4	48.80	48.32	-0.48	2.16	2.16	0.00	3.16	3.45	0.29	33.85	33.22	-0.63	9.04	9.11	0.07
ZK801-H10	50.69	51.17	0.48	3.76	3.76	0.00	6.39	6.52	0.13	33.68	34.31	0.63	5.87	6.00	0.13
ZK1201-H2	60.64	63.01	2.37	1.94	2.06	0.12	4.30	4.36	0.06	37.51	40.33	2.82	17.29	16.15	-1.14
ZK1201-H8	40.74	42.64	1.90	1.42	1.70	0.28	0.82	1.47	0.65	26.13	29.81	3.68	13.02	12.54	-0.48
ZK1601-H4	40.74	44.52	3.78	1.12	1.43	0.31	0.45	1.03	0.58	24.22	26.23	2.01	18.95	17.46	-1.49
ZK401-H2	69.17	66.80	-2.37	1.81	2.00	0.19	0.43	0.81	0.38	38.51	39.52	1.01	15.11	13.97	-1.14

A total of 10 samples were sent to the Central Laboratory of Land and Resources Department of Anhui for inter-laboratory check analysis ("Anhui laboratory"), and these show reasonable correlation with the originals (Figure 5-4). SRK considers that the results of the duplicate analyses are satisfactory and in accordance with industry standard practice.

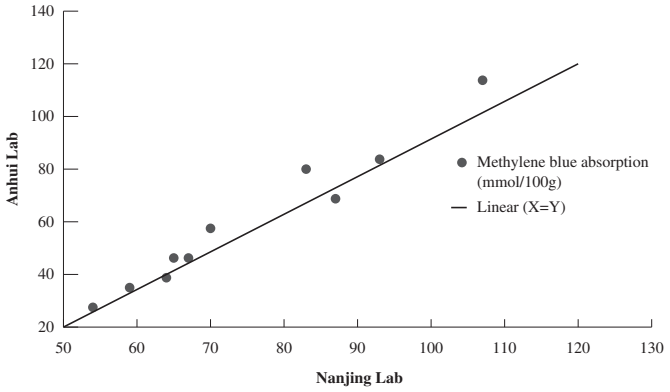


Figure 5-4: Scatter plot of Nanjing laboratory vs Anhui laboratory (methylene blue absorption)

5.2 Data verification

In order to validate the historic results, SRK recommended additional drilling and surface sampling around the open pit. One historical hole (ZK801) was twinned and four new holes drilled for a total drilled meters of 267.05 m (Figure 5-5; Table 5-2). These four holes are located in or near the existing open pit. Feishang engaged the same geological team who conducted the 2002 exploration programme (Team 322) to undertake the data validation programme. The drilling programme took place between December 2014 and January 2015 and the laboratory analytical results were available in March 2015.

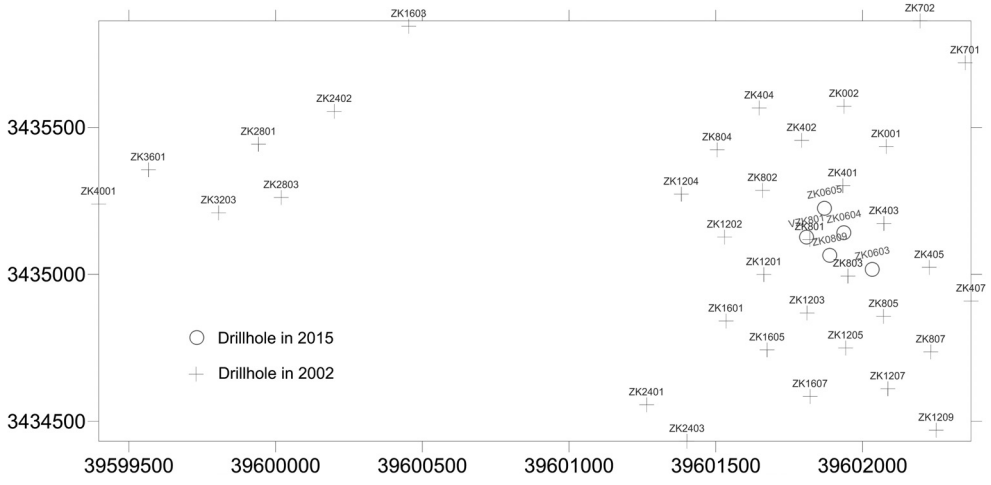


Figure 5-5: Location of historic and validation drill holes

Table 5-2: Collars of validation drill holes

HoleID	North	East	Elevation (m)	Depth (m)	Original hole	Remark
ZK0604	3435141.80	39601936.20	24.30	57.62	–	Infill
ZK0605	3435224.80	39601870.20	19.58	65.69	–	Infill
VZK801	3435126.80	39601809.20	13.16	49.63	ZK801	Twin holes
ZK0809	3435064.80	39601888.20	14.36	51.53	–	Infill
ZK0603	3435017.00	39602033.00	27.00	42.58	–	Infill

5.2.1 Drilling and sampling

SRK visited the site while the drilling and sampling was underway. The drill cores were geologically logged and photographed before being halved by a core saw. One half of the core was put in a plastic sample bag with a unique sample number plate and then the plastic bag was packaged into a cloth bag, while the other half was placed in the core box. All the core boxes were stored in an on site warehouse.

All the holes were vertical and were around 50 m deep at most. No downhole survey was conducted. The drill hole collars were picked up by a total station survey. The core recovery for each run generally exceeded 80% with an average recovery of 88.7% for all the holes combined. The average recovery was 90.0% within the bentonite mineralisation intervals.

All the surface and drill core samples were sent to the State Geological Survey ("SGS") in Tianjin. In total, 120 samples were taken for MBT, colloid index and swelling capacity analysis, in addition to five particle size samples, 10 CEC samples, five XRD samples, 30 bulk density samples, 30 moisture samples, 17 whiteness samples, 15 pH samples and 15 whole rock assay samples were also taken.

The physical and chemical tests were performed according to the following Chinese National standards:

- Rock and Mineral Analysis fourth edition (34.1.2, 34.1.3, 34.1.7, 34.1.8)
- Bentonite National Standard GB/T 20973-2007
- Methods for chemical analysis of silicate rocks GB/T 14506.28-2010.

5.2.2 Analysis of infill and twin holes

The infill validation drill holes confirm the continuity and thickness of the mineralisation (Figure 4-3). The twin hole (VZK801) is located 13.8 m to the northeast of the original drill hole ZK801. The elevation of the original and twin hole also has an approximate 10 m difference. The hole pairs show a similar thickness and grade trend of active montmorillonite (Figure 5-6). Part of the apparent differences between the two hole results is probably due to different sample lengths used, and because the twin hole is located more than ten meters away from the original hole. Overall, SRK considers the validation drill hole analyses show that the 2002 drilling results are reliable and adequate for Resource estimation.

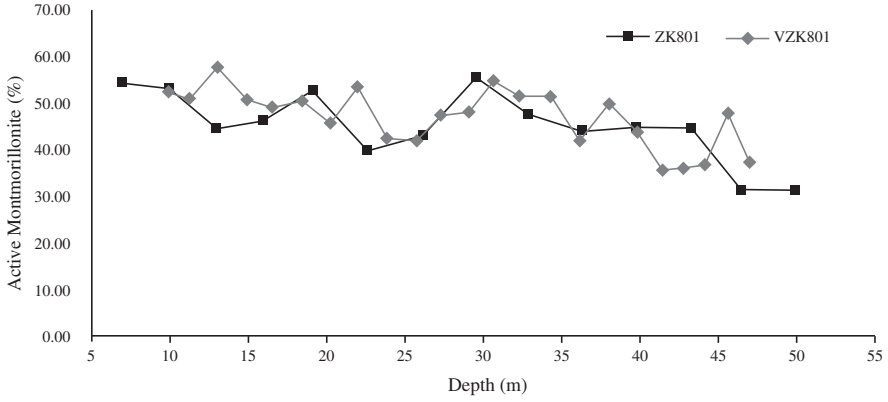


Figure 5-6: Twin holes VZK801 analysis (active montmorillonite content)

5.2.3 Surface sampling

A total of 21 surface samples were also collected along the mining faces and benches under the supervision of SRK (Figure 5-7). The purpose of the sampling was to confirm the presence and continuity of surface bentonite mineralisation.

The results are tabulated in Table 5-3 and the active montmorillonite content ranges from 30.74% to 53.85%. Overall, the surface sampling programme demonstrates the presence and continuity of the mineralisation in and around the pit.

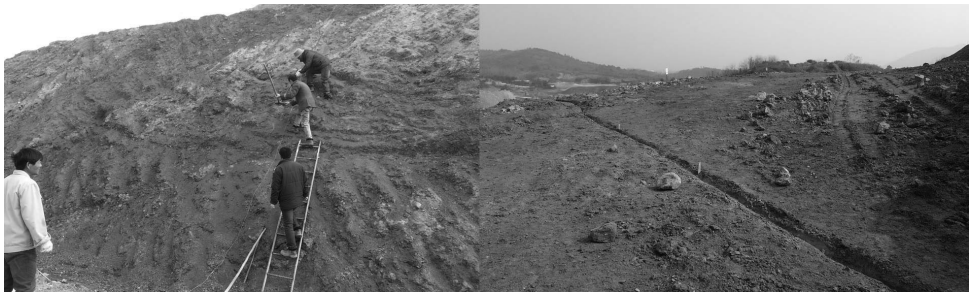


Figure 5-7: Surface channel sampling

Table 5-3: Surface sampling results

Sample	Active Montmorillonite (%)	Colloid Index (ml/15g)	Swelling Capacity (ml/g)
SS01-01	41.94	54.80	9.90
SS01-02	48.00	49.00	8.50
SS01-03	42.60	47.20	8.40
SS01-04	45.39	57.50	9.20
SS01-05	47.88	57.20	8.70
SS01-06	37.92	52.70	7.00
SS01-07	38.14	61.00	8.00
SS02-01	53.85	67.70	10.40
SS02-02	45.22	63.00	10.00
SS02-03	52.28	46.20	6.50
SS03-01	39.60	41.80	5.00
SS03-02	35.96	46.30	6.50
SS04-01	38.84	42.00	6.50
SS05-01	44.93	44.80	8.50
SS05-02	47.90	46.00	7.40
SS05-03	48.80	58.80	6.20
SS05-04	45.73	35.80	5.50
SS06-01	51.90	42.80	5.50

Sample	Active Montmorillonite (%)	Colloid Index (ml/15g)	Swelling Capacity (ml/g)
SS07-01	40.14	44.20	6.00
SS08-01	41.90	44.50	5.50
SS08-02	30.74	39.00	2.50
Average	43.79	49.63	7.22

5.3 Bentonite quality tests

In addition to the montmorillonite content analysis presented in the previous section, the quality of the bentonite is measured by a number of laboratory tests which involves a variety of mineralogical, chemical and physio-chemical techniques. These are used to characterise the clay and are used to indicate the suitability of the clay for different applications.

5.3.1 Mineralogical examination

XRD provides useful information on the mineralogical composition of the bentonite, both in terms of clay and non-clay constituents. The examination shows that the 5 analysed samples contain between 53.8% and 83.2% clay minerals which are almost pure montmorillonite with rare illite. The accessory minerals include quartz, plagioclase, feldspar, calcite, dolomite, pyrite, hematite, augite and cristobalite (Table 5-4 & Table 5-5). The montmorillonite content as measured by XRD (the true mineralogical content) is significantly higher than the active montmorillonite content estimated from the MBT.

Table 5-4: Qualitative analysis for whole rock by XRD

Sample	Quartz	Plagioclase	Feldspar	Calcite	Dolomite	Pyrite	Hematite	Augite	Cristobalite	Clay
VZK801-H3	2.9	2.6	2.7	25.2	/	/	1.4	/	11.5	53.8
ZK0604-H4	1.6	3.9	4.5	/	/	7.3	/	2.7	10.1	70.0
ZK0605-H6	1.0	1.5	1.4	2.5	7.2	/	5.4	3.3	8.5	69.3
ZK0809-H18	/	1.6	2.3	2.8	3.9	/	/	3.2	7.1	79.1
ZK0603-H2	0.8	1.8	0.9	5	2.4	/	0.7	5.1	/	83.2

Table 5-5: Clay minerals qualitative analysis by XRD

Sample	S	IT	K	C	I/S	C/S
VZK801-H3	100	–	–	–		
ZK0604-H4	100	–	–	–		
ZK0605-H6	100	–	–	–		
ZK0809-H18	100	–	–	–		
ZK0603-H2	99	1	–	–		

Notes:

S: Montmorillonite; IT: Illite; K:Kaolin; C: Chlorite;I/S: Interlayer minerals between Illite and Montmorillonite; C/S Interlayer minerals between Chlorite and Montmorillonite

5.3.2 Cation exchange capacity

The determination of CEC is of fundamental significance to applied properties of bentonite. The clay minerals have the property of absorbing certain cations and retaining these in an exchangeable state. The exchangeable ions are held outside the silica-alumina clay mineral structural unit, and the exchange reaction does not affect the structure of the silica alumina packet. In clay materials, the most common exchangeable cations are EK^+, ENa^+, $E1/2Ca^{2+}$ and $E1/2Mg^{2+}$. The value of CEC depends on whether Na^+ or Ca^{2+} is the exchangeable cation.

The ratios of $E1/2Ca^{2+}$/CEC vary but is always more than 50%, which indicates that *in situ* bentonite is a calcium bentonite. The ratios of $E1/2Mg^{2+}$/CEC range from 3.96% to 46.51%, which indicates that the CEC of Mg^{2+} is locally high. The ratios of ENa^+/CEC range from 0.28% to 31.59%.

Table 5-6: Cation exchange capacity analysis

Sample	CEC	E1/2Ca^{2+}	E1/2Mg^{2+}	EK^{+}	ENa^{+}	Year
ZK801-1	54.48	40.23	9.17	1.79	1.69	2002
ZK801-2	49.27	38.44	9.25	2.06	3.02	2002
ZK801-3	46.43	33.85	9.11	2.06	3.95	2002
ZK801-4	48.8	33.85	9.04	2.16	3.16	2002
ZK801-5	47.85	37.45	7.55	2.99	2.46	2002
ZK801-6	37.43	24.93	5.9	2.45	1.51	2002
ZK801-7	39.32	27.35	5.85	2.61	1.82	2002
ZK801-8	54.01	36.03	7.44	3.32	3.55	2002
ZK801-9	46.43	33.44	6.9	2.95	4.36	2002
ZK801-10	50.69	33.68	5.87	3.76	6.39	2002
ZK801-11	56.85	36.3	6.72	3.51	14.06	2002
ZK801-12	69.64	40.75	5.09	4.65	22	2002
ZK1201-1	66.8	40.11	16.64	1.94	1.73	2002
ZK1201-2	60.64	37.51	17.29	1.99	4.3	2002
ZK1201-3	60.64	37.36	17.5	2.29	4.01	2002
ZK1201-4	63.01	34.88	16.35	2.65	6.49	2002
ZK1201-5	53.53	32.1	16.08	2.43	5.91	2002
ZK1201-6	57.32	33.68	16.38	3.16	6.43	2002
ZK1201-7	51.17	33.54	15.6	2.11	2.27	2002
ZK1201-8	40.74	26.13	13.02	1.42	0.82	2002
ZK1601-2	45.48	28.4	16.76	1.33	0.29	2002
ZK1601-4	40.74	24.22	18.95	1.12	0.45	2002
ZK1601-6	33.64	23.26	10.64	1.16	0.45	2002
ZK1601-8	44.06	28.11	13.29	1	0.57	2002
ZK401-1	70.59	40.12	15.72	1.63	0.77	2002
ZK401-2	69.17	38.51	15.11	1.81	0.73	2002
ZK401-3	59.69	33.63	13.11	1.72	0.65	2002
ZK401-4	48.32	36.01	10.37	1.46	0.69	2002
ZK401-5	38.37	26.8	7.29	1.89	0.77	2002
ZK0603-H11	52.52	35.6	8.78	3.88	1.97	2015

Sample	CEC	E1/2Ca^{2+}	E1/2Mg^{2+}	EK^{+}	ENa^{+}	Year
ZK0603-H2	63.95	84.85	11.85	3.06	0.18	2015
ZK0809-H18	56.53	54.29	2.24	3.45	2.52	2015
VZK801-H11	69.83	74.19	5.74	3.57	1.52	2015
ZK0809-H7	51.1	47.84	5.9	2.31	0.19	2015
VZK801-H3	63.02	78.8	6.37	2.45	0.6	2015
ZK0604-H4	52.23	35.98	7.36	1.93	0.19	2015
ZK0604-H19	64.08	61.73	2.66	3.37	1.69	2015
ZK0605-H6	68.24	47.95	11.05	2.83	2.08	2015
ZK0605-H17	35.28	37.25	1.65	1.76	2.6	2015

5.3.3 pH Value

Determinations of the pH value of the samples indicate the acidic or alkaline nature of the clay. The result of 18 pH samples shows that the pH value ranged from 7.79 to 9.64, with an average value of 8.92, demonstrating the alkaline nature of the clay.

5.3.4 Geochemical analysis

A total of 15 samples were collected from the core to assess the major and trace element contents of bentonite. Table 5-7 shows the major element compositions. The analyses indicate no obvious deleterious components in the clay.

Table 5-7: Whole rock analysis (%)

Sample_ID	Al_2O_3	CaO	Cr_2O_3	K_2O	MgO	Mn_3O_4	Na_2O	P_2O_5	Fe_2O_3	SiO_2	TiO_2	TFe
ZK0809-H7	15.40	5.98	<0.01	3.94	2.65	0.28	1.92	0.34	4.06	54.58	0.96	2.84
ZK0809-H20	16.27	4.76	<0.01	2.80	1.81	0.15	1.80	0.29	4.41	58.17	1.00	3.09
ZK0809-H18	16.67	3.73	<0.01	2.75	1.89	0.10	1.92	0.32	4.69	59.55	1.02	3.28
ZK0605-H7	15.24	5.97	<0.01	1.44	2.23	0.15	0.78	0.96	8.98	54.27	1.74	6.28
ZK0605-H6	15.07	4.02	<0.01	2.05	2.38	0.12	0.37	0.84	9.68	55.93	1.69	6.77
ZK0605-H17	16.20	4.69	<0.01	3.21	0.92	0.10	3.64	0.88	7.27	57.26	1.65	5.08
ZK0604-H4	16.98	3.67	<0.01	2.14	1.29	0.05	2.13	1.33	8.73	56.89	1.96	6.10
ZK0604-H19	14.98	6.02	<0.01	1.68	2.24	0.12	1.13	0.91	8.26	54.51	1.53	5.78
ZK0604-H14	14.07	9.01	<0.01	1.57	2.12	0.27	1.04	0.87	8.39	50.91	1.57	5.87
ZK0603-H4	11.51	17.90	<0.01	2.73	2.40	0.24	0.86	0.24	4.27	41.97	0.70	2.99
ZK0603-H2	11.78	16.98	<0.01	2.49	2.28	0.29	0.37	0.25	4.45	43.70	0.72	3.11
ZK0603-H11	16.50	3.60	<0.01	3.97	2.73	0.09	1.11	0.30	4.81	58.30	1.01	3.37
VZK801-H3	11.95	16.68	<0.01	1.48	2.03	0.33	0.40	0.55	5.78	44.03	1.13	4.04
VZK801-H16	13.46	10.92	<0.01	3.04	2.35	0.21	0.69	0.45	6.55	49.57	1.11	4.58
VZK801-H11	13.90	10.44	<0.01	1.97	2.78	0.17	0.46	0.58	6.67	50.16	1.27	4.66

5.3.5 Particle size distribution

Particle size distribution is also an important property of bentonite. The study of particle size distribution will benefit the optimisation of the process to improve the quality of the product. A particle size study was carried out using a Laser Particle Size Analyzer Hydro 2000MU (Number STI_085). Table 5-8 gives the particle size distributions.

Table 5-8: Particle size distribution analysis

Sample	< 76μm (%)	< 43μm (%)	< 10μm (%)	< 5μm (%)	< 2μm (%)
PS-01	84.57	77.17	48.83	30.85	10.43
PS-02	95.02	91.33	59.36	35.2	11.44
PS-03	88.43	78.63	45.65	27.27	7.73
PS-04	91.37	68.39	23.74	14.26	5.14
PS-05	94.23	87.89	58.5	37.63	12.59

5.3.6 Moisture

The moisture content can be considered as one of the criteria regarding the nature of clay. The structure of smectite group minerals allows absorption of a large amount of water compared to other clay minerals. The moisture content of the 2002 samples range from 11.3% to 25.5% with an average value of 19.47%, whereas the 2015 samples range from 14.0% to 31.4%, with an average value of 24.7%. The 2015 results tend to be higher, which might be related to different sampling procedures (Figure 5-8).

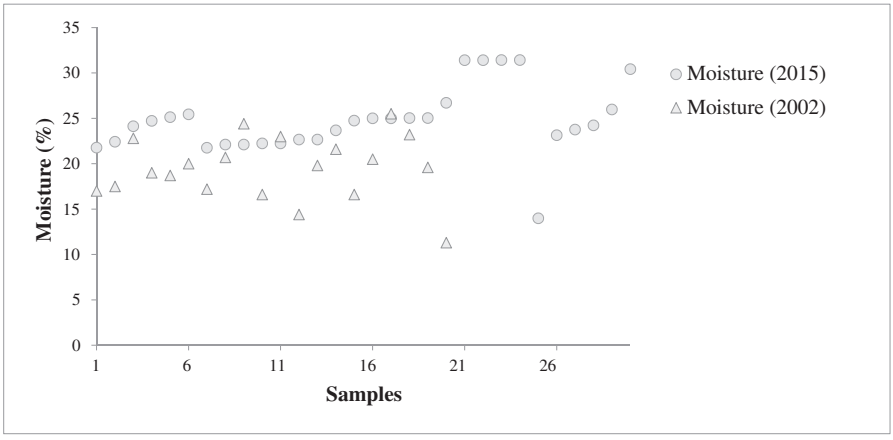


Figure 5-8: Moisture analysis result

5.3.7 Whiteness

The whiteness was determined for 170 samples in the 2002 programme, and 19 samples were analysed in the 2015 programme. The average whiteness of all samples was 35.21 (Figure 5-9). This is relatively low, but adequate for the planned uses of this bentonite.

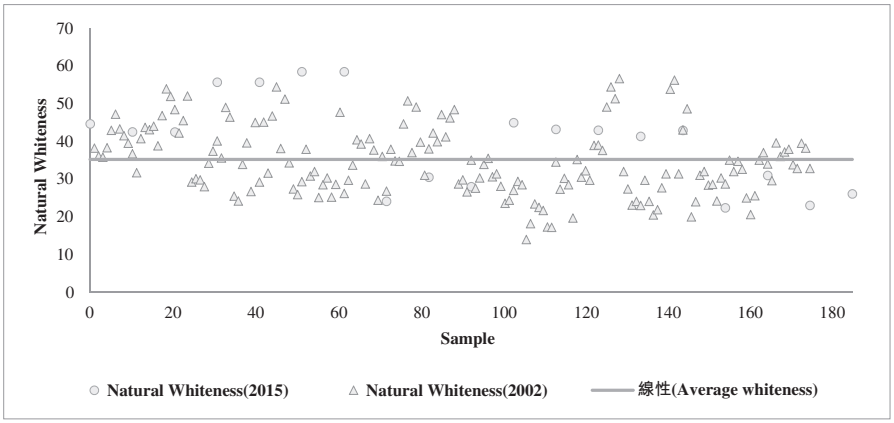


Figure 5-9: Natural whiteness of bentonite

6 MINERAL RESOURCES ESTIMATION

6.1 Introduction

Based on the results of the data validation programme and statistical analysis, SRK is of the opinion that the quality of the historic data is acceptable and the data can be used together with the new 2015 drilling results for a Mineral Resource Estimate of the Huanghu deposit in accordance with the JORC Code (2012).

The JORC Code states that '*A Mineral Resource is a concentration or occurrence of solid material of economic interest in or on the Earth's crust in such form, grade (or quality), and quantity that there are reasonable prospects for eventual economic extraction*'. Mineral Resources are classified as Measured, Indicated and Inferred according to the degrees of geological confidence (Figure 6-1).

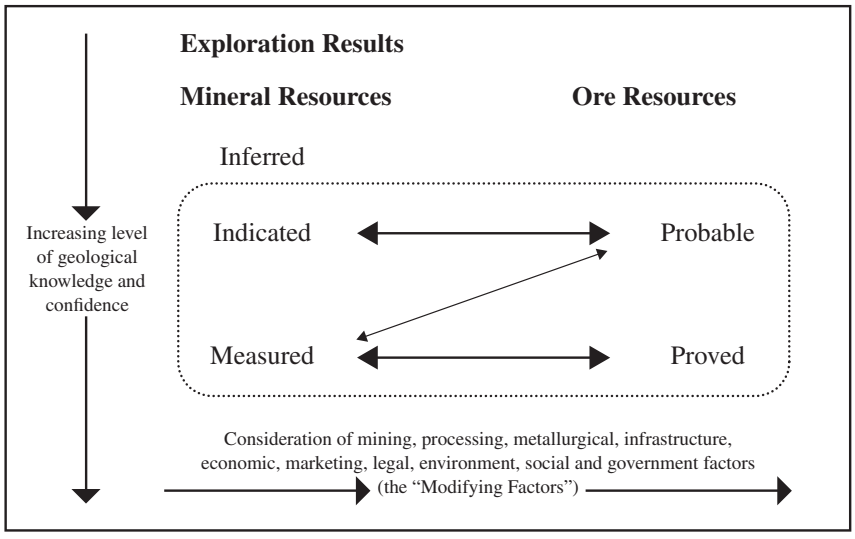


Figure 6-1: General relationship between exploration results, mineral resources and ore reserves (JORC 2012)

6.2 Mineral Resource estimation procedures

The Resource evaluation involved the following steps:

- Database compilation and verification;
- Construction of geological domains;
- Definition of Resource domains;
- Exploratory data analysis and geostatistical analysis using variography;
- Block modelling and grade interpolation;
- Resource estimation and validation; and
- Classification of the Mineral Resources.

6.3 Database compilation and validation

All historical collar, assay, survey and lithological data from the 2002 and 2015 exploration campaigns were digitised and compiled in a database. The combined database was validated using Leapfrog and Surpac software packages to search for errors such as missing or overlapping intervals, correct hole ID, azimuths, dip and duplicated samples.

The database consists of samples from 40 drill holes with active montmorillonite (%), colloid Index (ml/15g), swelling capacity (ml/g) geochemical and quality tests results (Table 6-1).

A digital topography map at a scale of 1:2,000 was provided to SRK. The latest topographic map was surveyed by an accredited surveyor, appointed by Feishang, in December 2014 and later updated on 30 June 2015. The topographic survey has also mapped out the developed benches and mined-out areas. All survey and coordinate data used for the Resource estimation study are reported using XIAN 80 3-degree zone GK Zone 39.

Table 6-1: Drill holes used for the Resource estimate

Hole ID	Northing	Easting	RL	EOH	Year
ZK801	3435118.56	39601820.25	22.19	81.70	2002
ZK803	3434994.21	39601950.47	40.99	38.00	2002
ZK805	3434857.21	39602071.68	66.69	48.70	2002
ZK807	3434736.33	39602232.55	39.45	29.80	2002
ZK802	3435285.66	39601659.33	10.33	33.60	2002
ZK804	3435423.58	39601504.73	10.19	29.10	2002
ZK1201	3434999.47	39601663.89	19.75	49.90	2002
ZK1203	3434868.78	39601811.20	54.47	46.85	2002
ZK1205	3434749.64	39601942.44	51.50	34.65	2002
ZK1207	3434610.87	39602086.28	41.43	40.35	2002
ZK1209	3434470.05	39602250.88	33.62	22.40	2002
ZK1202	3435126.85	39601530.03	9.95	16.37	2002
ZK1204	3435272.93	39601382.44	9.63	24.00	2002
ZK1601	3434841.36	39601535.10	18.34	43.00	2002
ZK1605	3434743.16	39601674.71	53.35	42.90	2002
ZK1607	3434584.65	39601821.47	33.67	18.30	2002
ZK2401	3434556.48	39601264.56	11.53	35.60	2002
ZK2403	3434432.41	39601402.06	38.80	26.10	2002

Hole ID	Northing	Easting	RL	EOH	Year
ZK401	3435301.57	39601933.06	28.25	37.20	2002
ZK403	3435173.07	39602072.90	36.30	38.97	2002
ZK405	3435023.86	39602227.19	41.79	45.12	2002
ZK407	3434909.27	39602369.75	32.20	42.85	2002
ZK402	3435455.90	39601792.66	13.12	47.40	2002
ZK404	3435566.15	39601647.95	12.49	14.20	2002
ZK001	3435434.82	39602080.65	34.72	32.00	2002
ZK002	3435571.82	39601936.84	17.18	24.90	2002
ZK701	3435719.72	39602349.64	38.02	39.30	2002
ZK702	3435862.15	39602195.90	20.45	40.20	2002
ZK1603	3435843.76	39600453.89	16.67	40.10	2002
ZK2402	3435554.46	39600199.84	18.77	35.30	2002
ZK2801	3435442.62	39599941.97	23.70	45.20	2002
ZK2803	3435261.51	39600019.33	10.70	40.40	2002
ZK3601	3435355.70	39599566.82	21.95	31.90	2002
ZK3203	3435209.44	39599805.97	23.94	38.00	2002
ZK4001	3435239.17	39599397.37	14.03	53.90	2002
ZK0604	3435141.80	39601936.20	24.30	57.62	2015
ZK0605	3435224.80	39601870.20	19.58	65.69	2015
VZK801	3435126.80	39601809.20	13.16	49.63	2015
ZK0809	3435064.80	39601888.20	14.36	51.53	2015
ZK0603	3435017.00	39602033.00	27.00	42.58	2015

6.4 Geological modelling

A geological model of the Huanghu deposit was built using Leapfrog. A 35% active montmorillonite cut-off was utilised to constrain the mineralised intervals. This is the minimum content applied to define usable clay in current mining. The contact points between ore and waste were generated using the "vein selection" function and the mineralised envelopes were built by the "vein modelling" and "domain" functions. The boundaries of domains were also constrained by existing interpreted geological cross-sections. All the mineralised envelopes were clipped by the topography and licence boundaries.

A total of three domains and two waste layers (less than 35% active montmorillonite contents) were constructed (Figure 6-2): V1 (major domain), V2 (minor domain) and V3 (minor domain).

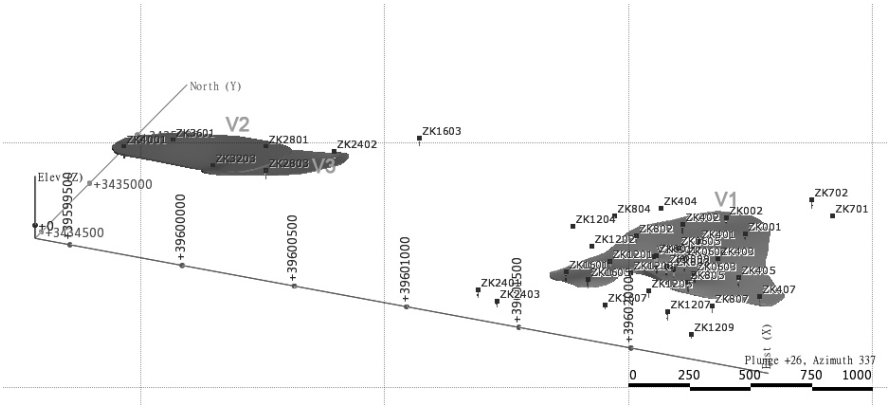


Figure 6-2: Domains distribution interpreted in the Huanghu deposit

6.5 EXPLORATORY DATA ANALYSIS

6.5.1 Statistical analysis

Exploratory data analysis was performed using raw samples within the defined wireframes. Basic statistical information was compared and analysed to help choose an appropriate composite length.

Table 6-3 summarises the results of basic statistics for all the samples within the interpreted domains. Figure 6-3 to Figure 6-4 shows the histogram and cumulative frequency statistics of each variable within the domains. Table 6-2 shows the basic statistics for active montmorillonite for each domain. The histogram of active montmorillonite for all domains represents a normal distribution.

Some of the analyses of the colloid index and swelling capacity were below the detection limits, 5.00 ml/15 g and 5.00 ml/g respectively. Half of the detection limits, i.e. 2.50 ml/15g and 2.50 ml/g were used to replace those values.

Table 6-2: Basic statistical information for raw assay data within domains

Item	Active Montmorillonite (%)	Colloid Index (ml/15g)	Swelling Capacity (ml/g)
Number of samples	160	160	160
Minimum value	21.85	31.80	2.50
Maximum value	75.00	97.00	22.00
Mean	47.06	57.03	7.92
Median	46.67	53.10	8.00
Standard Deviation	10.28	14.99	3.30
Coefficient of variation	0.22	0.26	0.42

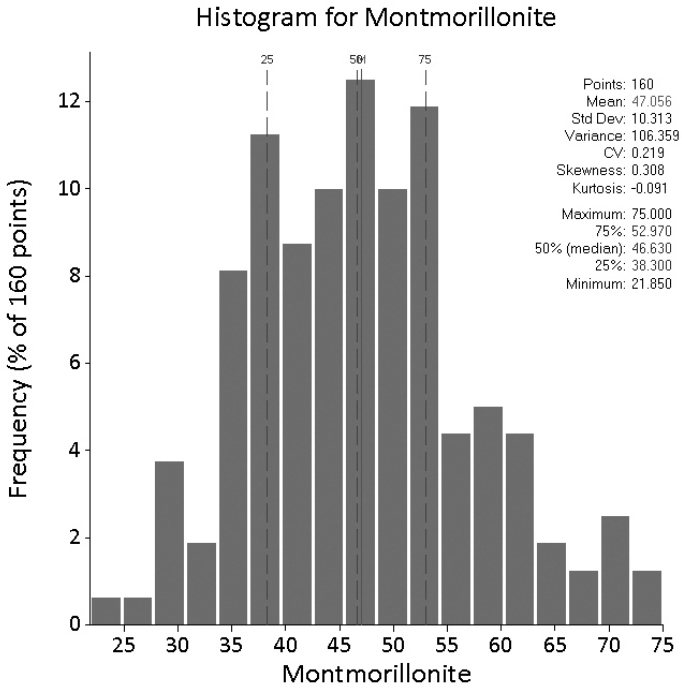


Figure 6-3: Frequency statistics of active montmorillonite within domains

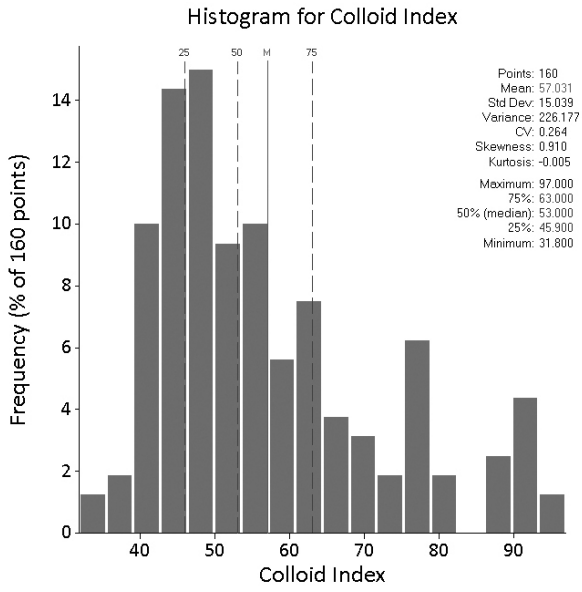


Figure 6-4: Frequency statistics of colloid index within domains

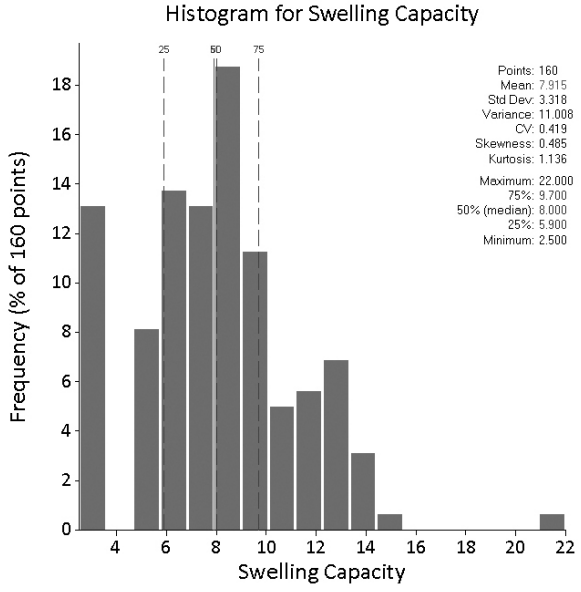


Figure 6-4: Frequency statistics of swelling capacity within domains

Table 6-3: Basic statistical information of active montmorillonite assay data for each domain

Active Montmorillonite (%)	V1	V2	V3
Number of samples	140	19	6
Minimum value	21.85	44.00	43.30
Maximum value	70.00	60.20	70.00
Mean	46.30	51.29	54.60
Median	46.04	51.00	51.65
Standard Deviation	9.71	4.67	9.15
Coefficient of variation	0.21	0.09	0.17

6.5.2 Compositing

An analysis of the samples within the mineralised domains shows that sample lengths range from 0.59 m to 8.00 m, with the majority of the samples between 2.0 m and 3.5 m.

Most samples (96%) are less than 4 m long and SRK has therefore chosen a 2 m composite length. Compositing generated from drill holes was limited to domain boundaries. Table 6-4 shows the basic statistics of active montmorillonite on 2 m composites for each domain.

Table 6-4: Basic statistics for active montmorillonite grade on 2 m composites for each domain

Active Montmorillonite (%)	V1	V2	V3
Number of samples	180	19	11
Minimum value	24.87	35.00	43.30
Maximum value	70.00	75.00	70.00
Mean	46.14	49.07	57.55
Median	46.04	48.00	53.30
Standard Deviation	8.85	11.91	10.66
Coefficient of variation	0.19	0.24	0.19

6.5.3 Top-cutting

The histograms of the variables show a normal or slightly positive skewed distribution. SRK is of opinion that top-cutting is not required and would not be beneficial.

6.5.4 Variography

For Domain V1, sufficient samples were available to estimate reasonable variograms. The variogram map function was applied to select variography parameters and search ellipsoids for grade interpolation by Ordinary Kriging ("OK").

Variogram fitting was conducted in the following steps for each variable:

- The nugget was determined by the downhole variogram modelling;
- Variogram maps were prepared to determine the direction of maximum, intermediate and minor continuity;
- The orientations of the search ellipsoid were set to the directions of the major, semi-major axes and minor axes; and
- The minor axis is the direction perpendicular to the plane of major and semi-major axis.

The experimental standardised variogram and the fitted models for active montmorillonite grades in V1 are shown from Figure 6-5 to Figure 6-9.

The experimental variograms and fitted models for other variables are shown in Appendix B.

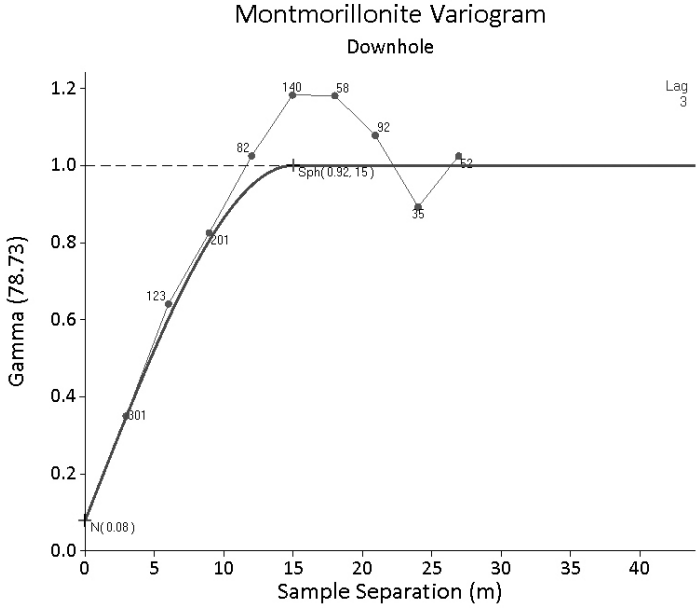


Figure 6-5: Modelled and experimental variogram of downhole for active montmorillonite (V1)

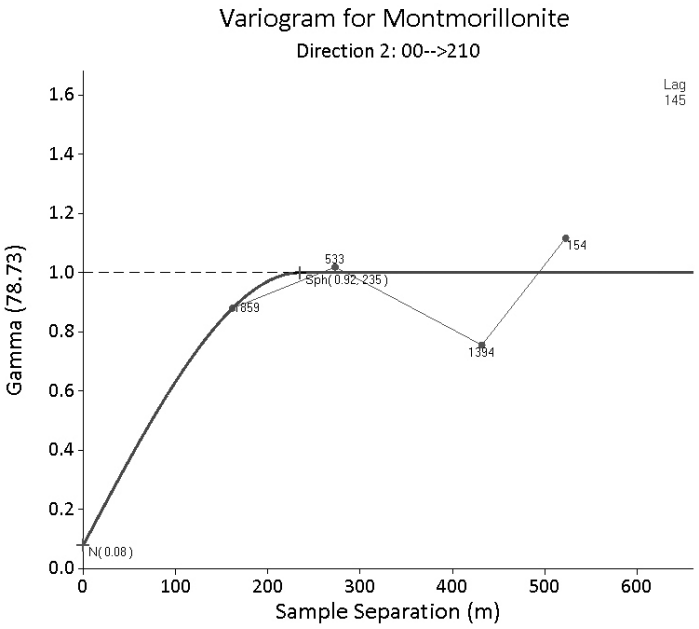


Figure 6-6: Modelled and experimental variogram of major axis for active montmorillonite (V1)

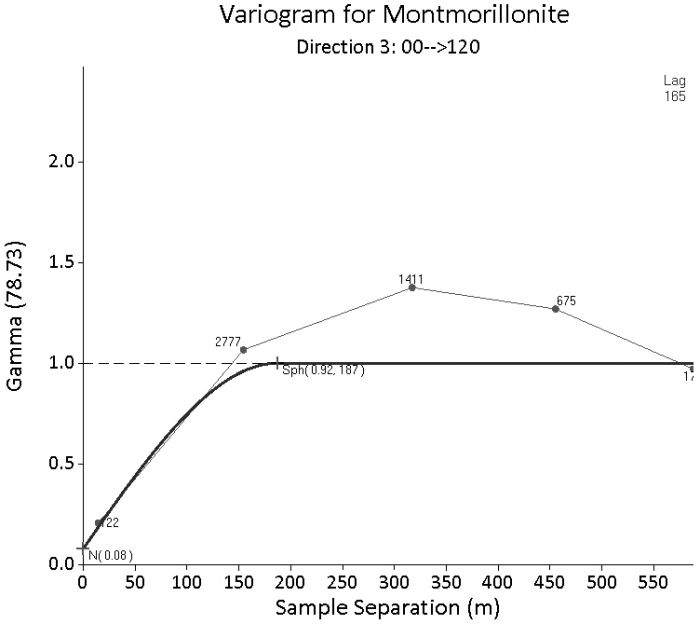


Figure 6-7: Modelled and experimental variogram of semi-major Axis for active montmorillonite (V1)

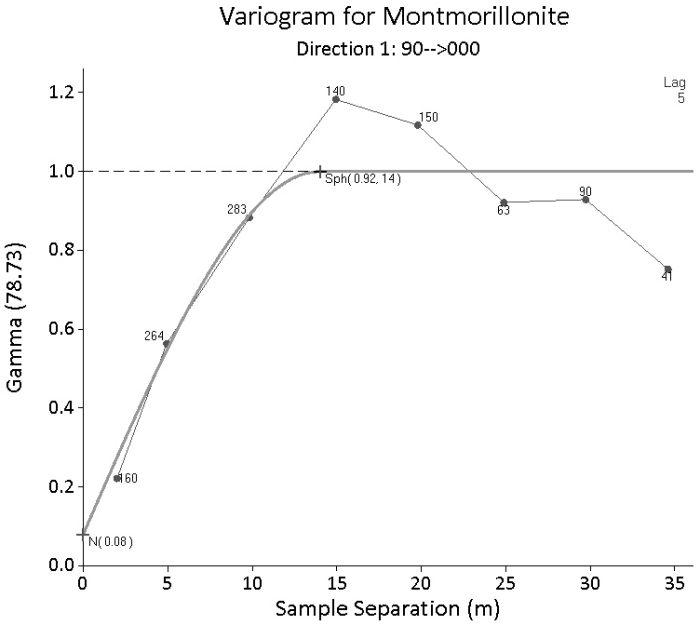


Figure 6-8: Modelled and experimental variogram of minor axis for active montmorillonite (V1)

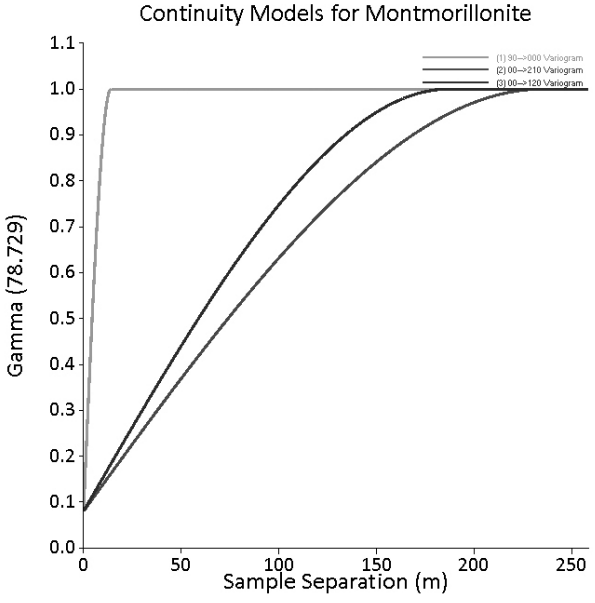


Figure 6-9: Modelled variogram of three axes for active montmorillonite (V1)

6.6 Block model and grade estimation

6.6.1 Block model parameters

The block model framework for the deposit was prepared using dimensions of 20 m × 20 m × 4 m along the X (East), Y (North) and Z (Elevation) axes, respectively.

6.6.2 Grade interpolation

Block grades for domains V1 were estimated by OK. The interpolation parameters used for the estimates were based on the variogram models and search ellipsoid. Block grades of V2 and V3 domains were estimated by the inverse distance squared weighted method ("IDW") rather than OK because there were insufficient samples to generate any meaningful variograms.

The final parameters of active montmorillonite used for the domains are summarised in Table 6-5. For other variables, similar methods were applied during grade interpolation for each domain, according to the analysis for the variogram models and search ellipsoids.

Table 6-5: Details of the search parameters of active montmorillonite used for the Huanghu deposit

Method	Parameters	Domains		
		V1	V2	V3
OK	Searching Distance	200	–	–
	Maximum Searching Samples	20	–	–
	Minimum Searching Samples	2	–	–
	Maximum Samples per hole	4		
	Range	235	–	–
	Sill	0.92	–	–
	Nugget	0.08	–	–
	Bearing	210	–	–
	Plunge	0	–	–
	DIP	0	–	–
	Major/Semi	1.26	–	–
	Major/Minor	3.0	–	–
IDW	Searching Distance	–	200	200
	Maximum Searching Samples	–	16	16
	Minimum Searching Samples	–	2	2
	Major/Semi	–	1	1
	Major/Minor	–	3	3

6.7 Model validation

Model validation was undertaken by SRK to confirm the reasonableness of the estimation parameters and estimation results. The following methods were used for validation:

- Visual checking of block grades against drill hole grades;
- Statistical validation of mean composite grades versus block estimates; and
- Trend analysis.

SRK has conducted visual validations of the longitudinal views and cross-sections view of the drill hole grades and block model grades, which indicate a good correlation between local block estimations and nearby samples, without any significant smoothing evident in the model grades.

Table 6-6 shows a comparison of active montmorillonite composite grades and block grades. SRK considers the results well within acceptable limits.

Table 6-6: Comparison of composites and blocks for active montmorillonite of the Huanghu deposit

Domain	Composite mean	Block mean	Relative Difference (%)	Absolute Difference
V1	46.14	47.49	2.93	1.35
V2	49.07	50.43	2.78	1.36
V3	57.55	56.03	2.65	1.52

As an additional check, east-west, north-south and horizontal swath plots comparing average composite and model active montmorillonite grades were prepared.

Figure 6-10, Figure 6-11 and Figure 6-12 show the swath plots of the Montmorillonite variable for the V1 domain. The results show that the current Resource estimate is a good reflection of drill hole composited data.

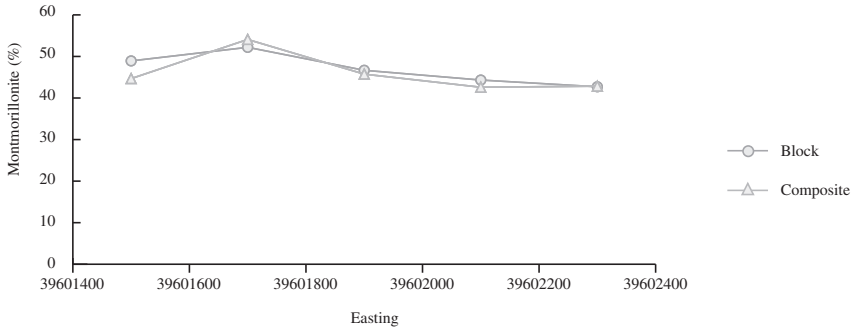


Figure 6-10: Montmorillonite swath plot of the V1 domain along the East-west direction

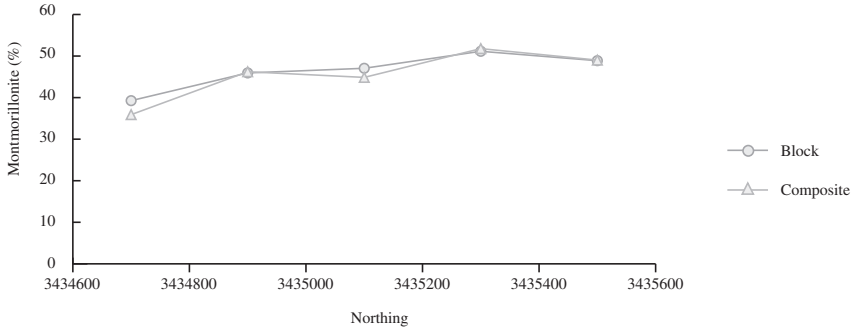


Figure 6-11: Montmorillonite swath plot of the V1 domain along the South-north direction

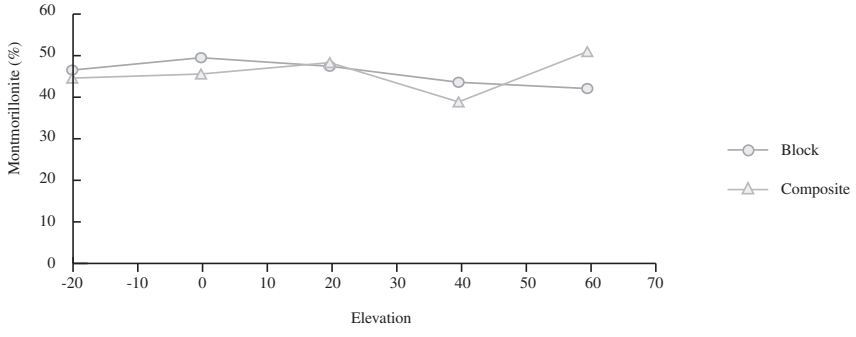


Figure 6-12: Montmorillonite swath plot of the V1 domain along the horizontal direction

6.8 Density

A total of 56 bulk density samples were collected from drill holes for density measurement using the water displacement method. Samples were taken from three domains during the two exploration programmes in 2002 and 2015, as illustrated in Figure 6-13. There is no obvious correlation between density and active montmorillonite content over the range of grades; therefore, the average density was used in each domain for the Resource estimation. The average dry bulk density is 1.69 t/m^3 for the V1 domain and 1.70 t/m^3 for the V2 domain. The average for the V2 domain was also used for the V3 domain because only a single sample has been sourced from V3, and the value of this sample was not considered to be an accurate indication of the V3 domain density.

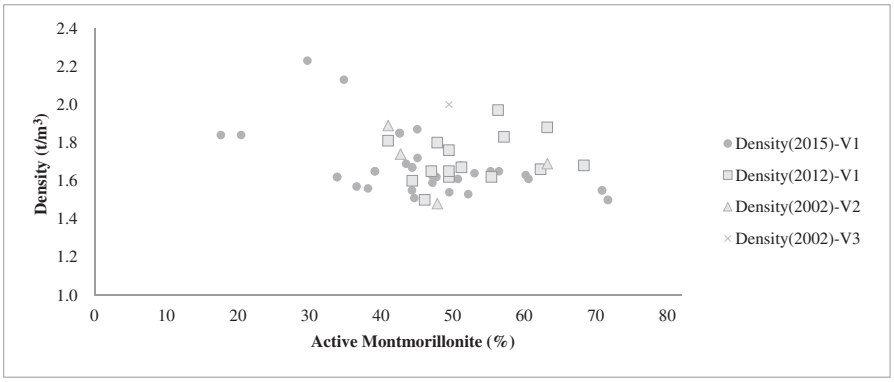


Figure 6-13: Relationship diagram between density and active montmorillonite of the Huanghu deposit

6.9 Classification

Mineral Resource classification is typically a subjective concept; industry best practices suggest that Resource classification should consider both the confidence in the geological continuity of the mineralised structures, the quality and quantity of exploration data supporting the estimates, and the geostatistical confidence in the tonnage and grade estimates. Appropriate classification criteria should aim at integrating these criteria to delineate regular areas with similar Resource classification.

The following guidelines have been applied to the Resource classification of the Huanghu deposit:

- Geological continuity by considering the available cross-sections and geological logging information;

- Quality of twinned holes' validation results;

- Measured Resource is assigned where the drill spacing was a nominal 100 m along strike and 100 m in the down-dip direction with at least 20 samples used for grade estimation for Domain V1;

- Indicated Resource is assigned where the drill spacing was a nominal 200 m along strike and 200 m in the down-dip direction with at least 20 samples used for grade estimation for Domain V1;

- Inferred Resource is assigned to block around 50 m beyond the Indicated Resource boundaries (V1) or the minor domain with large drilling spacing (V2 and V3), or lower geological continuity confidence areas interpreted from few holes (part of the V1 domain) (Figure 6-14).

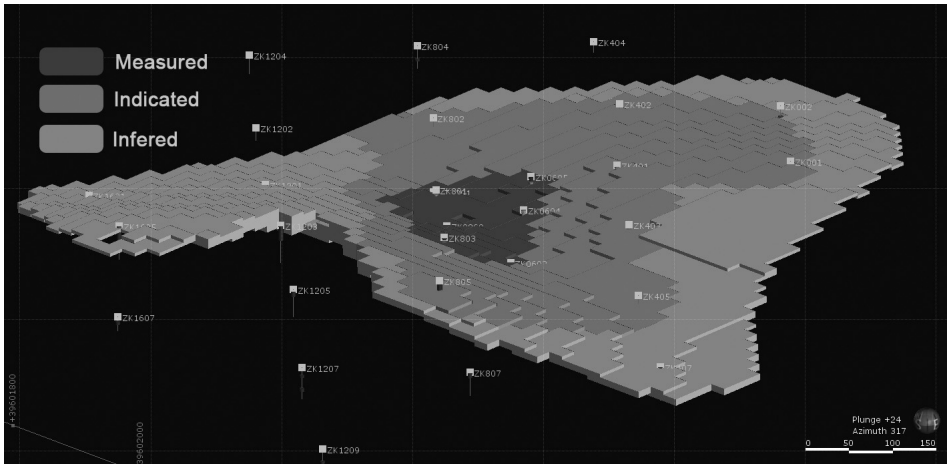


Figure 6-14: Resource classification distribution of V1 domain (prior to mining depletion)

The mined-out areas and the waste layers have been subtracted from the Resource model. The latest topography and open pit was surveyed in 30 June 2015. SRK was provided with a three dimensional AutoCAD file showing the topography that covers the developed benches and mined out areas.

6.10 Resource estimate statement

SRK considers that the Resource Estimate conducted for the Huanghu bentonite deposit was undertaken utilising data of sufficient quality and desnity, and using suitable methodologies, to be classified as Measured, Indicated and Inferred Resources in accordance with the JORC Code (2012). The Resource estimate for the Huanghu deposit as at 1 July 2015 is tabulated in Table 6-7.

Table 6-7: Mineral Resource statement for the Huanghu bentonite deposit as at 1 July, 2015

Domain	Category	DMT	Active Montmorillonite (%)	Colloid Index (ml/15g)	Swelling Capacity (ml/g)
V1	Measured	1,781,000	45.2	54.9	7.6
	Indicated	5,467,000	47.7	63.9	9.1
	Inferred	4,388,000	48.7	69.9	10.2
V2	Inferred	2,317,000	50.8	51.4	6.1
V3	Inferred	835,000	56.7	57.9	7.2
Subtotal	Measured + Indicated	7,248,000	47.0	61.7	8.8
	Inferred	7,540,000	50.2	62.9	8.6
Total	Measured + Indicated + Inferred	14,788,000	48.7	62.3	8.7

Notes:

Differences may occur due to rounding.
35% active montmorillonite cut-off grade applied.
Dry metric tonnes ("DMT").

6.11 Grade sensitivity analysis

Global Resource model quantities and grade estimates are presented in as grade tonnage curves (Figure 6-15). This figure is only presented to show the sensitivity of the block model estimates to the selection of different cut-off grades. The reader is cautioned that the figures presented in this table should not be confused with the Mineral Resource Statement.

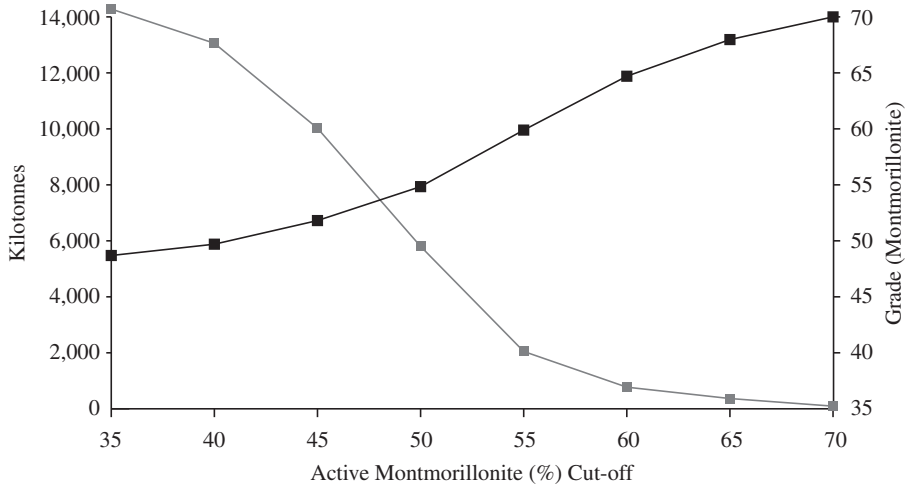


Figure 6-15: Grade-tonnage curve of Huanghu bentonite deposit as at 1 July, 2015

7 MINING AND ORE RESERVES

7.1 Mining technological conditions

The ore deposit is near surface, and moisture within the deposit is predominantly affected by precipitation. No significant surface water bodies occur near the ore deposit. Bentonite is by its nature an aquiclude. The groundwater is mainly contained in the weak aquifers in less altered volcanics and other strata.

The hanging wall of the ore deposit is mainly composed of soil and scree. Even though stability is poor, there is little effect on mining activities as the thickness of these weak rocks is narrow (usually from 0.5 m to 3.0 m). The footwall and surrounding rock is mainly composed of moderately weak to moderately strong lava of cataclastic structure, with good geotechnical stability.

The geotechnical and hydrogeological conditions of this Project are relatively straightforward. However, bentonite expands when moist and contracts when dried, which can lead to slope collapse. Hence it is recommended that slopes should be maintained at design angles to prevent the collapse of slopes caused by the rainstorms and/or drought. Especially in periods of heavy rain, water should not be allowed to accumulate in the pit, to prevent the erosion of slopes by water, and prevent dangerous and slippery operating conditions.

7.1.1 Geotechnical conditions

The strata of the Project area can be broadly divided into three layers: Quaternary unconsolidated sediments, andesitic lavas and red sand, interbedded with lavas. No fault structures have been identified in the mining area.

The Quaternary unconsolidated sediments comprise brick-red and brown iron manganese silty clay, sandy clay, and gravel clay and gravel soils. The thickness of this group of sediments ranges from 0.5 m to 14.1 m. They are structurally weak, with low engineering stability.

The andesitic lavas consist of two parts. The upper part of this group has weak structure and poor stability, but the lower part comprises moderately hard to hard lumps of rocks with numerous fractures. The dry rock uniaxial compressive strength ("UCS") of these rocks is 35.8 megapascals ("MPa"), but when saturated the UCS drops to 22.5 MPa. The cohesive force is 4.21 MPa. The internal friction angle is 39.16°.

The red sand and coarse lavas consist of moderately-hard to hard rocks with abundant fractures. The dry rock has a UCS of 56.87 MPa and a saturated UCS of 50.13 MPa. The cohesive force is 17.04 MPa and the internal friction angle is 41.23°.

The natural stable slope angle is between 15° and 20° in the mining area, although locally it is stable at up to 30°. The current mining benches are 4-8 m high, and the slope angle is approximately 40° to 50°, with small amounts of landslide debris at the bottom of each bench. At the Project the steepest safe and practical pit slope angle is around 50° and the bench height is appropriate. The Company's experience at the Mine shows that the slopes currently have good stability.

SRK opines that the geotechnical conditions are relatively straightforward and slope stability over the Mine's operational history has been good. However, SRK recommends monitoring the slope stability to ensure safe mining in the future, particularly as the pit deepens.

7.1.2 Hydrology and hydrogeology conditions

The Mine is characterised by the low relief open topography covering the Yangtze River's alluvial plains. The surface water system is well developed in this area. The Huanghu River flows past the Project site to the south and joins the Yangtze River in the town of Digang. The region features a number of canals and ponds, and some small catchments in the hills.

The climate of the Project area is classified as a sub-tropical climate, mild and humid with four distinct seasons and abundant sunshine (see Section 3.2).

Groundwater mainly occurs in the form of pore water in porous Quaternary aquifers. The groundwater is refilled by atmospheric precipitation, surface water infiltration, and runoff draining into valleys.

The Company exploits the ore by open pit methods, with a planned lowest bench elevation of final pit at -23 mASL. The catchment area of the pit is 70,980 square metres ("m^2"), and the average water inflow rate is 484 cubic metres per day ("m^3/day") with a maximum of 724 m^3/day. The maximum drainage capacity is designed at 30 cubic metres per hour ("m^3/hour").

In SRK's opinion, rainfall is a major consideration for open pit mining. Bentonite mining is sensitive to moisture, so accurate weather forecast for precipitation is quite important as mining is interrupted by rain and storms.

7.2 Ore Reserves estimates

The Project is an operating mine, using conventional open pit mining methods. Production data and parameters used in the operation were supplied and reviewed by SRK. The latest pit survey data as at 30 June 2015 were also provided.

In addition, SRK was provided a preliminary design report ("PDR") compiled by Shandong Qianshun Mining and Metallurgy Technology Co., Ltd ("SQMT") for the Huanghu Bentonite Project dated September 2014. The PDR details the design parameters for the potential expansion of the Mine.

After reviewing the site, the production data and PDR, SRK considers the current open-pit mining method is appropriate. However, some parameters assumed by SQMT are required to be adjusted to increase the accuracy of operational practice. SRK's work included changes in capital and operating costs; adjusting the cut-off grade; pit optimisation; preliminary mining design, conversion of Mineral Resources to Ore Reserves; and adjusting the Mine production plan. SRK estimated the Ore Reserves for the Project based on the production data, supplemented by parameters set out in the PDR. This work was conducted using Surpac and Whittle software packages. The estimated Ore Reserves are reported in accordance with the JORC Code (2012).

7.2.1 Reserve block model

SRK completed the Resource estimate (see Section 6.10) for the Huanghu deposit as at 1 July 2015. The Resource block model has a block size of 20 m × 20 m × 4 m (X × Y × Z). A new block model, hereafter the "Reserve block model" based on the Mineral Resource model, to which SRK assigned values on rock codes, and other relevant factors was built. Each block constitutes a selective mining unit ("SMU").

7.2.2 Economic Reserve cut-off grade

Three products are currently being produced by Feishang, including drilling mud, pelletising clay, and unprocessed clay based on the grade of active montmorillonite and the swelling capacity (Table 7-1). Having considered the product specifications, OPEX and selling price, the Ore Reserve cut-off grade ("COG") is set at 35% active montmorillonite.

Table 7-1: Definition of products

Product	Ore Class	Range of active montmorillonite (%)	Range of swelling capacity (ml/g)
Unprocessed Clay	UC	≥ 35, < 40	All
Drilling Mud	DM	≥ 40	≥ 8
Pelletising clay	PC	≥ 40	< 8

7.2.3 Dilution and ore loss

The Project uses conventional open pit mining methods. As the ore is generally soft, no blasting is planned to be used. Waste can be backfilled into areas that have been mined.

The Ore Reserve is that portion of the in situ material that can be mined based on assumptions and Modifying Factors, including:

- Dilution, which is anticipated from a minor amount of overburden inadvertently or purposely included with the ore;
- Ore losses, which are anticipated in the overburden removal stage;
- Dilution, which is anticipated to result from identified waste zones lying between ore zones;
- Ore losses associated with the extraction of ore zones lying within waste zones;
- Dilution from materials below the planned base of mining; and
- Ore loss or ore left on the pit floor during mining.

The definition of products (as shown in Table 7-1) resulted in slightly "patchy" ore blocks. Intercalation of ore and waste were noted in some benches, thus making mathematical models for dilution impractical. Production records state that the mining recovery rate for the past three years has generally exceeded 95%, while the dilution rate is in the range of 1% to 3%. Therefore, dilution is assumed to be 3%; and mining recovery is assumed to be 95%.

7.2.4 Pit optimisation

In order to develop an optimal engineered pit design for the Project, an optimised pit shell was first prepared using the Lerchs-Grossman 3D algorithm in Whittle. The pit optimisation parameters are based on the operation data provided by the Company. However, the parameters in the operational data are based on wet metric tonnes ("WMT") with average moisture content of 25.1%; and product moisture levels actually vary according to their specific type of mud. The Reserve block model was estimated in dry metric tonnes ("DMT"). SRK therefore converted the parameters from WMT to DMT. Table 7-2 presents the pit optimisation parameters.

Table 7-2: Pit optimisation parameters

Type of Activity	Unit	Unprocessed Clay		Drilling Mud		Pelletising clay	
		WMT	DMT	WMT	DMT	WMT	DMT
Overall Pit Slope Angle	degree						27.00
Moisture of Mined Ore	%	25.10	–	25.10	–	25.10	–
Mining recovery rate	%						95.00
Mining dilution rate	%						3.00
Total Mining Cost	RMB	6.30	8.41	6.30	8.41	6.30	8.41
Total Stripping Cost	RMB	2.1	2.8	2.1	2.8	2.1	2.8
Mud Airing Cost	RMB	–	–	24.00	32.04	25.00	33.38
Transportation Cost	RMB	–	–	15.00	20.03	15.00	20.03
Processing Cost	RMB	–	–	134	154	169	184
Sales Prices	RMB	64	73	376	432	291	316

The pit optimiser searches for the pit shell with the maximum discounted cash flow, but no initial capital costs are considered. A detailed economic analysis is provided in chapter 9 of this Report.

In accordance with the guidelines of the JORC Code, only blocks classified as Measured or Indicated Resources were used to create the optimised pit.

7.2.5 Pit optimisation results

Using the technical and economic parameters described above, 16 pit shells were produced using in Whittle modelling software (Figure 7-1). The total amount of material moved, in-pit Resources, and stripping ratios of these shells were evaluated. Based on this analysis, the chosen optimised pit for this Project is pit 16, which has the maximum mining inventory. Details of the chosen pit are presented in Table 7-3.

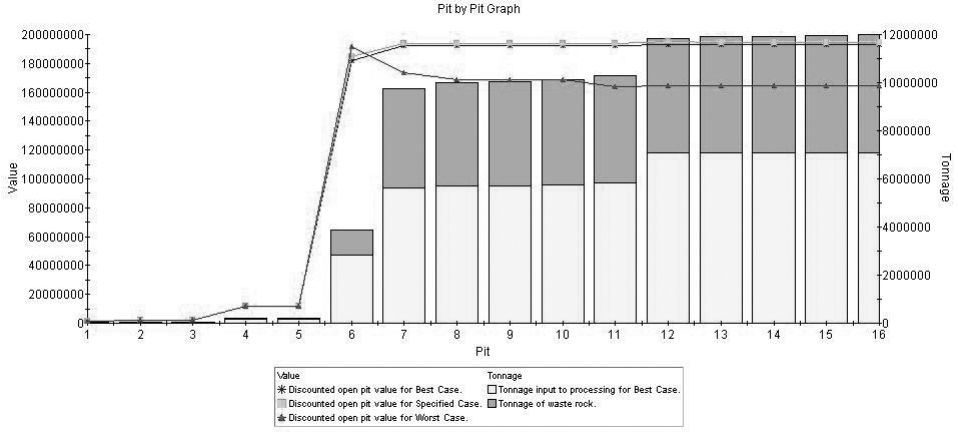


Figure 7-1: Pit by pit optimisation result

Table 7-3: Inventory for the optimum pit

Item	Unit	Value
Ore	1,000 DMT	7,093
Waste	1,000 DMT	4,900
Total	1,000 DMT	11,993
Stripping Ratio	t/t	0.69
LoM	Years	85

The theoretical pit shell modelled in Whittle is preliminary and does not represent a practical design for mining. SRK created a final pit design using the theoretical pit shell as a guide based on the required temporary haulage ramp, a bench height of 8 m, a minimum safety berm width of 5 m, and an approximately 50° bench face angle. The highest open pit elevation is 73 mASL, and the elevation of the pit floor is -23 mASL. The elevation for the main access ramp is 14 mASL. The dimension of the open pit is 782 m long by 366 m wide. A plan view of the ultimate pit shell is shown in Figure 7-2.

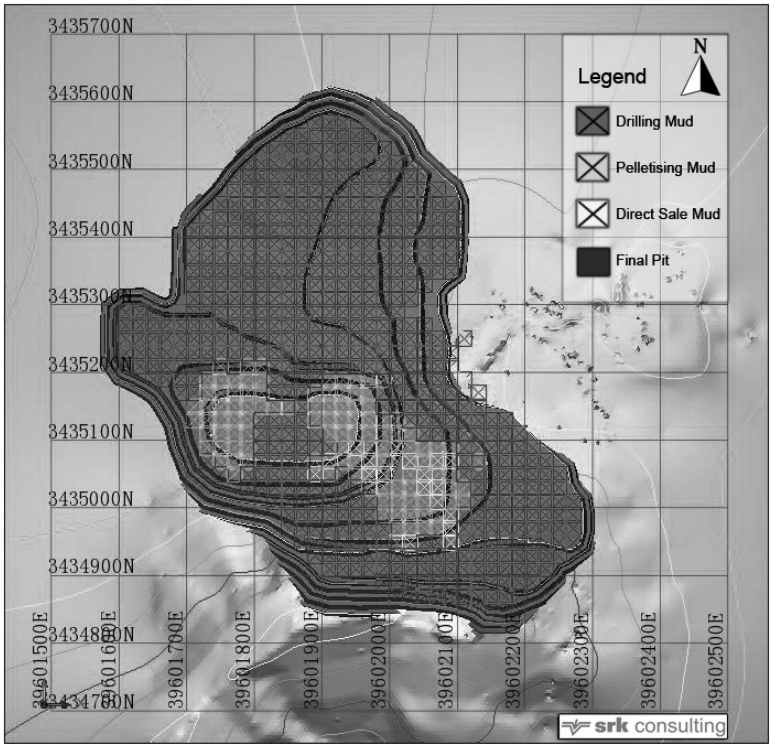


Figure 7-2: Plan view of final pit design

Materials contained in the optimised pit shell and designed final pit are presented in Table 7-4.

Table 7-4: Comparison of optimised shell and designed final pit

Item	Unit	Optimised	Designed
Ore	1,000 DMT	7,093	6,444
Waste	1,000 DMT	4,900	5,156
Total	1,000 DMT	11,993	11,525
Stripping Ratio	Waste/Ore	0.69	0.80

The final pit design contains 6,444,000 DMT of mining inventory, including 1,720,000 DMT of Measured Resource, 4,724,000 DMT Indicated Resource and 406,000 DMT Inferred Resource (treat as waste) at an average grade of 47.01% active montmorillonite, a colloid index of 61.06ml/15 g, and a swelling capacity of 8.70 ml/g, equivalent to 8,061,000 WMT with 25.1% average moisture. Total waste material amounts to 6,450,000 WMT, resulting in an overall open pit stripping ratio of 0.80 over the life of mine ("LoM").

7.2.6 Ore Reserve classification

The economically mineable part of the Measured and Indicated Resources was converted into Proved and Probable Ore Reserves, in accordance with the JORC Code (2012).

7.2.7 Ore Reserve statement

The Ore Reserve estimate for the Project is presented in Table 7-5. This is based on the Reserve block model, topographic survey data, and the final pit design as at 1 July 2015.

Table 7-5: Ore reserve statement for the Huanghu Bentonite Project as at 1 July 2015

Ore Reserve Category	Marketable Category	DMT	WMT	Active Montmorillonite	Colloid Index	Swelling Capacity
				%	ml/15 g	ml/g
Proved	Unprocessed Clay	165,000	206,000	38.7	47.3	5.8
	Drilling Mud	673,000	842,000	47.6	66.6	9.5
	Pelletising clay	882,000	1,103,000	44.9	48.0	6.6
	Subtotal Proved Ore	**1,720,000**	**2,151,000**	**45.4**	**55.2**	**7.7**
Probable	Unprocessed Clay	203,000	254,000	39.4	48.4	6.8
	Drilling Mud	3,388,000	4,239,000	48.8	69.4	10.0
	Pelletising clay	1,133,000	1,417,000	45.6	47.3	6.7
	Subtotal Probable Ore	**4,724,000**	**5,910,000**	**47.6**	**63.2**	**9.1**
Total	Unprocessed Clay	368,000	460,000	39.1	47.9	6.4
	Drilling Mud	4,061,000	5,081,000	48.6	68.9	9.9
	Pelletising clay	2,014,000	2,520,000	45.3	47.6	6.7
	Total Ore	**6,444,000**	**8,061,000**	**47.0**	**61.1**	**8.7**

Notes:

Ore Reserves reported include Mineral Resources.
Ore Reserves which are suitable for production of drilling mud may also be used to produce pelletising clay, and not vice versa.
Wet Metric Tonne ("WMT"), with an assumed moisture content of approximately 25.1%.

7.2.8 Potential impacts to Ore Reserve estimate

As in the case for most mining projects, the extent to which the estimate of Ore Reserves may be affected by mining, processing conditions, infrastructure, permitting, market conditions, and other factors could vary from major gains to total losses of Ore Reserves. There are no issues known to the Competent Person of this section expected to materially affect the Ore Reserve estimate.

Potential risks that could affect the overall performance of the Project are identified in Section 13 of this Report.

7.3 Current open pit development

The current open pit mining operation has been focused on the orebody V1 since 2004. Most of the overburden between exploration lines 4 and 8, in the centre of body V1, have been stripped as of 2015. Mining benches have been cut at 32 mASL, 25 mASL, 17 mASL, and 9 mASL. The Mine adopts a top-down horizontal bench cutting approach with the following parameters:

- Highest stripping elevation of 69 mASL;

- Highest mining elevation of 57 mASL;
- Lowest mining elevation of -23 mASL;
- Bench height of 8 m, each divided into two equal slices;
- Bench slope angle of 50°;
- Mining loss rate of 3%;
- Mining recovery rate of 95%; and
- Stripping ratio of around 0.6 t/t.

The Mine is developed using road transport due to local topographic conditions. Bentonite is suitable for open pit mining in this type of deposit; the development process for deeper benches of the Mine is as follows:

- Construction of access roads and/or modification of existing mine roads;
- Clearing vegetation or soil from the ore zone if needed;
- Stripping of overburden;
- Construction of benches and access ramps; and
- Construction of other support facilities such as mud airing pads or drainage pools.

Haul roads in the pit are constructed as 8 m wide single-lane roads, an appropriate width for the 30 tonne ("t") capacity trucks used in the Mine. Details of the pit roads are shown below in Table 7-6.

Table 7-6: Parameters of haul roads

Item	Unit	Parameter
Road and ramp width (single lane)	m	6
Maximum ramp gradient	%	8
Minimum turning radius	m	15
Maximum. Length in longitudinal	m	350
Minimum Length of Transition (gradient: ≤8%)	m	60
Pavement type		Graded crushed rock

At the time of SRK' site visit, surface mining was taking place (Figure 7-3). SRK opines the road development is reasonable.



Figure 7-3: Haul roads in pit

7.4 Open pit mining methods

The mining system involves the following phases:

- Land clearing;
- Overburden stripping and storage for rehabilitation;
- Ore mining;
- Stockpiling, air-drying;
- Transport; and
- Waste disposal.

A conceptual mining cycle scheme is shown in Figure 7-4 and a conceptual mining scheme is shown in Figure 7-5.

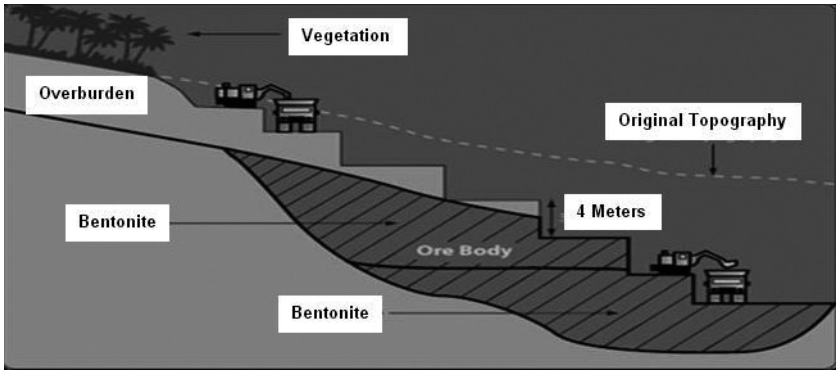


Figure 7-4: Conceptual mining scheme

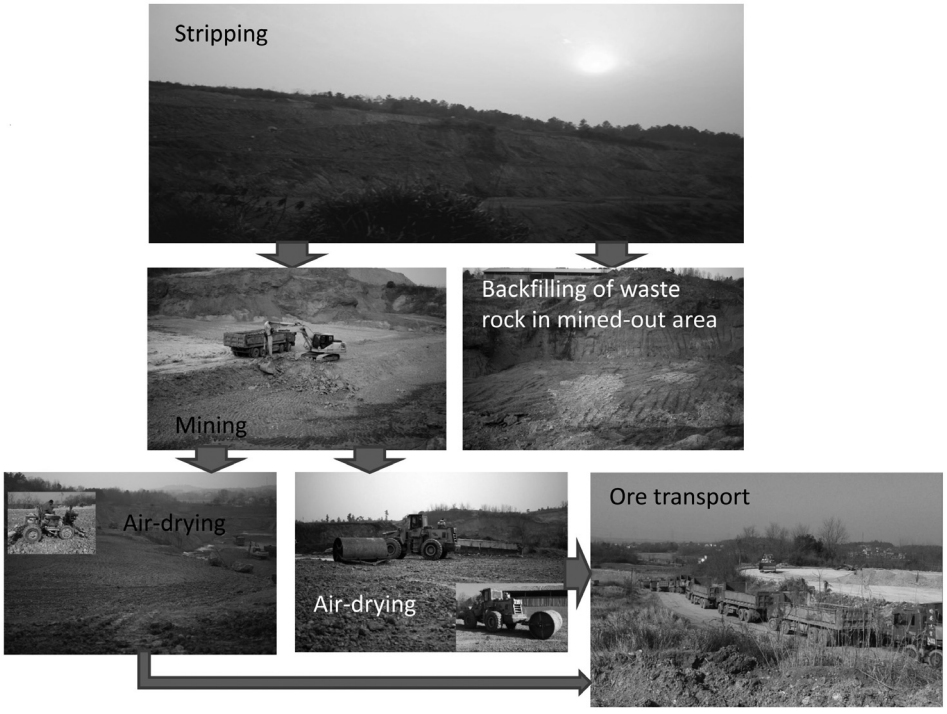


Figure 7-5: Mining cycle scheme

Land clearing and overburden removal (Stripping) is carried out by 0.9 m^3 capacity excavators, which load waste in 30 t dump trucks. The waste is then transported to temporary waste dump or mined out area. A series of ore benches is established after the removal of overburden.

Ore mining is taking place on benches 8 m high with each sub-level of 4 m high and 4 m wide. Bentonite ore is soft and can be excavated directly by excavators digging and loading directly into 30 t capacity dump trucks.

Stockpiling and air drying is undertaken on in-pit air-drying pads at Huanghu, with equipment leased from two contractors (Yanshifa and Doushengji) Yanshifa has been working on a concrete drying pad, measuring 5,300m^2, whereas Doushengji dry ore on in-pit pads (Figure 3-1 and Table 7-7). These pads serve as a staging area for the mined ore to be air-dried before being transported to the processing plant.

Based on the records provided by the Company between 2014 and June 2015, around 20% of the mined ore is dried at these pads at Huanghu by Yanshifa and Doushengji prior to transport. The Company informed SRK that mined ore on the drying pads is separated by active montmorillonite grade, and the moisture content of these mined ores is continuously monitored. Mined ore with active montmorillonite content which can be processed into drilling mud is air dried to 11%-16% moisture, then hauled by dump trucks to the processing plant. Mined ore to be processed into pelletising clay is air dried to 8%-13% moisture, then transported to the processing plant.

Around 38% of the mined ore has been sent to the Digang drying pad, located 13 km from the Mine. The practice of ore separation by active montmorillonite content and moisture monitoring is the same as at the in-pit drying pads.

In the past, all air drying work was conducted by contractors. However, since October 2014, Feishang changed the arrangements with one of its contractors and is now leasing the same air-drying facility to conduct the air-drying work themselves.

In May 2015, Feishang commenced drying at the fourth facility. The Suncun drying facility is located 5.5 km away from the Mine and has established a similar arrangement to that of Digang. As of 30 June, only a small amount (181 t bentonite ore) has so far been dried at Suncun.

The remainder of the mined ore is sent directly to the processing plant and dried by rotary drum dryer due to the limited drying capacity of the drying facilities at Huanghu, Digang and Suncun.

Table 7-7: Air-drying and drum-drying data between 2014 and June 2015

Year	Direct Drum Dried at Processing Plant (WMT)	Air-Dried at Digang (WMT)	Air Dried at Huanghu Yanshifa (WMT)	Air Dried at Huanghu Doushengji (WMT)	Air Dried at Suncun (WMT)	Total (WMT)
2014	23,945	30,020	3,423	16,909		74,297
Jan-June 2015	16,844	13,399	1,649	6,265	181	38,338

Note

Wet Metric Tonne ("WMT"), with an assumed moisture content of approximately 10-13%.

Transport operations consist of transferring the air-dried and raw ores from the in-pit drying-pads directly to the processing plant. Another transport operation involves the transport of bentonite ore to the drying pad at Digang town and Suncun town and dried ore from there to the processing plant. Transportation is by contractor.

Waste Dumping involves transporting overburden and off-specification bentonite to temporary waste dumps, then returning the stockpile wastes into mined out areas as backfill. However, during the site visit the Company technical personnel informed SRK that there were no waste dumps on site and all waste rock had been backfilled into mined-out areas or sold as road and river levee construction materials.

7.5 Mine services

7.5.1 Mine drainage and dewatering

The drainage system is composed of ditches and settling ponds. Peripheral ditches catching runoff water from the disturbed areas include the operating pit, access roads, and drying pads. The water in these ditches is diverted to settling ponds in which silts are allowed to settle before the water is discharged naturally into rivers. Settling ponds are to be de-silted regularly to maintain their volume capacities.

The main water inflow into the pit is from precipitation and surface runoff. The water collected is pumped to the ditches or the river outside the pit directly. The Mine equipped with two sets of water pumps with capacities of 43 m^3/hour each. The water discharge capacity of the drainage facilities is adequate for expected precipitation levels.

7.5.2 Water supply

The mining operation does not require a significant supply of fresh water. Water is only used for watering the roads and mining benches. This water is sourced from a rainwater collection system. SRK considers the water supply is reliable and adequate for the planned operation.

7.5.3 Power supply

The Suncun village transformer station supplies 10 kilovolt ("kV") electrical power to the Mine. Site electrical loads are not heavy; the main power draws are for water drainage, lighting, and minor maintenance. It is SRK's opinion that the power supply is able to meet the mine's operational requirements, which total around 164.4 kilowatts ("kW").

7.5.4 Maintenance facilities

The main mining equipment includes dump trucks, excavators, front-end loaders, refitted tedders, and pick-up trucks. Major equipment repairs are contracted out to specialized maintenance shops in the nearby town. Only light or routine maintenance take place on site.

7.6 Mining equipment

The major mining fleet owned by the contractors, and leased by Feishang since 2015, consists of excavators, dump trucks, and front-end loaders. Ancillary equipment includes refitted tedders, water carts and generator, and related minor equipment.

The mining equipment fleet as described by the Mine is shown in Table 7-8.

Table 7-8: List of major mine equipment

Equipment	Capacity	Quantity
PC200 Excavator	0.9 m^3, 210 tph	3
Dump Truck	30 t,	20
LG855 Front-end Loader	5 t, 315 tph	1
Refitted Tedder	5,000 m^2/h	5
Refitted Compactor	750 tph	1
Floating Water Pump	43 m^3/h	2
220V Generator		1
Refitted Water Cart		1
Pick-up Light Truck		1

7.7 Mining Capacity and Work Schedule

Technical personnel on site informed SRK that the practical mine work schedule is approximately 300 days per year, but mining/stripping can be done only about 250 days per year. SRK was provided a detailed record of working days from 2013 to June 2015, presented below in Table 7-9. Based on weather records of the past two and a half years, SRK opines the planned 250 working days of mining/stripping and air-drying per year, is likely to be achieved.

Table 7-9: Working days record between 2013 and June 2015

Year	Stripping	Mining	Subtotal	Ancillary Works	Suspended by Rain	Holiday/ No work	Total
2013	80	212	292	23	35	15	365
2014	124	158	282	36	36	11	365
Jan-June 2015	44	82	126	19	25	11	181
Average (2013-2014 only)	102	185	287	30	36	13	365

Based on the mining method, selected mining equipment, established auxiliary facilities, estimated working days, stripping ratio, geotechnical conditions, water and power supplies, as well as the historical production records, SRK considers the proposed mining capacity is reasonable and adequate to ensure the processing plant production plan can be met.

7.8 Development and mining schedule

SRK estimated the Ore Reserves based on the operation records and adjusted parameters, and completed a production schedule. The first four and a half (4.5) year schedule is as listed in Table 7-10. The LoM of this Project is estimated to be 79 years, commencing from 1 July 2015. The Project is relatively flexible, so it should be possible to upgrade or alter the details of this schedule on short notice to meet customer demands or to accommodate some weather delays.

Table 7-10: Mining and Production schedule

Mining/Stripping Schedule	Unit	Total LoM	Jul to Dec 2015	2016	2017	2018	2019
Unprocessed Clay	WMT	460,047	6,490	15,379	15,619	17,683	17,686
Drilling Mud	WMT	4,285,705	23,917	52,221	48,820	54,516	54,262
Pelletising clay	WMT	3,315,231	11,516	34,094	39,944	44,604	44,396
Mined Ore Total	**WMT**	**8,060,983**	**41,923**	**101,694**	**104,384**	**116,802**	**116,343**
Active Montmorillonite	%	47.03	52.75	49.01	48.37	46.85	46.85
Colloid Index	ml/15g	61.09	67.62	64.58	65.72	63.87	63.88
Swelling Capacity	ml/g	8.71	9.58	9.18	9.36	9.10	9.10
Waste	WMT	6,449,831	67,486	142,234	115,124	126,759	140,782
Stripping Ratio	t/t	0.80	1.61	1.40	1.10	1.09	1.21

Note

Wet Metric Tonne ("WMT"), with an assumed moisture content of approximately 25.1%.

7.9 Conclusions

The Mine covers a large area and is characterised by gently rolling topography. The bentonite ore is relatively soft and can be directly loaded into dump trucks by excavators without blasting.

Mining, stripping and a part of air-drying are now conducted by the Company, the equipment is rented from contractors. This allows the Mine the flexibility to increase the production capacity to meet the customer demands at short notice.

SRK believes that the development scheme is suitable for this type of mine. In SRK's opinion, surface mining operation is simple and the selected mining equipment is adequate to meet the operational and production requirements. Weather can be a detrimental factor to mining/stripping operations, as the bentonite ore is sensitive to moisture. Air-drying the ore is an important way to keep processing costs down by reducing the need for heat drying. Based on weather records for the past three years, SRK considers 250 working days for mining/stripping and air-drying is reasonable.

8 PROCESSING

8.1 Processing plant status

The processing plant is located 15 km away from the Mine, and was constructed on the site of an old bearing manufacturing plant (Figure 3-1).

Two principal products are currently produced: pelletising clay and drilling mud, with two production lines and three production lines respectively. The production process for these two products is relatively straightforward and mainly controlled by the Raymond mill production capacity. Based on the production capacity of each Raymond mill fitted to each production line, and an assumption of 300 working days per year, the annual production capacity for each product is estimated at 57,500 tpa, with a total production capacity of two products of 115,000 tpa. The production technique of each product is largely similar which allows the flexibility of converting from producing one product to another.

The processing plant is connected to the local grid and is fitted with 4 transformers, with a total capacity of 1,165 kW. The processing plant is also connected to local tap water network which supplies the required 800t per month of water to the plant. SRK opines that the power and water supplies are reliable and sufficient to support the planned operation.

8.2 Product specifications

Specifications for industrial minerals and clays are typically guidelines rather than mandatory requirements. The variety of specific uses by different customers leads to different properties being considered more valuable than others.

In China, with respect to pelletising clay and drilling mud, there are two recommended national standards are GB/T 20973-2007 and GB/T 5005-2010. The specifications set out in these recommended national standards do not necessarily cover the range of properties most valued for individual applications. As such, customers will generally accept products outsides some parameters in the recommended specifications if these products suit their intended purpose.

In cases where customers enter into a contract with the supplier stipulating certain parameters required by such customers for their intended use of the product to be purchased, the terms of the contract will generally prevail over any recommended national standard or other standard specifications.

8.3 Pelletising clay

Bentonite is a fine binder for iron ore pellets, but is also an impurity which reduces the iron grade of such pellets, resulting in reduced utilisation capacity of iron-smelting blast furnaces and increased energy consumption. In general, bentonite should represent only 2%-3% of iron concentrate. If the bentonite to be added is of sufficiently high quality, the amount added to the iron pellets can be reduced to approximately 1%, producing the same quality pellet. Therefore, a variety of binders to reduce the bentonite content required have been developed. Chinese national quality standards for different types of pelletising clay are listed in Table 8-1. The Huanghu bentonite can be generally classified as 3rd grade calcium bentonite.

Table 8-1: Recommended Chinese national standards for pelletising clay

Products attributes	Sodium bentonite			Calcium bentonite		
Product grade	1st grade	2nd grade	3rd grade	1st grade	2nd grade	3rd grade
Water absorption rate (over 2 hours), % ≥	400	300	200	200	160	120
Methylene blue index, g/100 g ≥	30	26	22	30	26	22
Swelling capacity, ml/2 g ≥	15			5		
Sieving rate (75 μm, dry screening, mass fraction), % ≥	98	95	95	98	95	95
Moisture (mass fraction), %	9 – 13			9 – 13		

8.3.1 Development test and product quality

Feishang commenced pelletising clay studies in 2003, focusing on sodium modification tests of the bentonite ore. The active montmorillonite content of the samples tested was 62.8%, with a swelling capacity of 9.6 ml/g and a CEC of 51.32 mmol/100 g. Comparison studies of three sodium modification methods: by ageing, extrusion modification and milling modification were conducted, along with a sodium carbonate consumption test. Based on the results of the comparison tests, sodium modification by milling was selected as the optimum method.

In the milling sodium modification process, when the moisture content in bentonite ore reaches 11%, sodium carbonate equal to 3.5% of the primary bentonite ore's dry weight is added and mixed. This mixture is pulverised by mill to produce sodium bentonite with a swelling capacity of 31 ml/g.

Sodium modified bentonite is used as binder for iron ore pellets. The quality of the iron pellets was tested; the results showed when pellets contain 2% sodium modified bentonite, the compressive strength of the pellet reached 2,250 N, which meets market requirements. Without bentonite, the compressive strength is merely 1.37 N.

The sodium modification method was further optimised during production. Consumption of sodium carbonate, the modification reagent, has been reduced to 3% of feed ore volume, while maintaining product quality.

"QT01" and "QT02" are quality testing results of two batches of standard pelletising clay products, taken by SRK during a site visit in January 2015 (Table 8-2). The results indicate that the pelletising clay produced at the plant is of good quality and meet all the parameters set out in the recommended Chinese national standard except the swelling capacity. Feishang has confirmed that the products were accepted by their clients during the Track Record Period.

Table 8-2: Quality indicators of pelletising clay

Test items	Unit	Test results	
		Ordinary product QT01	Ordinary product QT02
Water absorption	%	427.92	417.70
Methylene blue index	g/100g	24.72	25.43
Swelling capacity	ml/2 g	5.0	< 5.0
Colloid index	ml/15 g	100.5	103.5
Sieving rate	< 75 μm, %	94.70	94.82
Moisture	%	12.64	12.90

8.3.2 Production technology and equipment

The production process for standard pelletising clay, shown in Figure 8-1, consists of clay drying either by air drying or rotary drum dryer, crushing, milling and modification.

Ore is dried, as shown in Figure 8-2, by air drying on mining benches where the ore is raked, stirred, and crushed by a tedding machine or by air drying and tedding in the ore yard using a road roller and tedding machine. Ore can be dried to specific moisture content (10-13%) within three days in summer and five days in winter.

Alternatively, ore is dried in the processing plant using a rotary drum dryer using coal-heated air for approximately 40 minutes to control the moisture at about 11%, as shown in Figure 8-3. Dried ore is screened by a grizzly to remove large pieces of gangue, and then transported to bins for storage by a scraper conveyor and bucket elevator.

The Project's bentonite is calcium bentonite processed by milling sodium modification. Sodium carbonate is added to the ore, which is then ground by a Raymond mill. The Raymond milling system consists of a conveyor, Raymond mill, cyclone classifier and dust collector (Figure 8-4). The ore is fed from the storage bin to the Raymond mill through a vibrating feeder, scraper conveyor, bucket elevator and receiving hopper. The Raymond mill and cyclone classifier form a closed circuit, with oversized material being returned to the Raymond mill for regrinding. Sodium carbonate, the modification reagent, is added to the ore while it is being conveyed from the bin to the Raymond mill. Final products are tested,

and delivered to a storage silo through a pneumatic pipeline. The product is sold in bulk and is picked up by customers using dry bulk pneumatic trailers. The main production equipment is listed in Table 8-3. The production process from rock removal to storage of pelletising clay product takes approximately 20 minutes.

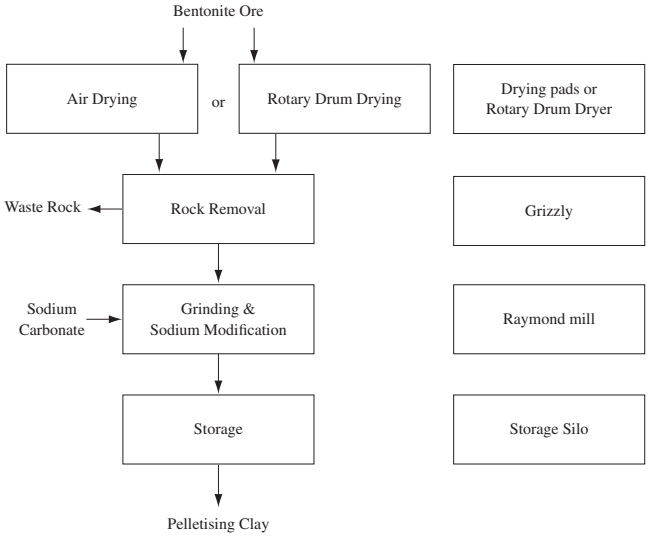


Figure 8-1: Production process for standard pelletising clay

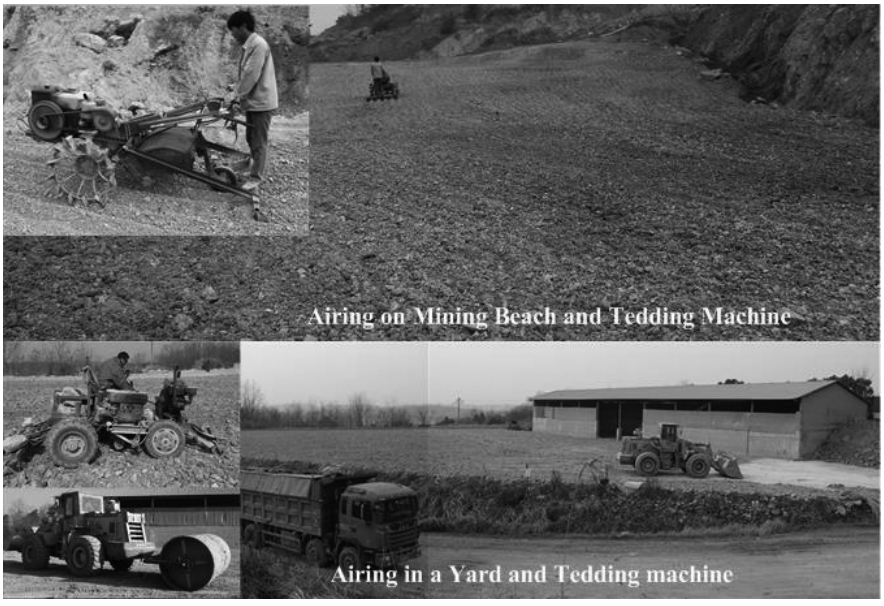


Figure 8-2: Ore drying



Figure 8-3: Rotary drum dryer

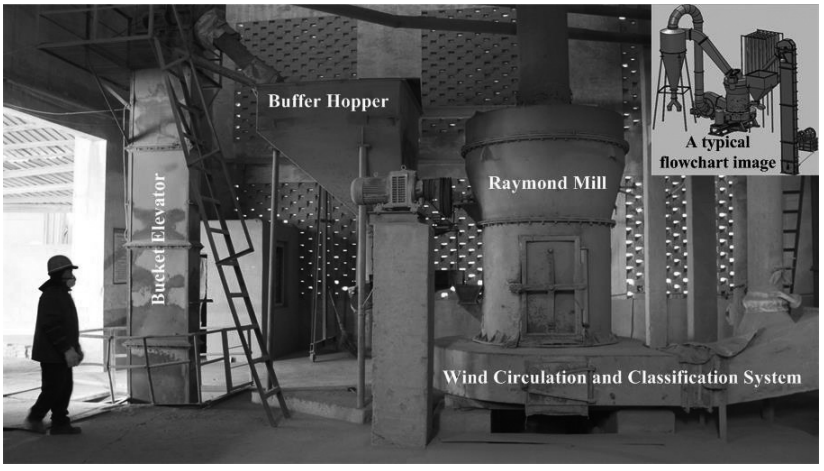


Figure 8-4: Milling system

Table 8-3: Main equipment – pelletising clay production lines

	Equipment	Type	Power (kW)	Quantity
*Ore Drying System	Rotary drum dryer	ϕ2.8 × 28 m	90	1
	Air heating furnace	ZR-1200	88	1
	Bucket elevator	HL400	11	1
1# Production line (pelletising clay)	Raymond mill	5R4119	145	1
	Bucket elevator	HL300	7.5	1
	Bucket elevator	HL400	11	2
	Scraper conveyor	KSⅢ-300	5.5	1
	Pulse dust collector	DMC-120	4	1
	Steel storage silo	240 m^3	8	1
	Roots blower	L51LD	11	1
	Air compressor	W1/7	18.5	1
	Single-spout packing machine		4	1
2# Production line (pelletising clay)	Raymond mill	5R4119	145	1
	Bucket elevator	HL300	7.5	1
	Bucket elevator	HL400	11	1
	Scraper conveyor	KSⅢ-300	5.5	2
	Pulse dust collector	DMC-120	4	1
	Steel power silo	512 m^3	8	1
	Roots blower	L51LD	11	1
	Air compressor	W1/7	18.5	1

Note

*Bentonite ore for pelletising clay and drilling mud use the same ore drying system.

8.4 Drilling mud

Bentonite has excellent dispersion, suspension, and adhesion in aqueous solutions. In certain concentrations, it shows good thixotropy. When stirred in suspension it forms a colloidal solution with good mobility, but when the colloid is allowed to settle it becomes a gel with a three-dimensional network structure, without sedimentation or water separation. This feature is particularly suitable for the preparation of drilling mud. Drilling mud with bentonite as the main raw material is used for borehole wall protection, drill rod lubrication, upward movement of rock cuttings and to cool drill bits. Table 8-4 shows the recommended Chinese national standards for bentonite drilling mud. Oil Company Materials Association ("OCMA") bentonite is a type of clay mineral dominated by active montmorillonite. It may

be treated by soda ash, polymers, or other chemicals in order to improve its suspension performance. The drilling mud bentonite produced by the Company is classified as OCMA bentonite.

Table 8-4: Recommended Chinese national standards for bentonite drilling mud

Products	Bentonite drilling mud	Untreated bentonite	OCMA bentonite
Viscometer 600 r/min reading ≥	30		30
Yield value/Plastic viscosity ≥	3	1.5	6
Filtrate loss, cm^3 ≤	15.0		16.0
75 μm Residue on sieve, mass fraction, % ≤	4.0		2.5
Plastic viscosity after dispersion, mPa·s≥		10	
Filtrate loss after dispersion, cm^3 ≤		12.5	
Moisture, mass fraction, % ≤			13.0

8.4.1 Product development and product quality

The drilling mud produced by the Company is mainly used for trenchless directional drilling in civil engineering and is not used for standard geological or petroleum exploration drilling. Trenchless directional drilling is a type of subsurface construction work that requires few trenches or no continuous trenches. Trenchless directional drilling incurs minimal disruption of surface traffic, business and other activities. The applications of trenchless directional drilling mud have expanded in recent years – laying new pipelines for urban water supply and drainage, gas, power, and telecommunications, as well as rehabilitation and replacement of older pipelines.

The drilling mud study was started in 2006; the active montmorillonite content of samples used was up to 68.91% and the swelling capacity was 8 ml/g. Comparison testing was conducted on extrusion sodium modification and milling sodium modification, as well as a sodium carbonate consumption test. Based on the results of these tests, sodium modification by extrusion was selected. In this process, sodium carbonate equal to 3.5% of the dry weight of the bentonite ore is added and mixed. After extrusion sodium modification, it is dried and then pulverised by mill.

Although the drilling mud study suggested sodium modification by extrusion is the preferred method, the milling sodium modification method has been adopted by Feishang to produce standard drilling mud, due to the complexity of extrusion sodium modification process.

"NJ01" and "NJ02" are the quality testing results of two batches of standard drilling mud products taken by SRK in January 2015 (Table 8-5). The key indicators of the two batches of standard drilling mud: viscometer 600 r/min reading and filtrate loss, have met the recommended national standard, while the 75 μm residue on sieve indicator and yield value/ plastic viscosity did not meet the recommended national standard. However, Feishang has confirmed that the products are of good quality and were accepted by their clients during the Track Record Period.

Table 8-5: Quality indicators for drilling mud bentonite

Testing items	Unit	Test results		
		Test products	NJ01	NJ02
Water absorption	%	387.6		
Swelling capacity	ml/g	46		
Colloid index	ml/15g	100		
Viscometer 600 r/min reading			135.00	60.00
Yield value/Plastic viscosity			2.50	2.62
Filtrate loss	ml		11.20	11.00
75 μm Residue on sieve	%		3.42	3.78

8.4.2 Production technology and equipment

The production process for drilling mud is almost the same as that of pelletising clay as shown in Figure 8-1 and described in Section 8.2.2. The process comprises bentonite ore drying, crushing, modification, milling, compound additive treatment, and packaging. The only difference is that compound additive is added to the sodium modified bentonite and the final product of drilling mud is packed in 25 kg plastic woven bags rather than being stored in storage silo and sold in bulk. The production process, from rock removal to packaging takes approximately 40 minutes. The main equipment used in the drilling mud production lines is listed in Table 8-6.

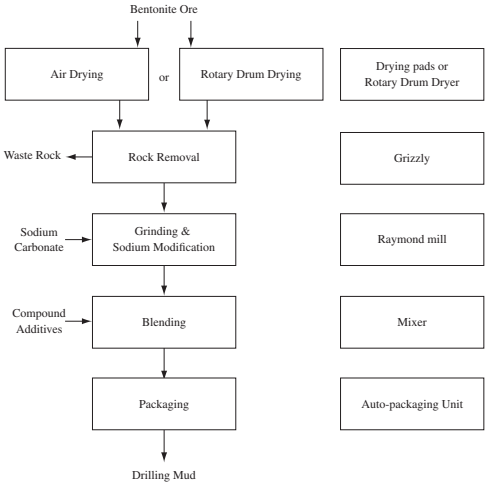


Figure 8-5: Production process for standard drilling mud

Table 8-6: Main equipment – drilling mud bentonite production lines

	Equipment	Type	Power (kW)	Quantity
Extrusion sodium modification system	Sodium modifier	NH800	75	1
	Double-shaft mixer	L3000	7.5	1
	Wet material crusher	PE400 × 600	26	1
	Belt conveyor	B650	4	5
3# Production line	Raymond mill	5R4119	145	1
	Bucket elevator	HL400	11	1
	Mixer	ϕ1.2 × 0.8M	5.5	2
	Bucket elevator	HL300	7.5	1
	Pulse dust collector	DMC-120	4	1
	Automatic proportioning system		11	1
	Feeder		1.5	1
4# Production line (drilling mud bentonite)	Raymond mill	4R3216	82.5	1
	Mixer	ϕ1.2 × 0.8M	5.5	2
	Pulse dust collector	DMC-96	4	1
	Bucket elevator	HL300	7.5	1
	Single spout packing machine		4	1
5# Production line (drilling mud bentonite)	Raymond mill	4R3216	82.5	1
	Mixer	ϕ1.2 × 0.8M	5.5	2
	Pulse dust collector	DMC-80	4	1
	Scraper conveyor		15	1
	Bucket elevator	HL300	7.5	1
	Bucket elevator	HL400	11	1
	Single spout packaging machine		4	1

8.5 Historical production records and future plan

Production records from 2013 to June 2015 are listed in Table 8-7 and Table 8-8. The Company does not plan to expand its production capacity at present. SRK suggests that the Company should consider the feasibility of moving the processing plant nearer to the Mine. The layout of the processing lines can also be upgraded. To reduce production costs, belt conveyors, instead of trucks, should be used to transport the ore.

Table 8-7: Historical production records of pelletising clay

Index Item	Unit	2013	2014	Jan-June 2015
Production	t	39,030	33,995	15,112
Moisture	%	10.17	12.42	13.24
Size	< 75 μm, %	97.08	97.10	97.88
Swelling capacity	ml/g	34.38	45.21	46.17
Montmorillonite	%	53.62	52.54	52.87
Colloid index	ml/15g	412.81	464.25	477.08
Water Absorption	%	305.43	343.37	339.48
Methylene blue index	g/100g	29.63	29.04	29.21

Table 8-8: Historical production records of drilling mud bentonite

Index Item	Unit	2013	2014	Jan-June 2015
Production	t	53,753	39,959	23,634
Moisture	%	12.97	13.16	13.85
Size	< 75 μm, %	90.27	90.16	93.48
Swelling capacity	ml/g	51.88	58.39	67.78
Montmorillonite	%	53.21	53.24	56.41
Viscosity	600 r/min	34.61	48.61	64.63

8.6 Conclusions and recommendations

- Huanghu bentonite ore is mined separately based on its different types and properties, and processed into two products – pelletising clay and drilling mud. The latter is mainly used for trenchless directional drilling.

- The processing plant has a production capacity of 115,000 tpa and is situated 15 km away from the Mine, connected by a paved road. It was constructed on an old bearing manufacturing plant. The recovered ore is transported by truck from the Mine and drying facilities to the processing plant. In SRK's view, the processing plant and equipment should be upgraded or rebuilt. SRK suggests that the Company should consider the feasibility of moving the processing plant nearer to the Mine and replace existing equipment with newer, better equipment. If a new plant is installed, belt conveyors, instead of trucks, should be used to transport ore from mine to plant, in order to save on production costs.

- The ore is air-dried on mining benches/drying yard, or by rotary drum dryer in the processing plant. Water content is reduced to 11%-13%, and then milling and sodium modification are conducted.

- The processing plant hosts a well-equipped laboratory which is for production quality control and development and research of new products. The actual production plan is based on a number of factors, including the delivery dates and sales tonnages of the Company's products, historical sales demand and the production capacity. However, quality control data are not stored in digital format. SRK suggests improving the laboratory's research and development competence and adjusting plant technological parameters and formulations based on bentonite feedstock characteristics and customer requirements, in order to meet market demand and enlarge the Company's market share. A digital database system to record all production and lab quality control data is recommended; this will facilitate data analysis, which should improve process control and product development.

9 WORKFORCE ASSESSMENT

As at 30 June 2015, the Huanghu Bentonite Project management team at the processing plant and the Mine is composed of six divisions: head office, mine site, processing plant, testing laboratory, sales, and financial, employing 88 people. Workforce numbers are shown in Table 9-1.

Table 9-1: Workforce numbers of the Project

Department	Station	Number of Persons
Head Office	General Manager	1
	Admin	1
Mine Site	Mine Manager/Deputy	2
	Mining or Stripping	3
	Stock-pad Guard	1
Sales and Procurement	Manager and Salesman and Procurement	5
Financial	Manager and accountant	2
Processing Plant	Processing Plant Manager/ Deputy	2
	Production Supervisor	5
	Loader Operator	5
	Drying Worker	11
	Mud Milling	8
	Sample-jerker	4
	Weighman	3
	Electrician	5
	Maintainer	6
	Packaging	8
	Storage Guard	1
	Backman	3
Testing Lab	Chief	1
	Chemical Analyst	5
	Product Development	6
Total		88

SRK's site inspection found that the Mine is tight on staffing which might have negative impacts on further operations. Specifically, SRK recommends that the Mine should hire more technicians, such as geologist/grade control technicians to monitor the clay quality and a mining engineer to plan the mining or stripping operations.

10 COSTS

10.1 Sustaining capital

The Project has a relatively long mine life, and some property, plant and equipment will require replacement and refurbishment. Feishang has prepared a plan, detailing the timing and costs for major plant and equipment items that are expected to require refurbishment or replacement at the processing plant in the next five years (2015-2019). The sustaining capital items by category are tabulated in Table 10-1. The sustaining capital totals RMB8,000,800, of which the larger items include an addition of a product storage silo and a milling machine and an electricity capacity upgrade. All these cost items are scheduled to take place in 2016. SRK considers the sustaining capital estimate is reasonable.

Table 10-1: Sustaining capital 2015-2019 (RMB'000)

	July-Dec 2015	2016	2017	2018	2019	Subtotal
Processing plant production line						
Powder silo	550	1,800				2,350
Agitation barrel automatic feeding	30					30
Hot-blast stove retrofit		200				200
Drilling mud semi-product storage silo		80				80
Lifting plate of dryer			30			30
Scraper cylinder replacement			60			60
Head pulley and tail pulley replacement of hoisting machine			105			105
Gear ring replacement of the dryer				150		150
Carrier roller replacement of the dryer				80		80
Dust collector bag replacement				70		70
Grinding mill		2,000				2,000
5R grinding mill refurbishment		180				180
Subtotal						5,335
Processing plant electricity system						
Transformer		60				60
No. 1 power distribution room refurbishment					300	300
Power capacity upgrade		1,500				1,500
Subtotal						1,860

	July-Dec 2015	2016	2017	2018	2019	Subtotal
Processing plant product/ ore transport system						
5t tractor shovel	33					33
2t tractor shovel		150				150
Forklift truck			80			80
In house power line refurbishment			150			150
Dried pellet soil conveying belt and storage bin					150	150
Subtotal						563
Processing plant workshop						
Old workshop roof reconstruction					250	250
Subtotal						250
Total	613	5,970	425	300	700	8,008

10.2 Operating costs

The actual operating cost between 2014 and June 2015 provided by Feishang and the forecast operating cost between July 2015 and 2019 are tabulated in Table 10-2, based on:

- Contracts between Feishang and contractors.
- Actual operating cost between 2013 and June 2015 provided by Feishang.
- A Resource tax of RMB10/t of product.
- Value added tax ("VAT") of 17% is levied for the sale of the products.
- VAT of 17% is levied for the purchase of the consumables and fuel and electricity.
- City maintenance and construction levy (5% of the total amount of VAT created by the mining operations of Project).
- An education levy of 3% of the total amount of VAT generated by the mining operations of Project.

- A local education levy of 2% of the total amount of VAT generated by the mining operations of Project.

- A resource compensation levy of RMB 1.5/t of product (2% of sale revenue multiplied by a "coefficient" set by the provincial government, where the coefficient is currently set as 75).

- The historical operating cost structure and operating margins of Feishang.

- The historical average unit costs charged by Feishang's major suppliers and contractors.

- An additional air-drying facility commenced operation since the second quarter of 2015, which is expected to reduce Feishang's need for rotary drum drying and thereby lower Feishang's overall drying cost in the long run. As at the date of this Report, Feishang had a total of four air-drying facilities, including the aforesaid air-drying facility.

- Various measures implemented by Feishang in response to SRK's control recommendations, such as (i) timely modification of mining plan which is expected to reduce mining cost; (ii) closely monitoring transportation costs and exploring ways to better coordinate transportation schedules; (iii) closely monitoring operating expenses and negotiating with certain suppliers and contractors with the aim of securing long-term contracts that may be beneficial to Feishang; and (iv) upgrading current processing plant and processing machinery and equipment which is expected to improve Feishang's production efficiency.

The long-term unit cash operating costs of pelletising clay and drilling mud is estimated at are RMB/t 246 and 268 of product respectively. SRK has reviewed the detailed breakdown of the operating cost and opines that the estimate is reasonable.

Table 10-2: Actual and forecast operating costs

	Unit	2014	Jan-June 2015	July-Dec 2015	2016	2017	2018	2019
Product								
Unprocessed clay	t	17,953	8,695	6,490	15,379	15,619	17,683	17,686
Pelletising clay	t	33,995	15,112	10,126	29,979	35,123	39,220	39,037
Drilling mud	t	39,959	23,634	21,030	45,917	42,928	47,935	47,712
Pelletising Clay and Drilling Mud only	t	73,954	38,746	31,156	75,897	78,050	87,155	86,749
Total	t	91,907	47,441	37,646	91,275	93,670	104,838	104,435
Mining								
Unprocessed clay	RMB/t product	6.3	5.3	7.1	6.8	6.3	6.2	6.4
Pelletising clay	RMB/t product	8.5	5.1	8.1	7.7	7.1	7.1	7.3
Drilling mud	RMB/t product	9.8	5.4	8.1	7.7	7.1	7.1	7.3
Air Drying								
Pelletising clay	RMB/t product	15.0	13.5	18.3	18.3	18.3	18.3	18.3
Drilling mud	RMB/t product	21.4	17.0	18.3	18.3	18.3	18.3	18.3
Transportation								
Pelletising clay	RMB/t product	20.8	20.5	22.4	22.4	22.4	22.4	22.4
Drilling mud	RMB/t product	22.8	22.5	22.4	22.4	22.4	22.4	22.4
Consumables								
Pelletising clay	RMB/t product	21.9	21.5	21.5	21.5	21.5	21.5	21.5
Drilling mud	RMB/t product	58.2	56.6	56.6	56.6	56.6	56.6	56.6
Fuel, Electricity, Water and Other Services								
Pelletising clay	RMB/t product	48.2	55.4	58.9	58.9	58.9	58.9	58.9
Drilling mud	RMB/t product	44.4	49.3	53.3	53.3	53.3	53.3	53.3
Workforce Employment								
Pelletising clay	RMB/t product	38.8	40.2	40.2	40.2	40.2	40.2	40.2
Drilling mud	RMB/t product	41.2	37.9	47.5	47.5	47.5	47.5	47.5
Product Selling Cost								
Pelletising clay	RMB/t product	23.1	32.9	23.1	23.1	23.1	23.1	23.1
Drilling mud	RMB/t product	6.8	6.2	6.8	6.8	6.8	6.8	6.8

	Unit	2014	Jan-June 2015	July-Dec 2015	2016	2017	2018	2019
On and Off-site Administration								
Pelletising clay	RMB/t product	21.6	27.7	25.0	25.0	25.0	25.0	25.0
Drilling mud	RMB/t product	21.6	27.8	25.1	25.1	25.1	25.1	25.1
Environmental Protection and Monitoring								
Pelletising clay	RMB/t product	0.1	2.4	2.5	2.5	2.5	2.5	2.5
Drilling mud	RMB/t product	0.1	2.4	2.5	2.5	2.5	2.5	2.5
Non-Income Taxes, Royalties and Other Governmental Charges								
Unprocessed clay	RMB/t product	12.4	12.4	12.4	12.4	12.4	12.4	12.3
Pelletising clay	RMB/t product	27.6	26.8	27.6	27.4	27.2	27.0	27.0
Drilling mud	RMB/t product	29.6	28.3	27.6	27.4	27.2	27.0	27.0
Transportation of Workforce								
Unprocessed clay	RMB/t product	–	–	–	–	–	–	–
Pelletising clay	RMB/t product	–	–	–	–	–	–	–
Drilling mud	RMB/t product	–	–	–	–	–	–	–
Contingency Allowance								
Unprocessed clay	RMB/t product	–	–	–	–	–	–	–
Pelletising clay	RMB/t product	–	–	–	–	–	–	–
Drilling mud	RMB/t product	–	–	–	–	–	–	–
Total Operating Cash Cost								
Unprocessed clay	RMB	334,826	154,254	126,846	294,857	291,455	329,007	332,264
Pelletising clay	RMB	7,668,284	3,718,883	2,506,979	7,405,263	8,649,849	9,650,965	9,612,311
Drilling mud	RMB	10,222,649	5,986,630	5,658,609	12,328,708	11,494,277	12,825,445	12,773,405
Total		18,225,759	9,859,767	8,292,435	20,028,828	20,435,580	22,805,416	22,717,981
Total Operating Unit Cash Cost								
Unprocessed clay	RMB/t product	18.7	17.7	19.5	19.2	18.7	18.6	18.8
Pelletising clay	RMB/t product	225.6	246.1	247.6	247.0	246.3	246.1	246.2
Drilling mud	RMB/t product	255.8	253.3	269.1	268.5	267.8	267.6	267.7

Note: The assumed moisture content of pelletising clay, drilling mud and unprocessed ore is 10.0%, 10.0% and 25.1% respectively.

10.3 Economic viability

An analysis of the economic viability of the Project has been conducted. The analysis is based on the capital and operating costs, the production schedule (Table 7-10) presented in this Report. A base case scenario (in real terms) of the Project from 1 July 2015 to 1 July 2040 (25 years) was constructed. It is important to note that the purpose of the analysis is only to demonstrate the economic viability of the Project. The derived net-present values (NPVs) do not indicate the fair market values or the profitability of the Project.

In the base case analysis, the forecast sale price (see Section 11.4.3) and a discount rate of 10% were used. The discount rate used in the base case analysis was based on the considerations of the real, risk free, long-term interest rate (3.5% for the five year PRC Government Bond Rate), mining project risk (2% to 4%) and country risk (2% to 4%). The determination of the discount rate is considered by SRK as appropriate.

The analysis shows that the after tax (15% corporate income tax) NPV, based on a 25-year scenario at a discount rate of 10%, returned RMB66.9 million as of 1 July 2015. A straight line depreciation method was used. Any finance costs or company debt have not been taken into account in this analysis.

A sensitivity analysis (after tax) has also been undertaken with respect to the capital and operating costs, production rate, sales price (Figure 10-1 and Table 10-3). The results reveal the following changes:

- A 1% increase in OPEX will result in a negative 2.77% change in NPV.
- A 1% increase in CAPEX will result in a negative 0.26% change in NPV.
- A 1% increase in unprocessed clay sales price will result in a positive 0.09% change in NPV.
- A 1% increase in pelletising clay sales price will result in a positive 2.20% change in NPV.
- A 1% increase in drilling mud sales price will result in a positive 4.10% change in NPV.
- A 1% increase in unprocessed clay sales tonnage will result in a positive 0.07% change in NPV.

- A 1% increase in pelletising clay sales tonnage will result in a positive 0.46% change in NPV.

- A 1% increase in drilling mud sales tonnage will result in a positive 1.34% change in NPV.

Of these parameters, the drilling mud sales price is the most sensitive parameter, followed by the OPEX. The least sensitive parameters are unprocessed clay sales price and tonnage, followed by CAPEX.

Overall, the economic analysis for the next 25 years of the Project together with the sensitivity analysis have demonstrated that the Project is economically viable and justified the reporting of Reserve determined in Section 7.2.7, as shown in Figure 10-1.

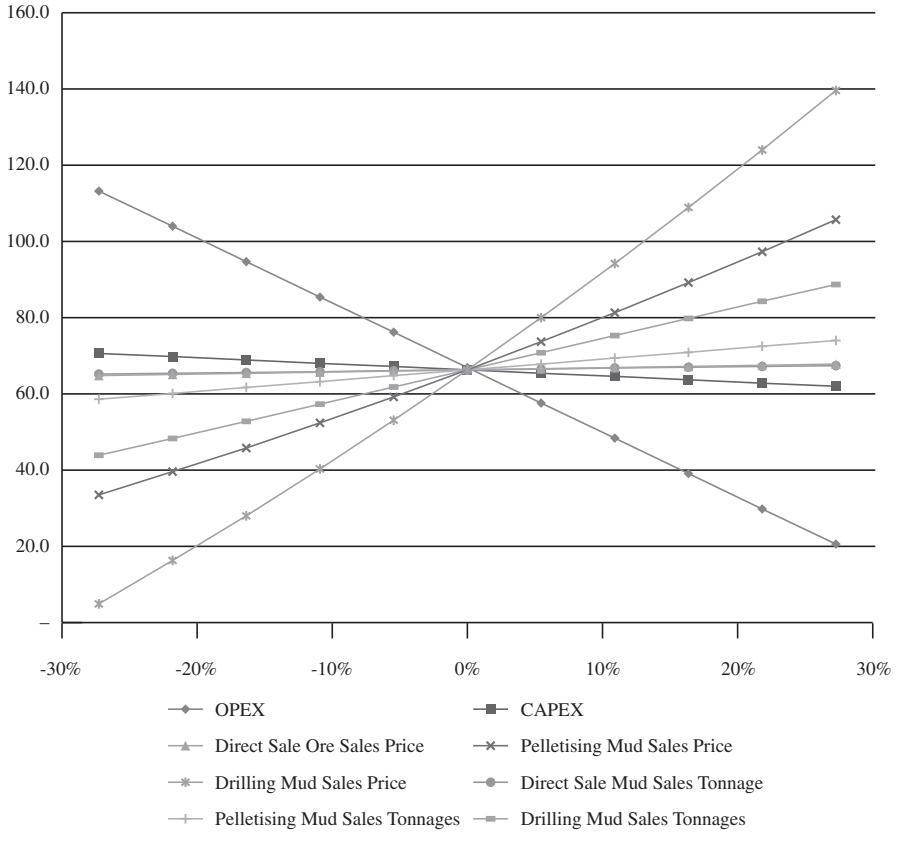


Figure 10-1: After-tax NPV sensitivity analysis of the Project

Table 10-3: Sensitivity analysis for after-tax NPV

Parameters	After-tax NPV Variation (RMB million)										
	+25%	+20%	+15%	+10%	+5%	Base Case	-5%	-10%	-15%	-20%	-25%
OPEX	20.6	29.8	39.1	48.4	57.6	66.9	76.2	85.4	94.7	104.0	113.2
CAPEX	62.6	63.4	64.3	65.2	66.0	66.9	67.8	68.6	69.5	70.4	71.2
Unprocessed Clay Sales Price	68.4	68.1	67.8	67.5	67.2	66.9	66.6	66.3	66.0	65.7	65.4
Pelletising Mud Sales Price	106.3	97.9	89.8	81.9	74.3	66.9	59.8	53.0	46.4	40.2	34.1
Drilling Mud Sales Price	140.2	124.6	109.5	94.8	80.6	66.9	53.7	40.9	28.6	16.9	5.5
Unprocessed Clay Selling Amount	68.0	67.8	67.6	67.4	67.1	66.9	66.7	66.4	66.2	66.0	65.8
Pelletising Mud Selling Amount	74.6	73.1	71.5	70.0	68.4	66.9	65.4	63.8	62.3	60.7	59.2
Drilling Mud Selling Amount	89.3	84.9	80.4	75.9	71.4	66.9	62.4	57.9	53.4	48.9	44.5

At the forecast production rates, it will take 79 years to exhaust the Reserves. All years of the forecast are profitable, justifying the economic viability of the Reserves. Should market conditions permit, an expansion of production would enable the Reserves to be mined more rapidly, and this is quite feasible. However, it must also be noted that changes in technology or market preferences could reduce or eliminate demand for these products prior to exhaustion of the Reserves.

11 CLAY QUALITY AND MARKETING REVIEW

11.1 China's bentonite markets

By world standards, China is a large producer of bentonite, with 2014 production estimated at 7.7 Mt, or approximately 47% of world production (CRU 2015). China consumes practically all of its production, and imports a small amount of high value processed speciality bentonite clay products. In 2014, China is estimated to have consumed 7.6 Mt bentonite (CRU 2015).

World traded bentonite ranges in price from around US$50/t for unprocessed or semi-processed clays to over US$600/t for speciality processed products. There is no evidence of significant changes in world trade prices of bentonites over the last five years, but the fragmented and opaque markets make this difficult to determine, so some grades of bentonite may have experienced price variation.

In China, the dominant uses of bentonite are in iron ore pelletising, drilling mud and foundry sands, which together account for over three quarters of the total consumption.

China's bentonite consumption dropped slightly between 2013 and 2014, mainly due to lower blast furnace production, reducing the demand for iron ore pellets (CRU 2015). CRU anticipates that this market will remain depressed until 2017, but expects steady growth in use of bentonite in other industries. Overall, CRU forecasts Chinese bentonite consumption in 2019 to be similar to 2013 consumption at 7.9Mt.

Iron ore pelletising is the largest single use of bentonite in China, but this has decreased since 2010 and is not likely to grow in the near term. In contrast, the use of bentonite in drilling mud is forecast to rise, both for use in traditional drilling applications and also in civil engineering, to stabilise excavations, in pipe-laying etc. Most of the growth will be in sodium bentonite (natural sodium bentonite or sodium-treated bentonite, such as that produced by Feishang).

Within Feishang's market area, east China, bentonite demand is forecast to increase slightly, to 3.4 Mt in 2019, an increase of 0.25 Mt from 2014. east China produces about one third of China's bentonite, but CRU estimates that it consumes slightly more than the region produces.

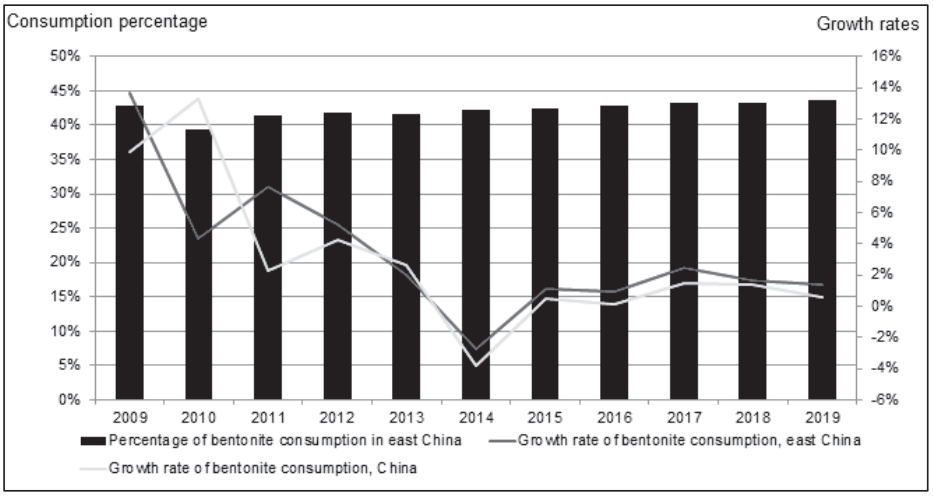


Figure 11-1: Historical and forecast consumption in East China

Source: CRU 2015.

Three provinces dominate iron ore pellet production in East China – Shandong, Jiangsu and Anhui – with Feishang's local market of Anhui having a current production capacity of around 12 Mtpa of pellets, or a little over 25% of East China's production. The drop in regional pellet production in 2014 was significant (estimated by CRU to be a 13% decrease) and production is forecast to decline until 2016 and then stabilise.

11.2 Feishang's current markets

Two main products are currently for sale – pelletising clay and drilling mud.

In addition minor quantities of unprocessed clay are sold directly from the Mine (unprocessed) for use as fill, levee construction and similar construction uses.

Table 11-1: Feishang sales record summary

	2013	2014	Jan-June 2015
Drilling mud			
Tonnes sold	47,761	46,000	22,400
Average sales price RMB/t product	383.6	415.7	455.9
Sales revenue RMB	18,319,000	19,123,000	10,212,000
Pelletising clay			
Tonnes sold	38,191	35,389	14,828
Average sales price RMB/t product	305.5	292.2	307.5
Sales revenue RMB	11,668,000	10,342,000	4,560,000
Unprocessed clay			
Tonnes sold	–	17,953	8,695
Average sales price RMB/t product	–	54.7	54.7
Sales revenue RMB	–	982,000	475,000

Feishang showed its resilience in maintaining sales value in 2014 despite a significant drop in market demand for pelletising clay. The 2015 first half figures indicate a similar performance to 2014.

11.3 Competition

The geology and formation of commercial bentonite deposits lead to clusters of commercial deposits located in certain regions (Figure 4-1). In these areas, bentonite is not uncommon, leading to a generally competitive market. A report published by the Ministry of Land and Resources of China (MOLAR) announced that total bentonite resources in Anhui were 1,480 Mt in 2008.

The southern Anhui area, where Feishang is located, is a well-known bentonite producing region. There are a number of other bentonite producing areas in east China, including the Weifang area of Shandong, the Anji area in Zhejiang and the Yutian in Jiangxi province (CRU, 2015). The Anji area, around 150 km from Feishang's operations, hosts the closest group of competing producers outside Anhui province.

Within bentonite producing regions, competition for market share is keen. CRU estimates that the bentonite industry in China is highly competitive with a flat cost curve. Most bentonite producers in China are relatively small and these small operations tend to be inefficient. In contrast, the three largest bentonite producers in China produce over 200,000 tpa each, and have efficiencies of scale. One of these large producers is based in Zhejiang, in east China. Feishang is classed as a medium-sized producer (over 100,000 tpa). Size and market share gives Feishang an advantage over its smaller competitors. However, larger players in the adjacent provinces of Zhejiang and Jiangxi would compete strongly to prevent Feishang expanding into their local market.

The Chinese government is concerned about the proliferation of smaller inefficient industrial minerals producers and is therefore imposing stricter conditions on new producers, and encouraging mergers and acquisitions in this sector. These policies favour the larger established producers like Feishang.

Feishang is typical of most bentonite producers in China, which are local or regional in outlook. Feishang has potential to expand its markets by maintaining market share in an increasing market for its drilling mud product, as well as some potential to increase market share by strong competition on pricing and quality, but this may be challenging. Feishang has an advantage in the potential to ship bentonite along the Yangtze River, which may extend the viable distribution area.

Alternatively, Feishang may grow by acquisition of potential competitors, and Feishang should be well placed to do this.

11.4 Feishang's market outlook

11.4.1 Resource quality

Feishang has demonstrated its ability to produce products that meet market expectations. The operation is market limited, rather than resource limited, as the LoM at current production rates is 79 years.

Of the current defined Measured and Indicated Resources (Section 6.10), 94% meets the minimum montmorillonite plant feed specification of 40% for producing drilling mud and pelletising clay, with the remaining 6% being marginal grade by product material, sold as unprocessed clay ex-pit.

Of the plant feed, 65% of the resource blocks meet the minimum specification for drilling mud, and could be used to produce either drilling mud or pelletising clay, while the remaining blocks are considered suitable only for the production of pelletising clay.

There is no significant change in quality parameters through the Measured and Indicated Resource, and it is anticipated that the Huanghu deposit will continue to be a reliable source of bentonite.

11.4.2 Sales volume

Feishang's drilling mud bentonite is used in trenchless directional drilling, activities in civil engineering. CRU (2015) forecasts these market to increase steadily over the next five years. An increase of 15% or 60 Mt is forecast for consumption of drilling mud in East China.

Feishang should have some opportunities to increase its sales of drilling mud, and should be able to at least maintain its market share (Figure 11-2).

The market for pelletising clay is forecast to be more challenging, with no increase in market size predicted for the next few years. Any consequent loss in sales of pelletising mud may be offset by increasing sales of drilling mud. Drilling mud has been the more profitable product in recent years.

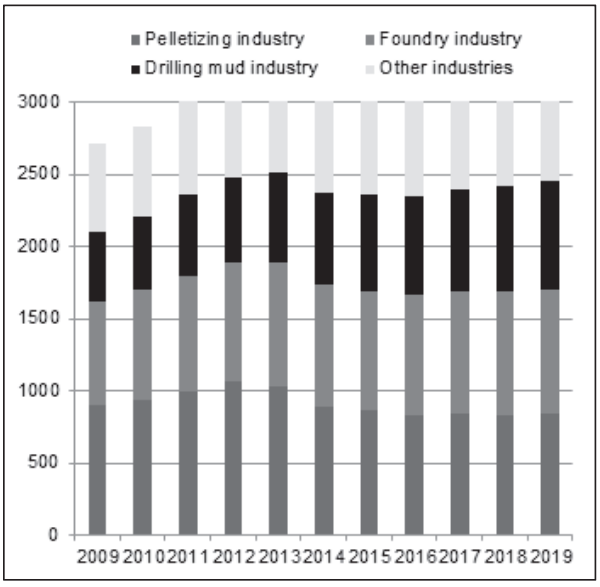


Figure 11-2: Bentonite consumption in East China by sector (2009 – 2019)

Source: CRU, 2015.

CRU also forecasts other bentonite uses to grow, apart from the foundry industry usage which is likely to remain steady. Feishang notes that the bulk of foundry industry bentonite is low priced, and does not consider it a good target market for the Huanghu bentonite (Figure 11-3). The "other industries" segment includes environmental, agricultural, chemical and other light industries. CRU forecasts that these are to grow significantly. Uses of bentonite include production of pelletised slow release fertiliser, carriers for insecticides, absorbents, clarifiers etc. Some uses require acid activated or organic treated bentonites, which the current plant set-up is not designed to produce. Bentonite for a variety other uses could be produced from the current Huanghu plant if appropriate technologies and equipment are acquired, and Feishang may have the opportunity to expand into these product lines.

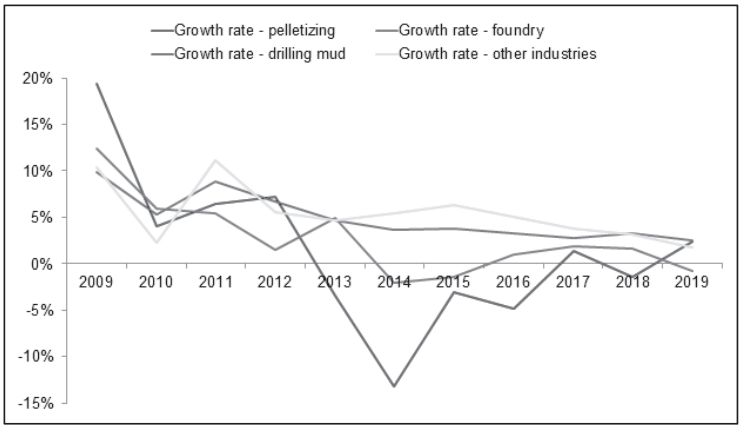


Figure 11-3: Historical and forecast growth rate of major bentonite uses

Source: CRU, 2015.

Overall, SRK considers that Feishang should be able to expand drilling mud sales, and potentially produce some other products, to replace any loss of sales in pelletising clay, and may be able to increase total sales gradually.

11.4.3 Prices

CRU forecasts a 14% increase in the nominal price of drilling mud over the next five years, and forecasts continual gradual price rises thereafter.

The market outlook for pelletising clay is subdued, and CRU forecasts the price for this product will decrease to 2016 before recovering to the 2011 price level in 2019 (in nominal terms). In such case, any inflation of costs will reduce Feishang's profits on this product line.

SRK has used CRU's forecast price index and inflation forecast to derive the forecast prices for the next five years, with an anticipated average price in 2019 (ex-sales tax, ex-mine price, real 2015 RMB value) of 450.9 RMB/t product for drilling mud and 283.4 RMB/t product for pelletising clay.

For the long-term, from 2020 onwards, i.e. beyond the CRU forecast period, SRK considers it appropriate to use the long-term average prices. The average of actual and forecast prices for each product from 2012 to 2019 has therefore been used. In real terms (2015 RMB), this is 439.4 RMB/t product for drilling mud and 299.5 RMB/t product for pelletising clay.

CRU forecast does not include unprocessed clay that has been sold by Feishang since 2014. The average sales price for unprocessed clay has been the same in the period of 2014 and Jan-June 2015 at 54.7 RMB/t. SRK has assumed the nominal sales price of unprocessed clay will remain the same in the next five years, and has used CRU's inflation forecast to derive the forecast prices for the next five years. An anticipated average price in 2019 (ex-sales tax, ex-mine price, real 2015 RMB value) of 49.1 RMB/t product for unprocessed clay is determined. For the long term, from 2020 onwards, SRK has used an average price between 2014 and 2019. In real terms (2015 RMB), this is equivalent to 52.6 RMB/t.

Table 11-2: Historical and forecast drilling mud and pelletising clay prices (RMB/t product)

Price	2012	2013	2014	2015	2016	2017	2018	2019	Long-term price
Nominal drilling mud	376.7	383.6	415.7	455.9	471.1	483.7	493.2	502.0	
Real drilling mud (2015 base year)	405.4	402.0	424.1	455.9	460.1	460.3	456.3	450.9	439.4
Nominal pelletising clay	286.8	305.5	292.2	307.5	304.8	308.6	309.5	315.5	
Real pelletising clay (2015 base year)	308.7	320.1	298.1	307.5	297.7	293.7	286.4	283.4	299.5
Nominal unprocessed clay			54.7	54.7	54.7	54.7	54.7	54.7	
Real unprocessed clay (2015 base year)			55.8	54.7	53.4	52.1	50.6	49.1	52.6
Consumer price Index (2015=1)	0.929	0.954	0.980	1.000	1.024	1.051	1.081	1.113	

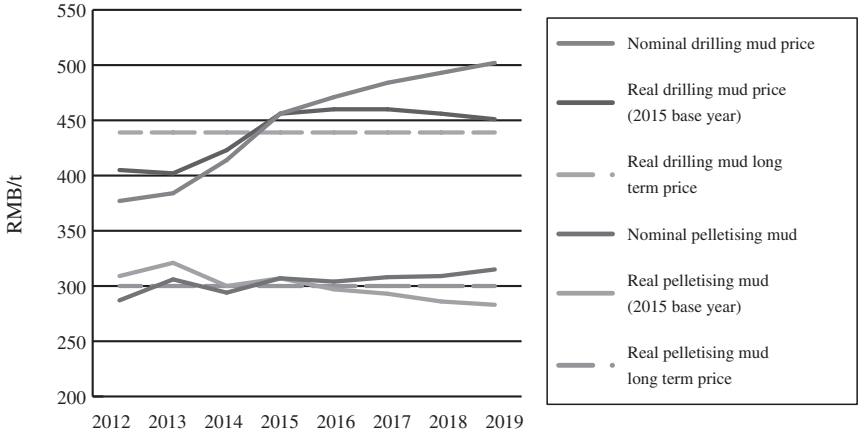


Figure 11-4: Drilling mud and pelletising clay long-term price

12 ENVIRONMENT, PERMITS AND SOCIAL IMPACTS

12.1 Operational licences and permits

12.1.1 Business licence

The Business Licences details for the Project are presented in Table 12-1.

Table 12-1: Details of the business licences

Project/ Company	Business Licence No.	Issued To	Issued By	Issue Date	Expiry Date	Licensed Business Activities
Huanghu Bentonite Project	340200500001556	Wuhu Feishang Non-Metallic Materials Co., Ltd Huanghu Branch	Wuhu City Industry and Commerce Administration Bureau	10 June 2015	07-Jun-2018	Bentonite open pit mining.
	3402004000001573	Wuhu Feishang Non-Metallic Materials Co., Ltd	Wuhu City Industry and Commerce Administration Bureau	10 June 2015	21-Jun-2022	Bentonite products production and sales.

12.1.2 Mining licence

The Mining Licence for the Project is presented in Table 12-2.

Table 12-2: Details of the mining licence

Project	Mining Licence No.	Issued To	Issued By	Issue Date	Expiry Date	Area (km^2)	Mining Type	Production Rate (m^3 per year)
Huanghu Bentonite Project	C3400002010127120099654	Wuhu Feishang Non-Metallic Materials Co., Ltd Huanghu Branch	Anhui Province Land and Resources Department	09-Sept-2015	09-Mar-2019	7.2982	Open pit	230,000 (equivalent to approximately 400,000 tpa)

12.1.3 Site discharge permit

The Site Discharge Permit for the Project is presented in Table 12-3.

Table 12-3: Details of the site discharge permit

Project	Site Discharge Permit No.	Issued To	Issued By	Issue Date	Expiry Date	Pollutant Discharge Type
Huanghu Bentonite Project	3402222015001	Wuhu Feishang Non-Metallic Materials Co., Ltd	Fanchang County Environmental Protection Bureau	13-Mar-2015	13-Mar-2016	COD, NH3-N, SO2, NOX, industrial dust.

12.1.4 Land use permit

The Land Use Permit for the Processing Plant is presented in Table 12-4.

Table 12-4: Details of the land use permit

Project	Land Use Permit No.	Issued To	Issued By	Issue Date	Expiry Date	Land Use	Area (m^2)
Huanghu Bentonite Project	(2015) 0121	Wuhu Feishang Non-Metallic Materials Co., Ltd	Fanchang County People's Government	20-Jun-2015	10-May-2052	Industrial land	82,820

For other temporary land/forest use approvals, please refer to the Project's Legal opinion from Commerce & Finance Law Offices.

12.1.5 Safety production permit

The Safety Production Permit for the Project is presented in Table 12-5.

Table 12-5: Details of the safety production permit

Project	Safety Production Permit No.	Issued To	Issued By	Issue Date	Expiry Date
Huanghu Bentonite Project	[2015]Y1096	Wuhu Feishang Non-Metallic Materials Co., Ltd Huanghu Branch	Anhui Province Safety Production Supervision Bureau	08-Jun-2015	07-Jun-2018

12.2 Environmental, social, health and safety (ESHS) review process, scope and standards

The process for the verification of the environmental compliance and conformance for the Project comprised a review and inspection of the Project's environmental management performance against:

- Chinese national environmental regulatory requirements; and
- Equator Principles (World Bank/International Finance Corporation ("IFC") environmental and social standards and guidelines) and Internationally Recognised Environmental Management Practices.

The site visit for the environmental review was undertaken from 21 to 23 January 2015.

12.3 Status of ESHS approvals and permits

The details of the Environmental Impact Assessment ("EIA") reports and approvals for the Project are presented in Table 12-6:

Table 12-6: EIA report and approval

Project	Produced By	Production date	Approved By	Approval date
Huanghu Bentonite Project Activated Bentonite Technical Transformation (50,000 tonnes per year) and Bentonite Mine Development Project EIA Alteration Report for Activated Bentonite Technical Transformation (50,000 tonnes per year) and Bentonite Mine Development Project	Wuhu Environmental Protection Science Institute Suzhou Environmental Protection Science Institute	Jul-03 Oct-14	Fanchang County Environmental Protection Bureau Fanchang County Environmental Protection Bureau	14-Aug-03 26-Nov-14

The details of the Final Check and Acceptance ("FCA") reports and approvals for the Project are presented in Table 12-7:

Table 12-7: FCA report and approval

Project	Produced By	Production date	Approved By	Approval date
Huanghu Bentonite Project	Fanchang County Environmental Monitoring Station Fanchang County Environmental Monitoring Station	Jun-03 Apr-14	Fanchang County Environmental Protection Bureau Fanchang County Environmental Protection Bureau	16-Sep-13 30-Dec-14

The details of the Water and Soil Conservation Plan ("WSCP") reports and approval for the Project are presented in Table 12-8:

Table 12-8: WSCP report and approval

Project	Produced By	Production date	Approved By	Approval date
Huanghu Bentonite Project	Anhui Shuiyuan Engineering Design Co., Ltd	Not Sighted	Wuhu City Water Bureau	30-Apr-15

SRK has sighted of the following safety assessment reports and approvals for the Project:

- Safety Pre Assessment Report for the Huanghu Bentonite Mine Technical Transformation Project;
- Approval of Safety Pre Assessment Report for the Huanghu Bentonite Mine Technical Transformation Project;
- Safety Section for the Huanghu Bentonite Mine Technical Transformation Project; and
- Approval of Safety Section for the Huanghu Bentonite Mine Technical Transformation Project.

12.4 Environmental conformance and compliance

SRK notes that these sighted EIA reports have been compiled in accordance with relevant Chinese laws and regulations. SRK has reviewed these EIA reports and approvals and conducted an environmental site visit in Fanchang County against recognized international industry environmental management standards, guidelines, and practices. At the time of the site visit, SRK observed that the Project was generally being operated in accordance with the Project environmental management and approval conditions.

In the following sections, SRK provides comments in respect to the Project's proposed environmental management measures.

12.5 Key environmental, social, and health and safety aspects

12.5.1 Site ecological assessment

The development of mining and mineral processing Projects may also result in impacts to or loss of flora and fauna habitat. The Project's EIA should determine the extent and significance of any potential impacts to flora and fauna habitat. Where these potential impacts to flora and fauna habitat are determined to be significant, the EIA and Water and Soil Conservation Plan ("WSCP") should also propose effective measures to reduce and manage these potential impacts.

The Project EIA reports include the following:

- About 20 hectares of vegetation are estimated to be affected by the Project's development;
- No protected flora, and protected natural area are identified within Project area;
- The ecological environment will be damaged due to the mining activities in these areas;

- Potential measures to protect the ecological environment may include: drainage management, rehabilitation and revegetation on the mining area.

The Project WSCP report states the total area of disturbed land is 15.93 hectares. The soil erosion protection measures proposed in the WSCP report consists of settling pond, cut-off drains and vegetation. In addition, no current surveyed documented estimated areas of land disturbance for the Project have been viewed as part of this review. SRK recommends that the operational areas of land disturbed and progressively rehabilitated for the Project be surveyed and recorded on annual basis.

12.5.2 Water management

The domestic water for the processing plant is sourced from local tap water network. The Company stated that the production line of activated bentonite had been closed down in December 2005 and therefore no production waste water has been generated by the processing plant since then, and this agrees with SRK's site observations. No production waste water should be generated by the current production processes. The EIA report states the domestic waste water at the processing plant is 25.6 t/d and should be treated before being discharged into Laowei River. The EIA report also states the domestic waste water at the mining site should be treated and then be discharged. SRK has sighted the simple cut-off drain constructed at the mining site and the mine water and collected rainwater are treated by two settling ponds and then discharged to a nearby brook.

12.5.3 Waste rock management

The EIA report states that the waste rock will be stored in the Waste Rock Dump (WRD) and backfilled in the mined-out area. The Project waste rock generation rate has been previously discussed within the Mining and Ore Reserves section. During the time of this site visit, the Company stated there were no WRD on site and the waste rock had been totally backfilled in mined out area or sold for road and river levee construction. SRK has sighted a small pile of waste rock was stored at the processing plant which is generated by bentonite production. The Company stated the abovementioned waste rock is given to third parties, which saves the company the cost of disposal. No evidence was observed during the site visit of any leaching or acid rock drainage ("ARD") impacts; neither is likely at a bentonite mine.

12.5.4 Dust and gas emissions

The dust emission sources for the Project are mainly from open pit mining, loading and unloading, flour mill, drying and movement of vehicles and mobile equipment. During the time of this site visit, SRK did not observe obvious fugitive dust emissions at the mining site and the processing plant.

The EIA reports provide the following proposed site dust management measures:

- On site vegetation;
- Conduct water sprinkling on site; and
- Installation of dust removers for the grinding mills and Cowper stove.

It is SRK's opinion that the dust prevention measures mentioned in the EIA reports are reasonable. The Company reported to SRK that the water truck is used to prevent fugitive dust emission at the mining site. SRK has sighted the dust removers installed at the processing plant.

The EIA report states that the gas emissions from the Cowper stove will be managed through the use of dust collector and desulfurisation facility and discharging through a 25 m high stack. SRK has sighted the dust collector and desulfurisation facility, including the stack, installed on site at the time of this site visit. The EIA report also predicts that the gas emissions from the Cowper stove can meet the relevant requirements of *the emission standard of air pollutants for industrial kiln and furnace.*

12.5.5 Noise emissions

The main sources of noise emissions for the Project are from the operation of the processing plant (grinding mills, fans and Cowper stove), drilling equipment, bulldozers, pumps and excavators. The EIA reports for this Project propose the following noise management measures:

- Enhancing the equipment, vehicle and road maintenance;
- Optimizing the layout on site;
- Use of equipment with mufflers and shock absorbers;
- Speed and whistle limits for motorized vehicles; and
- Enclosures for noisy equipment.

The EIA report states that boundary noise levels at the processing plant will meet the requirements of *Class II Standard of Noise at Boundary of Industrial Enterprises (GB12348-2008).* SRK observed that the processing equipment was installed in enclosed rooms. During the time of this site visit, SRK did not note any obvious noise emissions in the open areas of the processing plant. No operational noise monitoring report/plan has been sighted as part of this review. It is SRK's opinion that the noise prevention measures mentioned in the EIA reports are feasible and recommends that the Company develop an operational noise monitoring programme for the Project.

12.5.6 General waste management

The EIA report states that the Cowper stove slag and the domestic garbage are 577 t/a and 9.6 t/a respectively. At the time of this site visit, SRK has sighted a small pile of the slag was store on site and the trash cans were distributed on the processing plant. The Company stated the slag was for sale and the domestic garbage was treated at landfill site. SRK notes that the actual disposal methods for the Cowper stove slag and the domestic garbage are in line with the EIA's suggestions.

12.5.7 Hazardous materials management

During the time of this site visit, the Company stated there is no explosive magazine and fixed diesel or gasoline tank on site.

The Company stated that the maintenance work for the mining machinery is conducted off site. SRK has sighted a maintenance workshop on the processing plant and the waste oil was collected in the discarded oil drums with no secondary containment. The Company stated that the collected waste oil will be reused as lubricant.

According to the information provided by the Company, processing reagents including sodium carbonate and other chemicals as noted in Section 8 above are used on site. SRK observed the processing reagents are stored in the warehouses with no secondary containment. SRK recommends that the collected waste oil and processing reagents be stored with secondary containment which is in line with the recognised international industry management practices. SRK also recommends that the Company establish a discarded hazardous substances management system and put on records to the environmental protection bureau.

It is SRK's opinion that the hazardous materials management risk for the project is low and can be generally managed if Chinese environmental standards and regulatory requirements are followed.

12.5.8 Emergency response plan

SRK has sighted the Emergency Response Plan (ERP) for the Project which describes the Project's proposed operational emergency response process for slope collapse, natural disasters and overall emergency response management. The emergency response plan for overall management describes the general rules for accident handling. The sighted ERP has been developed in accordance with Chinese National requirements.

12.5.9 Occupational health and safety

SRK has reviewed the Safety Assessment Reports and Safety Operation Procedure as provided by the Company, and is of the opinion that the documentations cover items that are generally in line with recognised Chinese industry practices and Chinese safety regulations.

During SRK's site visit, SRK observed that safety signs were in place, safety provisions and rules were also displayed within the work areas, moving machinery parts were appropriately guarded and covered, guard railings were installed on all gantries, and proper Personal Protection Equipment ("PPE") was provided and was being used by the workers, such as hardhats and dust mask.

Operational OHS management system/procedures for the Project have been developed. The system/procedures cover the basic safety production managements for excavation, loading, working aloft, equipment maintenance, electro and gas welding, and power transformation operation. In addition, the safety assessment reports for the Project provide safety management measures including open pit mining, transportation, and drainage and dust prevention management. SRK notes that these proposed safety management measures are the basis for the operational OHS management system/procedures.

No historical occupational health and safety records for the Project have been sighted as part of this review. However, the company stated that there are no minor injuries, serious injuries or fatalities during the time of mine operation. SRK recommends the company keeps safety records and develops incident analysis reports for possible injuries and hazardous events in future. The proposed reports analyse the cause of injuries or near misses and identify measures to prevent a recurrence, in line with international recognized OHS accident monitoring practice.

12.5.10 Site closure planning and rehabilitation

The Chinese national requirements for mine closure are covered under Article 21 of the Mineral Resources Law of People's Republic of China (1996), the Rules for Implementation of the Mineral Resources Law of the People's Republic of China (2006), Mine Site Geological Environment Protection Regulations (1 May 2009), and the Regulations on Land Rehabilitation (2011) issued by the State Council. In summary, these legislative requirements cover the need to conduct land rehabilitation, to prepare a site closure report, and to submit a site closure application for assessment and approval.

The recognised international industry practice for managing site closure is to develop and implement an operational site closure planning process and document this through an operational closure plan. While this site closure planning process is not specified within the Chinese national requirements for mine closure, the implementation of this process for a Chinese mining project will:

- Facilitate achieving compliance with these Chinese national legislative requirements; and

- Demonstrate conformance to a recognised international industry management practice.

SRK was provided with the geological environment protection and rehabilitation plans for the Project, and the plan generally provides the following in respect to the proposed site closure and rehabilitation measures:

- Site rehabilitation objective – The rehabilitation programme is aimed at rehabilitating land disturbed with mining operations to control soil loss and improve ecological environment.

- Progressive rehabilitation – The rehabilitation will be conducted progressively with mining.

- Top soil stripping – Top soil will be stripped from the mine sites, waste dumps and infrastructure areas, and then stockpiled for reuse in rehabilitation.

- Replanting – Where required, revegetation will be undertaken and plants will be planted. Pine trees and boston ivy are selected as the initial rehabilitation species at the mine site.

- The open pit areas and waste dump areas – At the time of the Project completion, the associated land will be rehabilitated by being covered with 0.5 m top soil and planting.

- Rehabilitation monitoring – The monitoring covers the area of potential landsides, land disturbance, water environment, soil and new plants.

- Implementation plan – The plan is divided into three stages (2009 to 2011, 2012 to 2024 and 2025).

- The total investment on the mine geological environment protection and rehabilitation is estimated to be RMB15,305,400.

During this site visit, SRK had not sighted any top soil dumps on site although these were proposed in the geological environment protection and rehabilitation plan. SRK notes that the above proposed approach to the site rehabilitation is generally in line with the relevant recognised Chinese industry practices. SRK has sighted a Land Reclamation Report as part of this review. SRK has also sighted a Approval Letter, which was issued by Anhui Province Land and Resources Bureau on 10 September 2015, stating that the Land Reclamation Report for the Project was accepted. SRK recommends the Company to develop the Land Reclamation Report to be in line with the relevant legal requirements, and to ensure that topsoil from any clearing operations is stored in appropriate dumps for use in rehabilitation.

12.5.11 Environmental protection and management plan

The purpose of an operational Environmental Protection and Management Plan ("EPMP") is to direct and coordinate the management of the Project's environmental risks. The EPMP documents the establishment, resourcing, and implementation of the Project's environmental management programmes. The site environmental performance should be monitored and feedback from this monitoring could then be utilised to revise and streamline the implementation of the EPMP.

No such plan has been developed for Project operations that cover the above mentioned components. However, the EIA reports reviewed by SRK describe the various components of a comprehensive operational EPMP for the Project, such as environmental protection objectives, control strategies, environmental administration, regular air/water/noise monitoring to be conducted by the local environmental protection bureau's monitoring stations and site environmental management.

The EIA reports also specify the monitoring points, analysis items and monitoring frequency. The proposed monitoring items comprise waste water, waste gas and noise.

SRK recommends that the Company develop and implement an operational EPMP, inclusive of a monitoring programme for the Project in line with Chinese national requirements and recognised international practices.

12.5.12 Social aspects

The Huanghu Bentonite Project is located in Fanchang County, Wuhu City, Anhui Province. The general surrounding land use is mainly farmland.

The main administrative body for the Project is the Anhui Province Government, with some delegation of environmental regulation to Wuhu City and Fanchang County. The Company stated that there are no historical or current non-compliance notices and or other documented regulatory directives in relation to the development of the Project's mine and processing operations.

The EIA report does not report any natural reserves or significant cultural heritage sites within or surrounding the Huanghu Bentonite Project.

The nearest residents, all of whom are Han Chinese, live outside the Project's boundary. The Company did not report the specific number of the nearest residents at the time of this site visit. The Company did not report the distance between the nearest residence and the main production facilities (mining site and processing plant). However, SRK observed that the nearest residents are a few hundred meters away from the mining site and across the street

from the processing plant. The EIA alteration report states the waste gas health protection zone is 50 m and there are no centralized residences within the health protection zone at the time of EIA reporting.

The EIA reports provided public participation surveys for the Project's construction. The survey results showed 57.3% support and 11.5% oppose for the bentonite mining Project and 74% support and 9.4% oppose for the activated Bentonite Project respectively. Local residents also mentioned noise pollution as key environmental concerns for the Project's development. The EIA reports also state most of the local residents have the supportive attitude to the Project.

The Company stated that they had helped local community to hold sports meetings. However, SRK has not sighted the documentary evidence of the above donation. The Company states that there is no documentation in relation to any actual or potential impacts of non-governmental organisation on the sustainability of the Project.

SRK has sighted the Land Use Permit for the processing plant. For other temporary land/ forest use approvals, please refer to the Project's Legal opinion from Commerce & Finance Law Offices. SRK recommends that the Company design and implement a Public Consultation and Disclosure Plan to ensure ongoing community engagement and prepare a Resettlement Action Plan to manage land acquisition related impacts.

13 RISK ASSESSMENT

The mining industry inherently has a high level of risk. This risk is an accumulated risk due to factors such as the nature of the ore body and surrounding rock, grade and quality variation, natural disasters, environmental, geotechnical and hydrological risks, health and safety that may affect mining and processing.

Bentonite Resource estimations are not exact calculations of the actual physical bentonite body but are rather an analysis of the returned results from drilling samples. In this respect even if the sampling density is high, the sample population is still very small compared with the mass of the entire deposit. Therefore, any estimation for ore quantities and qualities based on this sample data will have inherent errors. The final or actual mined ore tonnage and grade may not precisely match the estimated results. Reconciliation studies should be undertaken as mining progresses, to reduce the risk that mining is not recovering all of the designated reserves.

Similarly, error factors exist in any calculations of capital and operating costs for the development phase of the Project, as not all the parameters affecting these estimates can be accurately defined or valued for future events.

Mining operations incomes are also affected by the variations in the price of bentonite products, transport costs, fluctuations in the construction industry and other market instabilities.

Table 13-1: Risk assessment probability

CONSEQUENCE	PROBABILITY A	B	C	D	E	
1	1	2	4	7	11	HIGH 1-6
2	3	5	8	12	16	MEDIUM 7-15
3	6	9	13	17	20	LOW 16-25
4	10	14	18	21	23	
5	15	19	22	24	25	

Probability	**Consequence**
A Common	1 Catastrophic loss
B Has happened	2 Major disruption/ impediment
C Could happen	3 Moderate disruption/ impediment
D Not likely	4 Minor disruption/ impediment
E Practically impossible	5 No lasting effect

For the purposes of this risk assessment, SRK has adopted the matrix above as a measure of the Project risk (Table 13-1) and the initial assessment result, recommendations, and company responses together with a risk rating are shown in Table 13-2.

Table 13-2: Risk assessment and control recommendation

Factor	Potential Risk	Control Recommendation	Company Response	Risk Rating
Geology and Resources				
Physio-chemical properties	Quality lower than expected, resulting in lower quality products, may lead to product rejection, loss of sales	Strengthen quality control testing and careful selective mining. Waste should be eliminated during mining and processing.	The Company will continue to closely monitor our quality control measures and explore better practices to improve our existing quality control measures.	17 Low
Internal waste	Internal waste layers are larger than modelled	Pit mapping and additional drilling to ensure the extent and distribution of waste rock layers	The Company will continue to closely monitor the deviations of geometry of the deposit from the model and will consider conducting pit mapping and additional drilling if any material deviation is identified.	13 Medium
Mining				
Geotechnical conditions	Geotechnical conditions not ideal as anticipated, resulting in greater potential for pit slope failures, lower production	Conduct more detailed geotechnical analysis to identify potential issues. Monitor slope stability regularly and implement slope support measures as needed.	The Company will continue to regularly monitor and assess the slope stability so as to allow for timely rectification of any potential geotechnical issues identified.	13 Medium
Mine plan/management	Failure to meet production targets	Monitor production progress and revise mine plan as necessary.	The Company will continue to regularly review the production data so as to allow for timely modification of the mine plan to cater for the current needs.	17 Low
Hydrological conditions	Siltation and/or contamination of drainage	Conduct a more detailed hydrogeological analysis to identify and address potential issues.	The Directors of the Company are of the view that the water drainage system is currently operating normally. The Company will continue to regularly inspect and monitor the condition of the ditches and settling ponds to identify and rectify any potential issue in a timely manner.	17 Low
Waste rock management	Not enough space for waste rock back-filling	Temporary waste dump should be planned.	The Directors of the Company are of the view that the Company still has sufficient space for waste rock backfilling. The Company will design and build a temporary waste dump when the need arises.	21 Low

Factor	Potential Risk	Control Recommendation	Company Response	Risk Rating
Costs				
General increase in OPEX/ CAPEX	Reduced profit margins	Secure long term contracts with contractors, confirm procurement orders with suppliers in advance and monitor capital expenditure regularly	The Company will continue to closely monitor operating expenses and capital expenditure and will incur additional capital expenditure only after taking into consideration sufficiency of funds as well as operational needs.	17 Low
Increase in transport costs	Reduced profit margins, increase vulnerability to competitors	Streamline the current transportation process from the Mine to the processing plant and off-site air-drying facilities with the aim of increasing productivity and lowering costs. Explore the feasibility of moving the processing plant nearer to the Mine and eliminating off-site air-drying.	The Company will continue to closely monitor transportation costs and explore ways to coordinate transportation between: (i)the Mine; (ii) off-site air-drying facilities at Digang town and Suncun town; and (iii) the processing plant. The Company will also explore the feasibility of relocating the processing plant nearer to the Mine.	13 Medium
Market				
Reduced market	Loss of sales	Market research, develop new products or product uses	The Company intends to enhance research and development capabilities.	17 Low
Increased competition	Loss of sales, or reduced sales price	Build relationship with customers, acquire potential competitors	The Company intends to further enhance business relationships with existing customers as well as broaden the customer base.	13 Medium

Factor	Potential Risk	Control Recommendation	Company Response	Risk Rating
Processing				
Processing Technology	High quality product can only be produced using appropriate processing technology.	The current processing technology should be maintained. The addition of modification reagents should be fully automated and volumes should be strictly controlled.	The Company intends to upgrade the current processing plant and processing machinery and equipment.	17 Low
Processing Equipment	Equipment configuration can further be optimised. Aging of equipment will influence the production of high-quality products, breakdowns may lead to loss of production	Current equipment is a mixture of new and old machines and production lines are not well laid out. Both equipment and layout require significant upgrades. Alternatively, a new modern processing plant could be built near the Mine to replace the current plant. Large-scale equipment should be installed and automation should be used.	The Company intends to upgrade the current processing plant and processing machinery and equipment.	8 Medium
Environment				
Water management and discharges	Pollution of the surface water and groundwater, flooding of open pit	Construct well designed surface water drainage/flood collection system for the Mine. Develop fully functioning water monitoring programme.	The Directors of the Company are of the view that the water drainage system is currently operating normally. The Company will regularly inspect and monitor the condition of the ditches and settling ponds so as to ensure that any potential issue is identified and rectified in a timely manner. In addition, the Company will explore the feasibility of constructing a well-designed surface water drainage/flood collection system and developing an optimal water monitoring system.	17 Low
Dust emission	Fugitive dust pollution	Use appropriate measures to reduce dust emission at the Mine.	A water truck is currently used to control dust emissions. The Company will also closely monitor dust emission levels on an on-going basis.	18 Low
Noise emission	Noise emission by machineries at the Mine	Use of equipment with mufflers and shock absorbers. Enclosures for noisy equipment where appropriate at the Mine.	The Company has provided the employees working at the Mine with hearing protection gear, and will request them to wear when operating noisy equipment.	18 Low

The risks identified for the Project have been rated as low to medium. The initial assessment result, recommendations and company responses, together with a risk rating are shown in Table ES-5. It is the opinion of SRK that the above risks can be generally managed if detailed risk assessments and control procedures are implemented, action specified in the Company Responses are carried out, Chinese standards, and regulatory requirements are followed.

Project Number: **FAR002**

Report Title: **Independent Technical Report of the Huanghu Bentonite Project**

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Peer Reviewed by

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Team 322, 2002. Detailed geological report on the Huanghu bentonite deposit, 48pp.

Appendices

Appendix A: JORC Table 1

Section 1: Sampling Techniques and Data

Criteria	Commentary
Sampling techniques	• Two major exploration campaigns were undertaken in 2002 and 2015 respectively. Unless specified, comments given below apply to both campaigns. • The deposit was sampled using sub-vertical diamond drill holes. Channel samples were also collected from mining bench faces in 2015. • A total of 40 holes were drilled, with 1575.31 m diamond drilling. • The objective of the 2002 drilling campaign was to explore the bentonite mineralisation. And the purpose of the 2015 drilling campaign was to verify the 2002 results and increase the Resource confidence. • Drilling: 110 mm or 89 mm-diameter core samples were halved by a core splitter. Mineralised sample length dominantly ranged from 2~3.5 m. Sampling was carried out by geologists from Anhui Geological Bureau Team 322 ("Team 322") (安徽省地質礦產局322地質隊"). • Within the alteration zone, all the possible mineralised intervals were sampled. The sample interval ranged from 2.0 m to 3.5 m, and did not cross geological boundaries.
Drilling techniques	• All drill holes were diamond holes. Wireline drilling was used with a 110 mm- or 89 mm-diameter core to penetrate the weathering zone and a 89- or 75-mm diameter core for the remainder of the run. Holes' depths ranged from 14.20 to 81.70 m. All the surface holes were vertical holes.
Drill sample recovery	• The core recovery rates generally exceeded 80%, with an average rate of 88.7%. • The average recovery for mineralised intervals was 90%.
Logging	• The lithology, mineralogy, mineralisation, structure, weathering, colour and recovery were logged and recorded (2002 and 2015).
Sub-sampling techniques and sample preparation	• Core was cut in half using a core saw • Channel samples were collected along the bench faces in 2015. • In 2002 and 2015, samples were prepared according to the Chinese exploration practices by the geologists of Team 322; no blanks, duplicates or certified reference materials were inserted in the sample batches before samples were sent to the laboratory. • The sample sizes are considered appropriate for bentonite deposit.

Criteria	Commentary
Quality of assay data and laboratory tests	• In the 2002 exploration campaign, laboratory duplicate and inter-laboratory checks were conducted to ensure the quality of the data. – Methylene blue absorption, Colloid Index, Swelling Capacity and Natural Whiteness tests were undertaken. These analytical methods follow the standard of Non-metalmineral physical and chemical properties testing procedures (DZG93-06). – Cation Exchange Capacity (CEC) – this also adheres to the standard of Non-metal mineral physical and chemical properties testing procedures, under which CEC was determined by volumetric method, EK^+ and ENa^+ were determined by Atomic Absorption Emission method, and $E1/2Ca^{2+}$ and $E1/2Mg^{2+}$ were determined by Atomic absorption spectrometry (AAS). – Montmorillonite was calculated by an empirical formula based on the methylene blue test results. • In the 2015 validation drilling programme, laboratory duplicates were analysed to ensure the quality of the assay data. The number of the laboratory duplicates accounted for 40% of total samples. The analysis method used by SGS, following the Chinese standards. – Methylene blue absorption and Montmorillonite – referred to the Rock and Mineral Analysis fourth edition 34.1.2 – Colloid Index – referred to Rock and Mineral Analysis fourth edition 34.1.8 – Swelling Capacity – referred to Rock and Mineral Analysis fourth edition 34.1.7 – CEC – referred to GB/T 20973-2007 Appendix A – pH – referred to Rock and Mineral Analysis fourth edition 34.1.3 – Trace elements (Li, Be, Sc, etc.) – referred to GB/T 14506.30-2010 – Moisture – referred to GB/T 20973-2007 – Whole Rock Assay (CaO, MgO, etc.) – X Ray Fluorescence (XRF) – Methylene blue absorption (MBI)-ASTM C837-09
Verification of sampling and assaying	• One twin hole (VZK801) was drilled for data verification. The comparison result of the twin hole is considered reasonable. • A total of four in-filled holes were drilled for data verification and improving the confidence of mineralisation continuity. • All the samples were selected by Team 322 under SRK's supervision in January 2015 and were assayed at the SGS (Tianjin) laboratory.

Criteria	Commentary
Location of data points	• Drill collars were surveyed by an electronic total station survey. • No downhole survey was measured as all holes are relatively short and sub-vertical. • The latest topography survey was conducted on 30 June 2015 by Feishang, using RTK GPS. • The projection used was XIAN 80, 39 Zone.
Data spacing and distribution	• The drill spacing was (100)200 m × 200 m • The data spatial distribution and geological continuity were sufficient to allow the Mineral Resource Estimation and classification under the JORC Code. • All the raw samples, within mineralised units, were composited to 2 metre intervals.
Orientation of data in relation to geological structure	• The orientation of the drilling was vertical and perpendicular to the interpreted sub-horizontal mineralisation.
Sample security	• In both the 2002 and 2015 exploration campaigns, drillcore samples were prepared by Team 322 which is a Class A Chinese geological team. • In the 2015 exploration campaign, drillcores were stored securely on site after sampling by Team 322. • The remaining cores in the 2002 exploration campaign were lost.
Audits or reviews	• A review of sampling techniques and data was carried out by SRK as referenced in the SRK's Independent Technical Report, dated 1 July 2015. • The historic data were verified by twin and infilled drill holes. • The industry characteristics of bentonite were analysed and studied, and were considered to be of sufficient quality to carry out Resource estimation.

Section 2: Reporting of Exploration Results

Criteria	Commentary
Mineral tenement and land tenure status	• A mining licence (C3400002010127120099654) was granted on 9 September 2015 and is valid to 9 March 2019. • Held 100% by Wuhu Feishang Non-metallic Materials Co., Ltd • Based on the confirmation issued by Anhui Land and Resources Department on 18 August 2015, the mining licence was issued according to the laws and regulations of PRC and the mining licence is currently in good standing. • No security, legal or environmental issues regarding the mining licence have been noted.
Exploration done by other parties	• No exploration work was done by other parties.
Geology	• Calcium bentonite mineralisation formed through a two-stage process. • Andesitic rocks underwent low-temperature hydrothermal alteration, followed by percolation of groundwater. Through the processes of hydrothermal alteration and interaction with groundwater, the feldspar and other silicate minerals in the original andesitic tuff breccia gradually alter to montmorillonite and other low-temperature alteration minerals.
Drill hole Information	• See SRK's Independent Technical Report, dated 1 July 2015
Data aggregation methods	• Weighting averaging method was not applied. • Metal equivalent values are not applicable to bentonite mineralisation.
Relationship between mineralisation widths and intercept lengths	• The vertical drilling has adequately intersected and tested the sub-horizontal bentonite mineralisation.
Diagrams	• Appropriate maps and sections were reported in SRK's Independent Technical Report, dated 1 July 2015.
Balanced reporting	• Reporting is fully representative of the data.
Other substantive exploration data	• Bentonite quality tests included mineralogical composition analysis by XRD,CEC, pH value, whole rock geochemical analysis, particle size distribution, moisture, whiteness were undertaken as reference in SRK's Independent Technical Report, dated 1 July 2015.
Further work	• No future exploration work has been planned as of 1 July 2015.

Section 3: Estimation and Reporting of Mineral Resources

Criteria	Commentary
Database integrity	• The data were digitised and compiled in an electronic database • Validation checks were also carried out using Leapfrog, 3D modelling software and Surpac software to identify potential overlapping entries.
Site visits	• SRK undertook a site visit in December 2014, January 2015 and June 2015. Susan Border, Associate Consultant, inspected the deposit area in January 2015. During the visit, notes and photos were taken along with discussions with the geologists of Team 322 and engineers of Feishang. Diamond cores stored in the mine site were also examined.
Geological interpretation	• A 35% active montmorillonite cut-off was used to define the ore-waste boundaries. • Waste layer was also interpreted based on the geological logging and Montmorillonite analysis.
Dimensions	• The dimension of the Resource in the north-south is approximately 1,200 m. • The upper and lower limits are approximately between -23 and 57 mASL.
Estimation and modeling techniques	• A total of three domains were constructed, utilising a 35% active montmorillonite cut-off. All sample data were composited to 2 metre intervals. No top-cut was applied, after analysis by cumulative frequency statistics and composite histograms. Directional variogram modelling was performed. Block grades were estimated by Ordinary Kriging for the major domain (V1), while the other domains were estimated by Inverse Distance squared as there were insufficient samples for meaningful variography. Block estimation was conducted using Surpac. • Historic Chinese classified mineralisation estimates were carried out by China Geological Brigades using the simple polygonal estimation method, which did not conform to the JORC Code requirements. No comparisons were therefore made. • The depleted areas of open pit were delineated based on the surface topography survey by Feishang on 30 June 2015. • No by-products were assumed to be recovered. • Variables estimated were active montmorillonite, swelling capacity and colloid index • Deleterious elements were low so were not estimated. • Block size was set as 20 m (X) × 20 m (Y) × 4 m (Z). • The basic horizontal searching distance was 200 m, while the vertical searching distance was 50 m. The maximum searching samples were 16 and the minimum searching samples were three. The maximum searching samples per hole were four. • No selective mining unit was assumed. • No correlations were made between variables. • Domains were constructed based on a 35% active montmorillonite cut-off, which restricted the extent of Resource estimates. • Statistical analysis showed that the data had a normal distribution. No top-cut was required as variables show relatively symmetric histograms.

Criteria	Commentary
	• Block model validation was conducted by visual comparisons between drill holes and estimated grades, swath plots along major axes and comparisons between composite and block grades. No detailed grade control data are available for reconciliation.
Moisture	• The Resource tonnages were estimated on a dry basis.
Cut-off parameters	• A 35% active montmorillonite cut-off was used for interpreting the domain boundaries, based on current practice in the mine, which is considered to be reasonable. The selection of cut-off using sale contracts and historical sale records is a standard industrial practice for bentonite mines.
Mining factors or assumptions	• No mining factors and assumptions were considered during Resource estimation. • The deposit is currently being mined.
Metallurgical factors or assumptions	• Bentonite is the only economically valuable mineral of the Huanghu bentonite deposit. • Bentonite with more than 35% active montmorillonite is being used for production of the drilling mud and pelletising clay, after drying and processing.
Environmental factors or assumptions	• Feishang has completed an environmental impact assessment for the Mine and the processing plant, and there are no known or apparent environmental factors which are considered likely to prevent extraction of the remaining Resource.
Bulk density	• In the Resource model, the dry bulk density of the V1 domain is 1.69 t/m^3 and 1.70 t/m^3 for the V2 and V3 domains. This figure was derived testing of 56 drill core samples by water displacement method.
Classification	• The Mineral Resource Classification is based on the degree of confidence in the geological continuity. • Geological continuity, data quality and the spatial distribution of the data were considered. • Geostatistical analysis and variogram modelling was used • Classification adequately reflects the confidence in geological and grade continuity.
Audits or reviews	• This is the first Resource estimate, completed under the guidelines of JORC Code (2012). No known audits or reviews of Mineral Resource Estimates were made.
Discussion of relative accuracy/confidence	• The historical exploration result was verified by the 2015 drilling campaign. • The comparison of twin holes matched well. • The infill drillings gave an acceptable result. • The surface channel sampling showed good mineralisation continuity. • The industry standard tests showed that the Project is a relatively good-quality bentonite deposit. The deposit is currently being exploited successfully. • Mineral Resource Estimation was deemed appropriate by the competent person. • The statement relates to global estimates of tonnes and quality.

Section 4: Estimation and Reporting of Ore Reserves

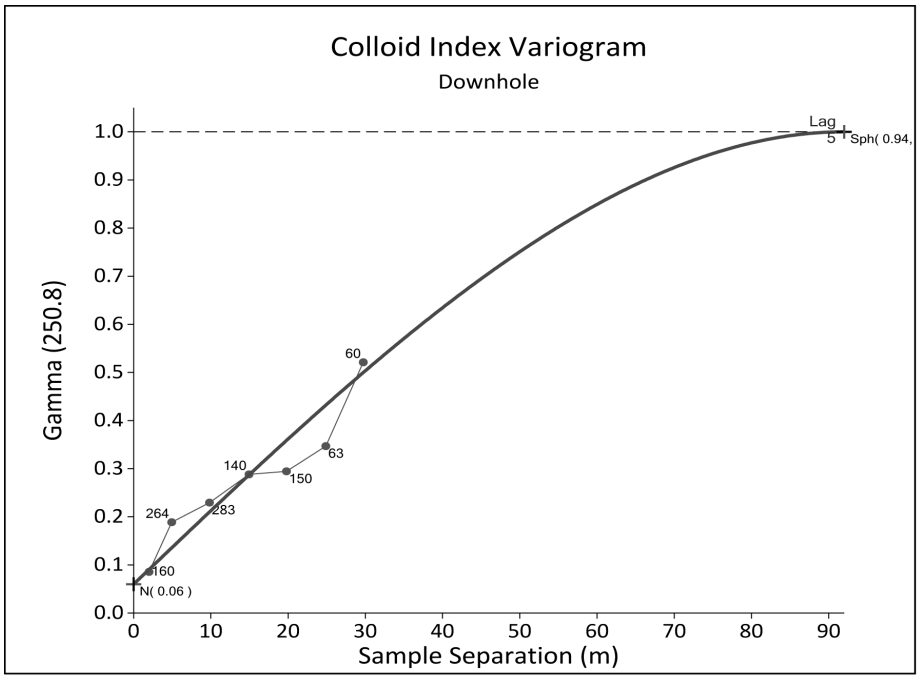
Criteria	Commentary
Resource estimate for conversion to Ore Reserves	• The Ore Reserves estimate was based on the Mineral Resource model developed by the SRK team, and excluded Inferred Resources. • The Ore Reserves are reported inclusive of Mineral Resources.
Site visits	• SRK undertook a site visit in December 2014, January 2015 and June 2015. Susan Border, Associate Consultant, inspected the deposit area in January 2015. During the visit, notes and photos were taken along with discussions with the geologists of Team 322 and engineers of Feishang. Diamond cores stored in the mine site were also examined.
Study Status	• The Project is an operating mine with a mining capacity around 110,000 tonne per annual feed ore. SRK reviewed the past 3 year production records. • A preliminary design report which is at a higher level than feasibility study report was compiled by Shandong Qianshun Mining and Metallurgy Technology Co,. LDT for Huanghu Bentonite Project dated September 2014.
Cut-off parameters	• For bentonite ore, the economic Reserve cut-off grade of 35% active montmorillonite is determined based on product specification. Clay containing more than 35% active montmorillonite is being sold, as stated by the Company, substantiated by sale records and contracts. SRK checked the revenue of unprocessed clay which shows that could cover the operating cost. The selection of cut-off using sale contracts and historical sale records is a standard industrial practice for bentonite mines.
Mining factors or assumptions	• The Project is an operating mine using open pit mining method. The bentonite ore is earthy and relatively soft, that can be directly loaded into dump trucks by excavators without blasting. • The geotechnical condition of this site is relatively straightforward and the slope has been stable since the mine operation commenced. However, monitoring of the slope stability is recommended. • The Project site is situated in the sub-tropical climate, rainfall is a major consideration for open pit mining. The bentonite is sensitive to moisture. Operation would be temporarily suspended by heavy rainfall. • For pit and slope optimisation and/or detailed design, the overall slope angle is 27°, a bench height of 8 m, and a bench slope of 50°. • The mining recovery rate is 95% • The mining dilution rate is 5% • SMUs are assumed at 20 m X by 20 m Y by 4 m Z • Inferred Mineral Resources were not included in the pit optimisation and/or detailed design; instead they are treated as waste. • Standard haul roads, mine drainage, workshop facilities, and a waste rock dump were assumed for open pit mining.

Criteria	Commentary
Metallurgical factors or assumptions	• The processing methods for producing drilling mud and pelletising clay have been well tested. Products met the contract specifications have been sold to customers since 2004. • Processing includes drying and sodium modification to produce pelletising and drilling grade bentonite products. • The Ore Reserve estimation bas been based on the appropriate mineralogy and physio-chemical properties of the bentonite to ensure it can be processed to meet contract specifications.
Environmental	• The Project has been granted an approved Environmental Impact Assessment Approval Water and Soil Conservation Plan by the relevant authority.
Infrastructure	• The mining operation does not require a significant supply of fresh water. Water is only used for watering the roads and mining benches. This water is sourced from a rainwater collection system. • The Suncun village transformer station supplies 10 kilovolt ("kV") electrical power to the mine site. Site electrical loads are not heavy; the main power draws are for water drainage, lighting, and minor maintenance. It is SRK's opinion that the power supply is able to meet the mine's operational requirements, which total around 164.4 kilowatts ("kW"). • The Mine and processing plants are connected with major highways or provincial paved roads. No major road construction is needed.
Costs	• Sustaining CAPEX was provided by Feishang and reviewed by SRK as being a reasonable. • The OPEX forecast was based on the historical operating costs and reviewed by SRK as being reasonable. • All products were sold at mine gates except a few steel mill customers, for which the transportation cost is borne by Feishang. • There are several royalties payable on the bentonite ore and product. They have been adequately detailed and included in the cost estimate.
Revenue factors	• Revenue forecasts were based on sale of two products, drilling mud and pelletising clay, with minor sales of unprocessed raw clay. • Sales contracts are renewable annually, but similar terms have been negotiated over the past few years, and the forecast assumes similar conditions will continue. • Only a few contracted is for a delivered price, the remainder are ex works price.

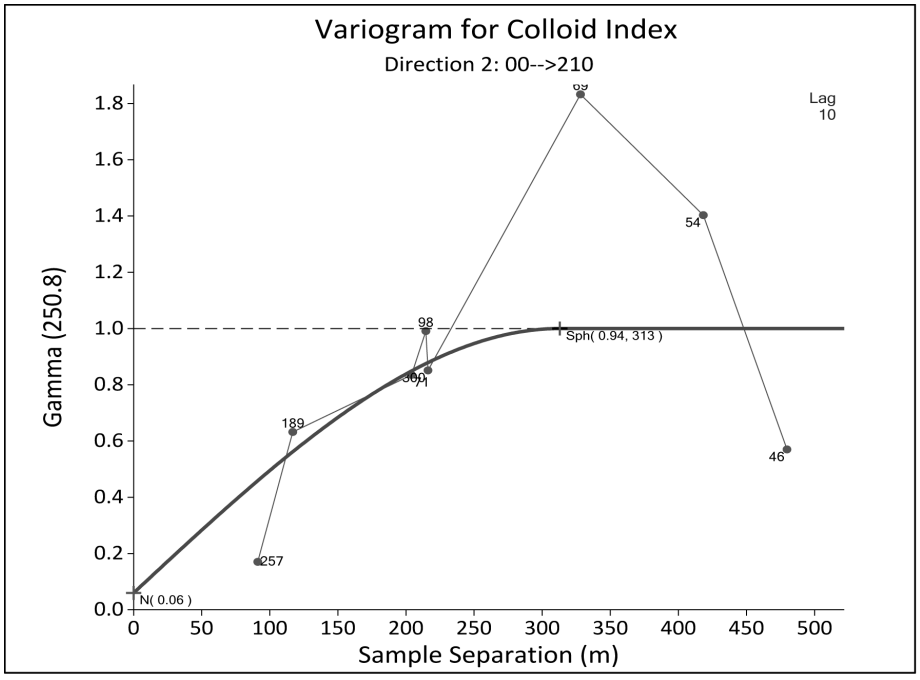
Criteria	Commentary
Market assessment	• Market forecast was based on a comprehensive market study by CRU. • The products selling price forecast was based on the CRU market study, and the existing and historical contracts with customers provided by Feishang. • Sales volumes have been conservatively forecast to be similar tonnages to recent annual sales. • Specifications based on current contracts and process records. Unprocessed clay, over 35% montmorillonite. Pelletising product, over 40% montmorillonite, drilling mud, over 40% montmorillonite, over 8 ml/g swelling capacity. Note that Reserves which meed drilling mud specification may also be sold as pelletising clay if required to meet market demand.
Economic	• The CAPEX/OPEX forecasts were provided by Feishang and reviewed by SRK as being reasonable. • The bentonite product selling price was based on forecast made by CRU, substantiated by historical sale prices. • An economic viability analysis shows that the after tax (15% corporate income tax) NPV, based on 25-year scenario at a discount rate of 10%, returned RMB66.9 million as of 1 July 2015. The positive NPV suggests the Reserve defined is economically viable. Every year of the forecast shows positive cash flow.
Social	• The general surrounding land use is mainly farmland. The nearest residents, all of whom are Han Chinese, live outside the Project's boundary. • The EIA reports provided public participation surveys for the Project's construction. The survey results showed 57.3% support and 11.5% oppose for the bentonite mining project and 74% support and 9.4% oppose for the activated Bentonite Project respectively. Local residents also mentioned noise pollution as key environmental concerns for the Project's development. The EIA reports also state most of the local residents have the supportive attitude to the project.
Other	• The Project is operating successfully. • A risk assessment is included in the SRK independent report. No risks are classified as high risk. Sales contracts are annual but most contracts have been renewed for a number of years. • SRK are not aware of any issues that would prevent continuation and renewal of all leases and government approvals.
Classification	• The Probable Ore Reserves were based on Indicated Resources, while the Proven Ore Reserves were based on the Measured Resources. The classification is further supported by the preliminary design study, production records and data provided by Feishang.

Criteria	Commentary
Audits or reviews	• No external audits of the Ore Reserves have been undertaken. SRK has completed an internal audit review as part of the Ore Reserve derivation process.
Discussion of relative accuracy/confidence	• All mining estimates are based on the preliminary design report, production records and forecast made by Feishang. • There are no unforeseen Modifying Factors at the time of this statement that will have material impact on the Ore Reserve estimates. • Where practical and possible, current industry practices have been used to quantify estimations made.

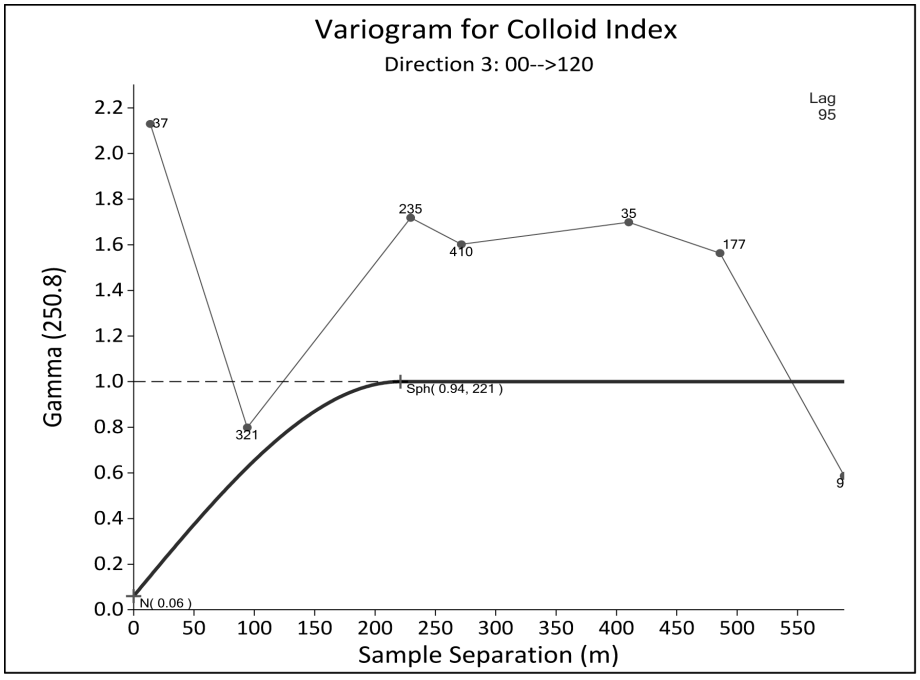
Appendix B: Variogram



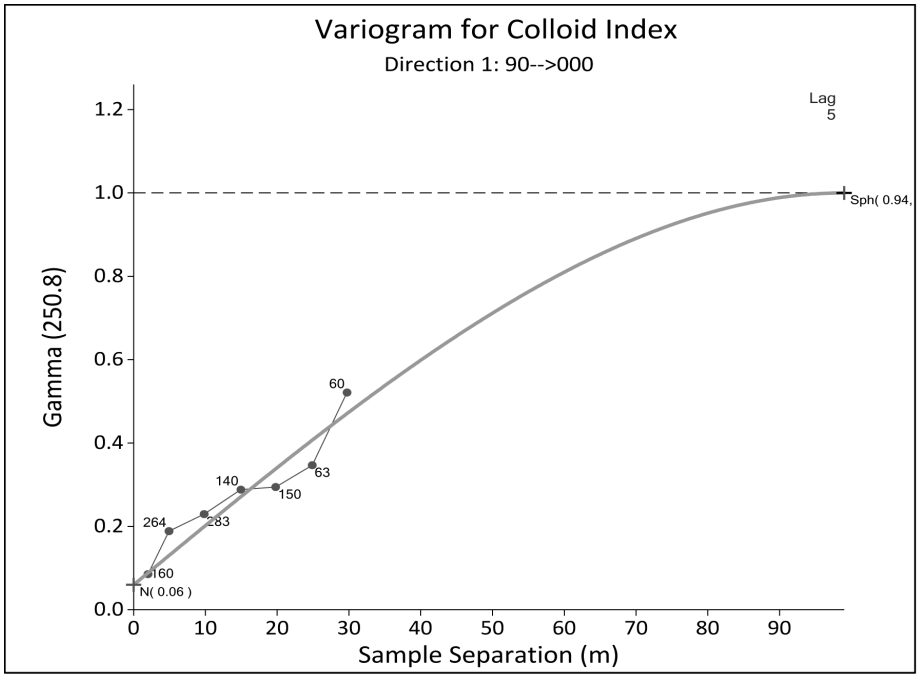
Modelled and experimental variogram of downhole for Colloid Index (V1)



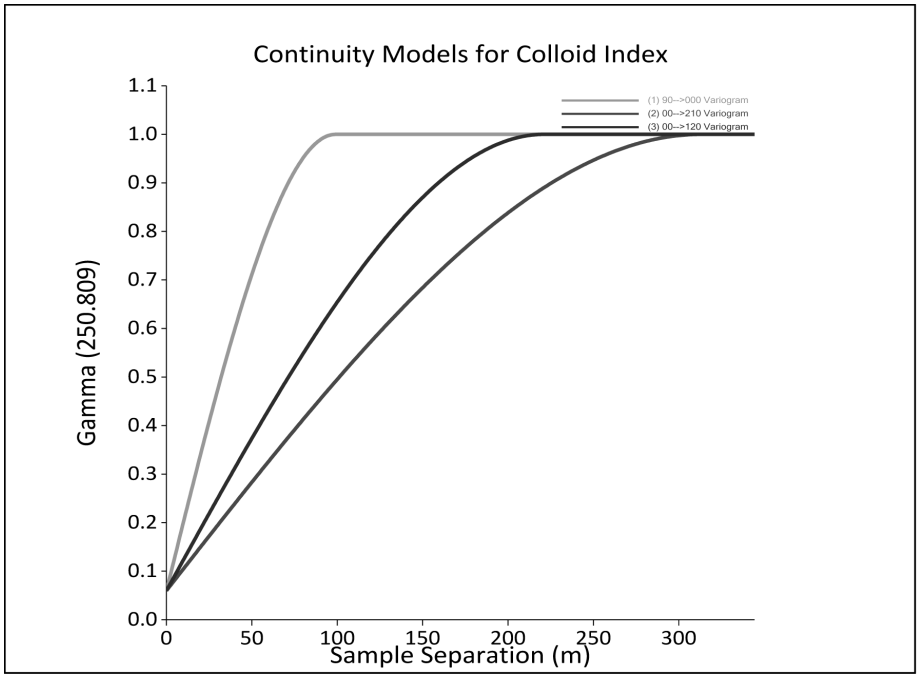
Modelled and experimental variogram of major axis for Colloid Index (V1)



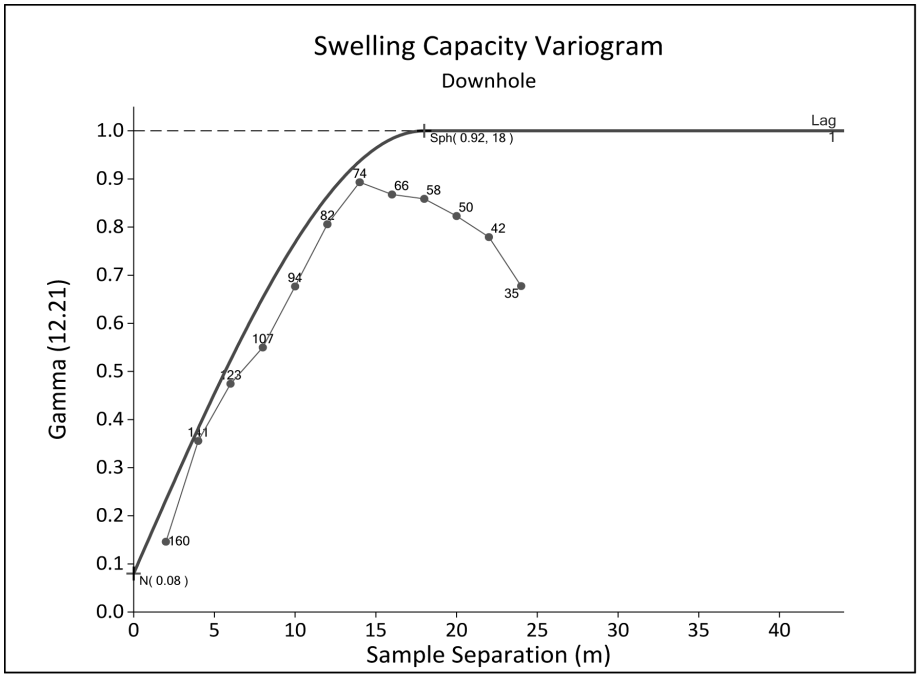
Modelled and experimental variogram of semi-major Axis for Colloid Index (V1)



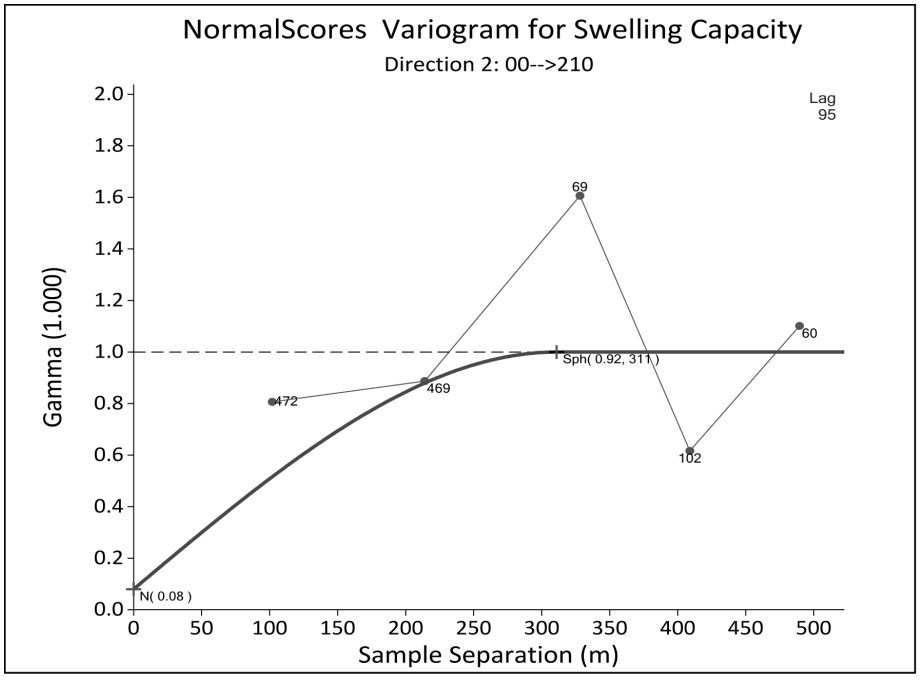
Modelled and experimental variogram of minor axis for Colloid Index (V1)



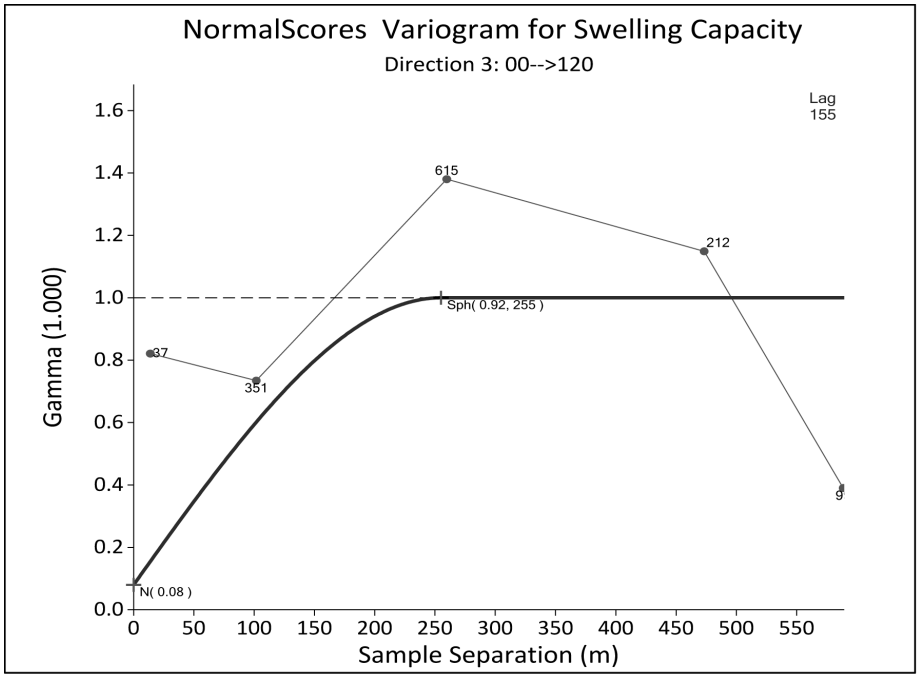
Modelled and experimental variogram of three axis for Colloid Index (V1)



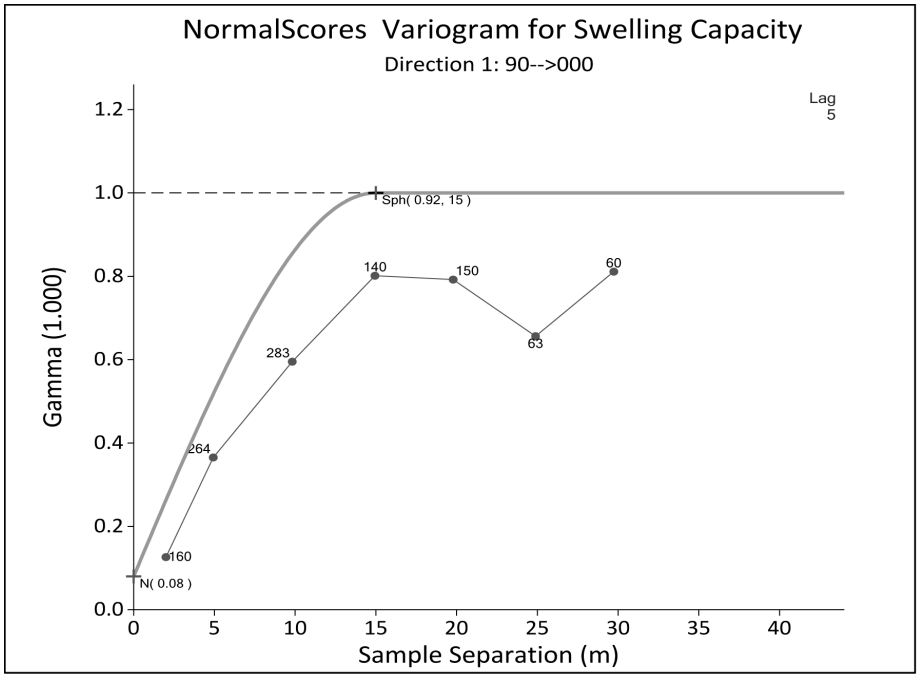
Modelled and experimental variogram of downhole for swelling capacity (V1)



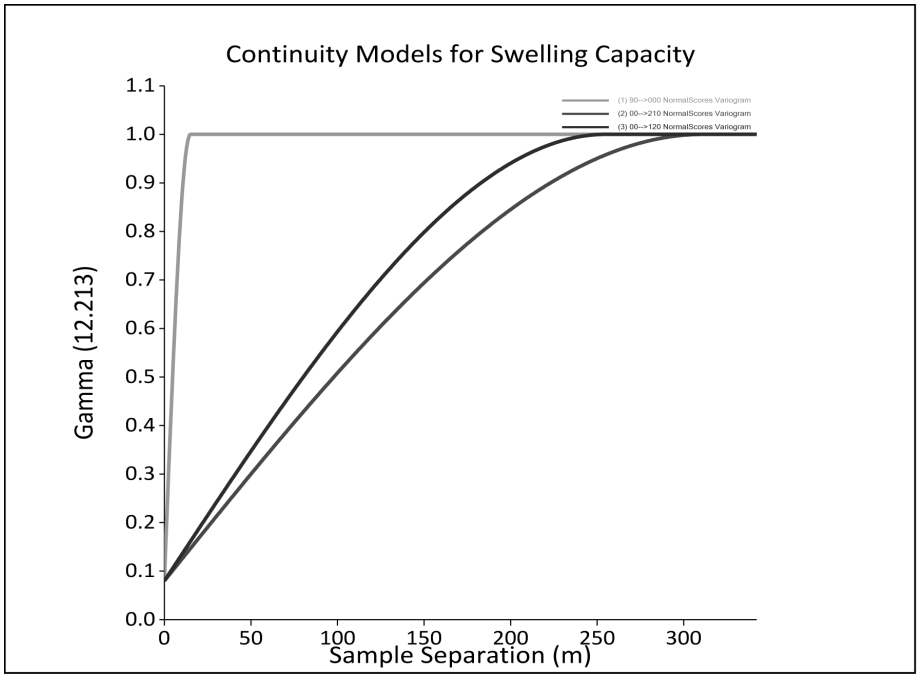
Modelled and experimental variogram of major axis for swelling capacity (V1)



Modelled and experimental variogram of semi-major axis for swelling capacity (V1)



Modelled and experimental variogram of minor axis for swelling capacity (V1)



Modelled and experimental variograms of three axis for swelling capacity (V1).

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

*The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 15 July, 2015 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "**Companies Law**"). The Memorandum of Association (the "**Memorandum**") and the Articles of Association (the "**Articles**") comprise its constitution.*

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 12 December 2015. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Financial assistance to purchase shares of the Company or its subsidiaries

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company. There is no provision in the Articles that prohibits the Company from giving financial assistance for the purchase of shares of its subsidiaries.

(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries.

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates (as defined in the Articles) is materially interested, but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or

(ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s) as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vii) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(viii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the members may by ordinary resolution appoint another in his place at the meeting at which such Director is removed. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;

(bb) if he becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law; or

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ix) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(x) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(xi) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles (see paragraph 2(i) below for further details).

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company shall make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings (including an extraordinary general meeting) must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together representing not less than ninety-five per cent (95%) of the total voting rights at the meeting of all the members.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspapers or by any other means in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "**Court**"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the

name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 25 August 2015.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

(n) Winding up

A company may be wound up compulsorily by order of the Court; voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may

also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI to this document. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

1. FURTHER INFORMATION ABOUT OUR COMPANY

A. Incorporation

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Cayman Islands Companies Law on 15 July 2015. Our Company was registered as a non-Hong Kong company with the Registrar of Companies in Hong Kong under Part 16 of the Companies Ordinance on 9 September 2015. Our principal place of business in Hong Kong is at Room 2204, Shun Tak Centre, 200 Connaught Road Central, Sheung Wan, Hong Kong. Mr. YUE Ming Wai Bonaventure has been appointed as the authorised representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, we operate subject to Cayman Islands law and our constitutional documents comprising the Memorandum and Articles of Association. A summary of various provisions of our constitutional documents and relevant aspects of the Cayman Islands Companies Law is set out in Appendix IV to this document.

B. Changes in share capital of our Company

Our Company was incorporated in the Cayman Islands on 15 July 2015 with an authorised share capital of HK$100,000 divided into 10,000,000 Shares of HK$0.01 each, with one subscriber Share allotted and issued as fully paid at par to the initial subscriber, an Independent Third Party. On the same day, such subscriber Share was transferred to Feishang at a nominal value of HK$0.01.

On 17 September 2015, the authorised share capital of our Company was increased from HK$100,000 to HK$100,000,000 by the creation of 9,990,000,000 Shares to rank *pari passu* with the then existing Share in all respects.

On 17 September 2015, our Company acquired one share of par value US$1.00, being the entire issued share capital of Feishang International from Feishang and in consideration and exchange, our Company allotted and issued 374,999,999 Shares to Feishang, credited as fully paid up at par on the same day.

Assuming that the **[REDACTED]** becomes unconditional and Shares are issued pursuant thereto without taking into account of any Shares which may be allotted and issued upon the exercise of the **[REDACTED]** and the exercise of any options which may be granted under the Share Option Scheme, the issued share capital of our Company immediately following the **[REDACTED]** will be **[REDACTED]** divided into **[REDACTED]** Shares, which will be issued fully paid or credited as fully paid, and **[REDACTED]** Shares will remain unissued.

Save as disclosed in this document, there has been no alteration in the share capital of our Company since its incorporation.

C. Written resolutions of our sole Shareholder passed on 12 December 2015

Pursuant to the written resolutions of our sole Shareholder passed on 12 December 2015:

(a) our Company conditionally approved and adopted our Memorandum and Articles of Association;

(b) conditional on (i) the Stock Exchange granting listing of and permission to deal in our Shares in issue and to be issued as mentioned in this document, and (ii) the obligations of the Underwriter under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case on or before the date falling 30 days after the date of this document:

(i) the **[REDACTED]** and the **[REDACTED]** were approved and our Directors were authorised to allot and issue the **[REDACTED]** and the Shares as may be required to be allotted and issued upon the exercise of the **[REDACTED]**;

(ii) the rules of the Share Option Scheme, the principal terms of which are set out in "Share Option Scheme" in this appendix, were approved and adopted and our Directors were authorised, at their absolute discretion, to administer the Share Option Scheme; modify or amend the Share Option Scheme from time to time as required by the Stock Exchange; grant options to subscribe for Shares under the Share Option Scheme; allot, issue and deal with the Shares issued pursuant to the Share Option Scheme; make application as appropriate to the Stock Exchange for the listing of, and permission to deal in, any Shares of any part thereof that may hereafter from time to time be allotted and issued pursuant to the exercise of the options granted under the Share Option Scheme; and take all such actions as they consider necessary and/or desirable to implement and give effect to the Share Option Scheme;

(c) a general unconditional mandate ("**Issuing Mandate**") was given to our Directors to exercise all the powers to allot, issue and deal with, otherwise than by way of rights, scrip dividend schemes or similar arrangements in accordance with the Articles of Association, or pursuant to the exercise of any options which may be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted, Shares with an aggregate nominal amount of not exceeding 20% of the aggregate nominal amount of the share capital of our Company in issue and to be allotted and issued pursuant to the **[REDACTED]** (excluding the aggregate nominal value of the share capital of our Company which may be issued pursuant to the exercise of the **[REDACTED]**);

(d) a general unconditional mandate ("**Repurchase Mandate**") was given to our Directors authorising them to exercise all powers of our Company to repurchase Shares on the Stock Exchange or on any other approved stock exchange on which the securities of our Company may be listed and which are recognised by the SFC and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the GEM Listing Rules or equivalent rules or regulations of any other stock exchanges as amended from time to time, and such number of Shares will represent up to 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the **[REDACTED]** (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the **[REDACTED]** and the options under the Share Option Scheme); and

(e) the Issuing Mandate was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted and issued or agreed conditionally or unconditionally to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the Repurchase Mandate provided that such extended amount shall not exceed 10% of the total nominal value of the share capital of our Company in issue immediately following completion of the **[REDACTED]** (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the **[REDACTED]** and any options which may be granted under the Share Option Scheme).

Each of the general mandates referred to in paragraphs (c), (d) and (e) above will remain in effect until whichever is the earliest of:

(a) the conclusion of our next annual general meeting, unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;

(b) the expiration of the period within which we are required by any applicable law or the Articles of Association to hold our next annual general meeting; or

(c) the time when such mandate is varied or revoked by an ordinary resolution of our Shareholders in a general meeting.

D. The Reorganisation

In preparation for the Listing, the companies comprising our Group underwent the Reorganisation. Please refer to "History, Reorganisation and Group structure" of this document for details of the Reorganisation of our Group.

E. Changes in the share capital of our subsidiaries

Our Company's subsidiaries are referred to in the Accountants' Report as set out in Appendix I to this document. Save for the subsidiaries mentioned in the Accountants' Report and in "History, Reorganisation and Group structure" of this document, our Company has no other subsidiaries.

Save as disclosed in this document, there has been no other alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this document.

F. Repurchase by our Company of its own securities

This section sets out information required by the Stock Exchange to be included in this document concerning the repurchase by our Company of our own securities.

(a) Provisions of the GEM Listing Rules

The GEM Listing Rules permit companies with a primary listing on GEM to repurchase their own securities on the Stock Exchange subject to certain restrictions, the more important of which are summarised below:

(i) Shareholders' approval

All proposed repurchase of Shares must be approved in advance by an ordinary resolution of the shareholders in a general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to the written resolutions of our Sole Shareholder passed on 12 December 2015, the Repurchase Mandate was given to our Directors to repurchase **[REDACTED]** Shares, representing 10% of the aggregate nominal value of our share capital in issue immediately following the completion of the **[REDACTED]** (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the **[REDACTED]** and the options which may be granted under the Share Option Scheme). The Repurchase Mandate will remain in effect until the earliest of: (i) the conclusion of the next annual general meeting, unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; (ii) the expiration of the period within which our Company is required by any applicable law or the Articles of Association to hold the next annual general meeting of our Company; or (iii) the time when such the Repurchase Mandate is varied or revoked by an ordinary resolution of our Shareholders in a general meeting.

(ii) Source of funds

Any repurchases of Shares by our Company must only be paid out of funds legally available for the purpose in accordance with the Memorandum and Articles of Association, the GEM Listing Rules and the Cayman Islands Companies Law. Our Company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Any repurchases may be made out of funds legally available for the purpose, namely profits, share premium or the proceeds of a fresh issue of shares made for the purpose, or, if so authorised by the Articles of Association and subject to the provisions of the Cayman Islands Companies Law, out of capital. Any premium on a purchase may be made out of profits or our Company's share premium account or, if so authorised by the Articles of Association and subject to the provisions the of Cayman Islands Companies Law, out of capital.

(iii) Trading restrictions

The total number of Shares which our Company is authorised to repurchase on the Stock Exchange is such number of Shares which represents up to a maximum of 10% of the existing issued share capital of our Company as of the date of the resolution approving the repurchase. Our Company may not issue or announce an issue of securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. Our Company shall also not purchase our Shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which our Shares were traded on the Stock Exchange.

(iv) Shares to be repurchased

The GEM Listing Rules provide that the shares which are proposed to be repurchased by a company must be fully paid up.

(v) Status of repurchased securities

The listing of all repurchased securities (whether on the Stock Exchange or otherwise) is automatically cancelled and the relative certificates for those securities must be cancelled and destroyed.

(vi) Suspension of repurchases

Securities repurchases are prohibited after an inside information development has occurred or has been the subject of a decision until such time as the inside information has been publicly announced. In addition, the Stock Exchange reserves the right to prohibit repurchases of securities on the Stock Exchange if a company has breached the GEM Listing Rules.

(vii) Reporting requirements

Repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, our Company's annual report is required to disclose details regarding repurchases of securities made during the year, including the number of securities repurchased and the aggregate prices paid.

(viii) Core connected persons

Our Company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "core connected person", that is, a director, chief executive or substantial shareholder of our Company or any of our subsidiaries or their close associates (as defined in the GEM Listing Rules) and a core connected person is prohibited from knowingly selling his securities to our Company.

(b) Share capital

The exercise in full of the Repurchase Mandate, on the basis of **[REDACTED]** Shares in issue immediately following completion of the **[REDACTED]** (assuming the **[REDACTED]** and the options that may be granted under the Share Option Scheme are not exercised), could accordingly result in up to **[REDACTED]** Shares being repurchased by our Company during the period prior to the date on which the Repurchase Mandate expires or terminates.

(c) General information relevant to the Repurchase Mandate

(i) Our Directors believe that it is in the best interests of our Company and our Shareholders to have a general authority from our Shareholders to enable our Directors to repurchase Shares in the market. Repurchases of Shares will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of our net value and our assets and/or earnings per Share.

(ii) There might be a material adverse impact on our working capital or gearing position (as compared with the position disclosed in this document) in the event that the Repurchase Mandate is exercised in full. However, our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on our working capital requirements or on such gearing levels that our Directors consider appropriate from time to time.

(iii) None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their respective close associates, have any present intention to sell any Shares to our Company if the Repurchase Mandate is exercised.

(iv) Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate only in accordance with the GEM Listing Rules, the Articles of Association and the applicable laws and regulations of the Cayman Islands. We shall procure the broker who effects the repurchase of securities to disclose to the Stock Exchange such information in relation to the purchase as the Stock Exchange may request.

(v) If, as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder (or a group of Shareholders acting in concert, as defined in the Takeovers Code), depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences that may arise under the Takeovers Code as a result of any repurchase pursuant to the Repurchase Mandate.

(vi) Any repurchase of Shares which results in the amount of Shares held by the public being reduced to less than 25% could only be implemented with the agreement of the Stock Exchange to waive the requirement regarding the public shareholding referred to above. Except in extraordinary circumstances, a waiver of this provision would not normally be given by the Stock Exchange.

(vii) No core connected person (as defined in the GEM Listing Rules) has notified us that he has any present intention to sell Shares to our Company, nor has any core connected person undertaken not to do so, if the Repurchase Mandate is exercised.

2. FURTHER INFORMATION ABOUT THE BUSINESS

A. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of our Group within the two years preceding the date of this document and are, or may be, material:

(a) a share purchase agreement dated 17 September 2015 and entered into between our Company and Feishang whereby, among other things, our Company agreed to purchase and Feishang agreed to sell the entire issued share capital of Feishang International and in consideration and exchange, our Company allotted and issued to Feishang 374,999,999 Shares, credited as fully paid up;

(b) the Deed of Indemnity;

(c) the Deed of Non-competition; and

(d) the Underwriting Agreement.

B. Our intellectual property rights

(a) Patents

As at the Latest Practicable Date, we had registered the following patents in the PRC which we consider to be material to the business of our Group. Each of our utility model patents is valid for a period of 10 years from the application date.

No.	Owner	Patent no.	Type	Patent name	Application date
1.	Feishang Material	ZL-2014-2-0221526.8	Utility model	一種膨潤土磨粉機的進料斗 (A kind of feeder hopper for bentonite grinder*)	30 April 2014
2.	Feishang Material	ZL-2014-2-0221823.2	Utility model	一種適合膨潤土轉筒烘乾機的轉筒結構 (A kind of drum structure suitable for bentonite drum dryer*)	30 April 2014
3.	Feishang Material	ZL-2014-2-0221537.6	Utility model	一種膨潤土噸帶裝料設備 (A kind of bentonite tonne-sized loading device*)	30 April 2014
4.	Feishang Material	ZL-2014-2-0221375.6	Utility model	一種實驗用膨潤土鈉化機 (A kind of bentonite sodium modification machine for experiment use*)	30 April 2014
5.	Feishang Material	ZL-2012-2-0316305.X	Utility model	一種膨潤土烘乾出料土石分離裝置 (A kind of drying and material separating device for bentonite*)	2 July 2012
6.	Feishang Material	ZL-2012-2-0316324.2	Utility model	一種防腐的活性白土生產用反應釜 (A kind of preservative activated white-clay reaction tank for production*)	2 July 2012
7.	Feishang Material	ZL-2012-2-0316293.0	Utility model	一種膨潤土輸送管道加碱裝置 (A kind of bentonite transportation pipeline alkali-adding equipment*)	2 July 2012
8.	Feishang Material	ZL-2012-2-0316246.6	Utility model	一種膨潤土加工二級除塵系統 (A kind of bentonite processed class 2 dust clearing system*)	2 July 2012
9.	Feishang Material	ZL-2012-2-0316024.4	Utility model	一種膨潤土粉氣力輸送裝置 (A kind of bentonite powder pneumatic conveying equipment*)	2 July 2012

No.	Owner	Patent no.	Type	Patent name	Application date
10.	Feishang Material	ZL-2012-2-0315492.X	Utility model	一種膨潤土滾筒烘乾機密封裝置 (A kind of bentonite drum drying sealing equipment*)	2 July 2012

(b) Domain name

As at the Latest Practicable Date, our Company had registered the following domain name which we consider to be material to the business of our Group:

Domain name	Registered owner	Date of registration	Expiry date
www.fsnmmaterials.com	Feishang International	15 December 2014	15 December 2016

The contents of the website do not form part of this document.

(c) Trademarks

As at the Latest Practicable Date, we had made applications for the registration of the following trademarks:

No.	Trademark	Applicant	Place of registration	Class	Application number
1.	FSNMT FSNMT	Feishang International	Hong Kong	1, 16, 19, 31, 35, 37, 42	303458700
2.	FEISHANG Non-metal Materials Technology Limited FEISHANG Non-metal Materials Technology Limited	Feishang International	Hong Kong	1, 16, 19, 31, 35, 37, 42	303458719

Except as aforesaid, there are no other trade or service marks, patents, other intellectual or industrial property rights which are or may be material in relation to our Group's business.

3. FURTHER INFORMATION ABOUT OUR GROUP'S SUBSIDIARIES IN THE PRC

Brief particulars of the subsidiaries of our Company established in the PRC are set out below:

(a) Wuhu Feishang Non-metallic Material Co., Ltd（蕪湖飛尚非金屬材料有限公司）

Date of establishment	:	21 June 2002
Legal representative	:	Mr. XU Chengyin
Registered capital	:	HK$25,000,000
Owner of the registered capital	:	Feishang International Holdings Limited
Attributable interest to our Company	:	100%
Nature	:	Wholly foreign-owned enterprise with limited liability
Scope of business	:	Production and sale of bentonite products
Term of operation	:	21 June 2002 to 21 June 2022

(b) 深圳市卓瑞企業管理咨詢有限公司 (Shenzhen City Zhuorui Enterprise Management Consulting Limited*)

Date of establishment	:	19 June 2015
Legal representative	:	Mr. YUE Ming Wai Bonaventure
Registered capital	:	RMB1,000,000
Owner of the registered capital	:	Feishang Material
Attributable interest to our Company	:	100%
Nature	:	Subsidiary of a wholly foreign-owned enterprise with limited liability
Scope of business	:	Provision of management and consultancy services
Term of operation	:	Perpetual

4. FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF

A. Particulars of Directors' service agreements

(a) Executive Directors

Each of our executive Directors has entered into a service agreement with our Company commencing from the Listing Date for a term of three years.

Each of our executive Directors is entitled to a director's fee and a basic salary. The current aggregate annual basic remuneration (excluding any discretionary bonus which may be paid) payable by our Group to our executive Directors are set out below:

Executive Director	*RMB (Approximately)*
Mr. XU Chengyin (徐承銀)	60,000
Mr. ZHANG Pingwu (張平武)	60,000
Mr. CHEN Gongbao (陳功保)	180,000

(b) Independent non-executive Directors

Each of our independent non-executive Directors has entered into a service agreement with our Company for term of three years commencing on the date of the Listing Date. The current aggregate annual basic remunerations (excluding any discretionary bonus which may be paid) payable by our Group to our independent non-executive Directors are set out below:

Independent non-executive Director	*HK$*
Mr. ZHENG Shuilin (鄭水林)	120,000
Mr. DUAN Xuechen (段學臣)	120,000
Mr. CHAN Chiu Hung Alex (陳釗洪)	120,000

B. Directors' remuneration

(a) The aggregate amount of remuneration including salaries, allowances and benefits in kind which were paid to our Directors for the years ended 31 December 2013 and 2014, and the six months ended 30 June 2015 were approximately RMB59,000, RMB60,000 and RMB78,000, respectively.

(b) Under the arrangements currently in force, the the aggregate amount of remuneration including salaries, allowances and benefits in kind payable to our Directors (excluding any discretionary bonuses) for the year ending 31 December 2015 and 2016 are estimated to be approximately RMB282,000 and RMB704,000, respectively.

(c) None of our Directors or any past directors of any member of our Group has been paid any sum of money during the Track Record Period as (i) an inducement to join or upon joining our Group; or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any remuneration during the Track Record Period.

C. Interests of Directors and chief executive in our Shares, underlying Shares and debentures of our Company and its associated corporations

Immediately following completion of the **[REDACTED]** (without taking into account any Shares that may be allotted and issued pursuant to the exercise of the **[REDACTED]** and options which may be granted under the Share Option Scheme), none of our Directors or chief executives of our Company has any interests or short positions in our Shares, underlying Shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO), which, once the Shares are listed on the Stock Exchange, will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will require to be notified to our Company and the Stock Exchange pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules.

D. Substantial shareholders

So far as our Directors are aware, information on the persons, not being Directors or the chief executive of our Company, who will have, immediately following completion of the **[REDACTED]** (without taking into account Shares that may be allotted and issued pursuant to the exercise of the **[REDACTED]** and options which may be granted under the Share Option Scheme) an interest or short position in our Shares and underlying Shares of our Company which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register required to be kept under section 336 of the SFO, who is, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group will be as follows:

Name	**Capacity/ nature of interest**	**Number of Shares directly or indirectly held** *(Note 1)*	**Approximate percentage of shareholding in our Company** *(%)*
Mr. Li *(Note 2)*	Interest of controlled corporation	**[REDACTED]** (L)	**[REDACTED]**
Laitan Investments *(Note 2)*	Interest of controlled corporation	**[REDACTED]** (L)	**[REDACTED]**
Feishang *(Note 2)*	Beneficial owner	**[REDACTED]** (L)	**[REDACTED]**

Notes:

1. The letter "L" denotes the entity/person's long position in our Shares.

2. These Shares are held by Feishang, the entire issued share capital of which is held by Laitan Investments which is in turn wholly-owned by Mr. Li. Under SFO, each of Mr. Li and Laitan Investments is deemed to be interested in the **[REDACTED]** Shares held by Feishang.

E. Disclaimers

Except as disclosed in this document:

(a) none of our Directors nor any of the experts referred to in "Consents of experts" in this appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have been within the two years immediately preceding the date of this document, acquired or disposed of by or leased to, any member of our Group, or are proposed to be so acquired, disposed of or leased;

(b) none of our Directors or any of the experts referred to in "Consents of experts" in this appendix is materially interested in any contract or arrangement subsisting at the date to this document which is significant in relation to our business;

(c) none of the experts referred to in "Consents of experts" in this appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group, save in connection with the Underwriting Agreement, nor is in the employment or an officer of our Company;

(d) we have no outstanding convertible debt securities;

(e) none of our Directors, any of their close associates (as defined in the GEM Listing Rules) or any Shareholder (which to the knowledge of our Directors owns more than 5% of the issued share capital of our Company) has any interest in any of the five largest suppliers or five largest customers of our Group; and

(f) no amount or securities or benefit has been paid or allotted or given within the two years preceding the date of this document to any of our promoters nor is any such amount or securities or benefit intended to be paid or allotted or given.

5. SHARE OPTION SCHEME

A. The following is a summary of principal terms of the Share Option Scheme conditionally approved by a resolution of our Sole Shareholder passed on 12 December 2015. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules. As at the Latest Practicable Date, no option has been granted pursuant to the Share Option Scheme.

(a) Purpose

The purpose of the Share Option Scheme is to recognise and acknowledge the contributions of the Eligible Participants (as defined in paragraph (b) below) to our Group by granting options to them as incentives or rewards.

Our Directors consider the Share Option Scheme, with its broadened basis of participation, will enable our Group to reward the employees, our Directors and other selected participants for their contributions to our Group. Given that the Board is entitled to impose any conditions, restrictions or limitations as it may think fit when making an offer ("**Offer**") on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the GEM Listing Rules or such higher price as may be fixed by our Directors, it is expected that grantees of an option will make an effort to contribute to the development of our Group so as to bring about an increased market price of our Shares in order to capitalise on the benefits of the options granted.

(b) Who may join

The Board may during the Scheme Period (as defined in paragraph (j) below) at its absolute discretion (subject to any conditions as it may think fit) offer to grant options to subscribe for such number of Shares as the Board may determine at an option price determined in accordance with paragraph (c) below to the following persons ("**Eligible Participants**"):

(i) any executive, employee, director (including non-executive director and independent non-executive director), consultant, adviser and/or agent of any member of the Group (or person(s) proposed to be appointed as such provided that the Offer to such proposed appointee(s) shall be conditional upon the proposed appointment taking effect); and

(ii) any other person who has contributed to the success of the Listing, in each case, as determined by the Board.

(c) Subscription price

The subscription price of a Share payable on the exercise of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price shall at least be the highest of:

(i) the nominal value of our Shares;

(ii) the closing price of our Shares as stated in the Stock Exchange's daily quotations sheet on the date of Offer, which must be a day on which the Stock Exchange is open for the business of dealing in securities ("**Business Day**"); and

(iii) the average closing prices of our Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date of Offer;

or (where applicable) such price as from time to time adjusted pursuant to the Share Option Scheme.

(d) Acceptance of Offer

HK$1.00 is payable by an Eligible Participant on acceptance of an Offer of option. Any Offer of option may be accepted, in whole or in part, in a board lot of dealing in Shares on the Stock Exchange or an integral multiple thereof and in writing received by any Director or the secretary of our Company until 5:00 p.m. on the date specified in the Offer provided that no such Offer shall be open for acceptance after the expiry of the Scheme Period (as defined in paragraph (j) below) or after the Share Option Scheme has been terminated in accordance with the rules thereof.

(e) Maximum number of Shares in respect of which options may be granted

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other schemes of our Group must not in aggregate exceed 10% of the total number of Shares in issue as at the Listing Date and that none of the options granted the Share Option Scheme are exercised) (the "**Limit**"). Options which have lapsed in accordance with the terms of the Share Option Scheme (or any other schemes of our Group) will not be counted for the purpose of calculating the Limit.

Subject to the approval of our Shareholders in general meeting and/or such other requirements prescribed under the GEM Listing Rules from time to time, our Company may refresh the Limit at any time provided that:

(i) the Limit as refreshed does not exceed 10% of our Shares in issue as at the date of the approval by the refreshed Limit;

(ii) the options previously granted (including those outstanding, cancelled, lapsed in accordance with the provisions of the Share Option Scheme or exercised options) will not be counted for the purpose of calculating the Limit as refreshed; and

(iii) a circular containing the information and the disclaimer, respectively, required under Rules 23.02(2)(d) and Rule 23.02(4) of the GEM Listing Rules shall be despatched to our Shareholders together with the notice of the relevant general meeting.

Our Company may also with the approval of Shareholders in general meeting grant options in respect of Shares in excess of the Limit (as refreshed from time to time) to Eligible Participants specifically identified by our Company. The circular issued by our Company to our Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 23.02(2)(d) and the disclaimer required under Rule 23.02(4) of the GEM Listing Rules.

Notwithstanding the foregoing, our Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company at anytime shall not exceed 30% of our Shares in issue from time to time. No Offer may be made under any schemes of our Company (including the Share Option Scheme) if this will result in the 30% limit being exceeded.

(f) Maximum entitlement of each Eligible Participant

The total number of Shares issued and which fall to be issued upon exercise of the options granted under the Share Option Scheme and any other schemes of our Group (including both exercised and outstanding options) to each Eligible Participant in any period of 12 consecutive months up to and including the date of grant of the options shall not exceed 1% of our Shares in issue as at the date of grant of the options.

Any further grant of options in excess of this 1% limit shall be subject to:

(i) the issue of a circular by our Company disclosing the identity of the Eligible Participant, the number of and terms of the options to be granted (and options previously granted to such participant) and the information as required under Rule 23.02(2)(d) and the disclaimer required under Rule 23.02(4) of the GEM Listing Rules; and

(ii) the approval of our Shareholders in general meeting and/or other requirements prescribed under the GEM Listing Rules from time to time with such Eligible Participant and his close associates (or associate if the Eligible Participant is a connected person) abstaining from voting.

The number and terms (including the exercise price) of options to be granted to such Eligible Participant must be fixed before our Shareholders' approval and the date of the Board meeting at which the Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant of the options for the purpose of calculating the subscription price of our Shares.

(g) Granting options to connected persons

Any grant of options to a director, chief executive (as defined in the GEM Listing Rules) or substantial shareholder (as defined in the GEM Listing Rules) of our Company or any of their respective associates is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is proposed to be an option holder).

If our Company proposes to grant options to a substantial shareholder (as defined in the GEM Listing Rules) or any independent non-executive director of our Company or their respective associates which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% of our Shares in issue; and

(ii) having an aggregate value in excess of HK$5 million, based on the closing price of our Shares at the date of each grant,

such further grant of options will be subject to the issue of a circular by our Company together with the notice of the relevant general meeting and the approval of our Shareholders in general meeting at which all connected persons of our Company shall abstain from voting in favour at such general meeting except that any connected person may vote against the relevant resolution at the general meeting provided that

his intention to vote against the proposed grant has been stated in our Shareholders' circular, and/or such other requirements prescribed under the GEM Listing Rules from time to time.

(h) Restrictions on the times of grant of options

For so long as the Shares are listed on the Stock Exchange,

(i) no Offer shall be made after any inside information has come to the knowledge of our Company until such inside information has been published in accordance with the requirements of the GEM Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of:

(A) the date of the meeting of the Board (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of our Company's results for any year, half-year, quarter-year or any other interim period (whether or not required under the GEM Listing Rules); and

(B) the deadline for publishing an announcement of our Company's results for any year, half-year or quarter-year or any other interim period (whether or not required under the GEM Listing Rules),

and ending on the date of the results announcement, no Offer may be made.

(ii) the Directors must not make any Offer to an Eligible Participant who is a Director during the periods or times in which the Directors are prohibited from dealing in Shares under Chapter 5 of the GEM Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

(i) Rights are personal to option holder

An option is personal to the option holder. No option holder shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any other person over or in relation to any options, except for the transmission of an option on the death of the option holder to his personal representative(s).

(j) Exercise period and duration of the Share Option Scheme

Subject to the rules of the Share Option Scheme, options may be exercised by an Eligible Participant, in whole or in part, at any time during the period commencing from the date of grant and ending on such date as the Board may determine in granting the option, but in any event not exceeding ten years from the date of grant. Subject to earlier termination by our Company in general meeting, the Share Option Scheme shall be valid and effective for a period commencing from the Listing Date (i.e. Tuesday, 29 December 2015) and expiring at 5:00 p.m. on the business day preceding the tenth anniversary of such date ("**Scheme Period**").

(k) Rights of exercise for option holders

The Board may at its discretion, when making an Offer, impose any conditions, restrictions or limitations in relation thereto as it may think fit, including but not limited to the achievement of any performance target. Subject to the aforesaid, an Eligible Participant to whom any option is granted is not required to achieve any performance target before an option can be exercised.

No Director shall deal in any securities of our Company unless he fully complies with the provisions under Chapter 5 of the GEM Listing Rules.

In the event that the grantee ceases to be an Eligible Participant under the Share Option Scheme during any relevant option period by reason of ill-health, injury, disability or death or because his employing company ceases to be a member of our Group before exercising his options in full, the grantee or his personal representative, as the case may be, may exercise the options (to the extent not already exercised) within a period of six months of such ill-health, injury, disability or death or cessation, failing which such options will lapse and determine at the end of the relevant period.

In the event that a grantee ceases to be an Eligible Participant under the Share Option Scheme by reason of retirement in accordance with his contract of employment or upon expiration of his or her contract of employment or term of directorship before exercising his or her options in full, the grantee may exercise the options (to the extent not already exercised) within a period of six months after he so retires or expiration of his contract of employment or term of directorship, failing which such options will lapse and determine at the end of the relevant period.

In the event that a grantee ceases to be an Eligible Participant under the Share Option Scheme by reason of voluntary resignation other than by reason of the circumstances set out above or by termination of his employment in accordance with the termination provisions of his contract of employment by his employing company before exercising his options in full, such options and any outstanding Offer will lapse and determine on the date of the resignation or termination.

(l) Discretion of the Board

Notwithstanding the aforesaid in paragraph (k) above, in each case, the Board may in its absolute discretion decide that any option shall not so lapse or determine subject to such conditions or limitations as the Board may decide.

(m) Rights on general offers

If a general offer by way of takeover is made to all our Shareholders and the offeror shall have obtained control of our Company as a consequence, option holders shall, subject to paragraph (k) above, be entitled at any time within the period of one month after control has been obtained to exercise the option in whole or in part (to the extent not already exercised), notwithstanding any restrictions in the terms of grant of the option which would otherwise have prevented the option from being exercised during such period. Any option that has not been so exercised within the one-month period shall cease and determine.

(n) Rights on winding-up

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall forthwith give notice thereof to all option holders and thereupon, each option holder shall be entitled to exercise all or any of his or her options (to the extent not already exercised) at any time thereafter until such resolution is duly passed or defeated or the general meeting concluded or adjourned sine die, whichever shall first occur. If such resolution is duly passed, all options shall, to the extent that they have not been exercised, lapse and determine.

(o) Rights on compromise or arrangement between our Company and its members or creditors

If a compromise or arrangement between our Company and its members or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other companies pursuant to the laws of the jurisdiction in which our Company was incorporated, our Company shall give notice to all the option holders on the same date as it gives notice of the meeting to its members or creditors summoning the meeting to consider such compromise or arrangement and each option holder (or where permitted his personal representative) shall forthwith be entitled to exercise his or her option until the earlier of the date two months thereafter or the date on which the compromise or arrangement is sanctioned by the court. But the exercise of the option as aforesaid shall be conditional upon the compromise or arrangement being sanctioned by the court and becoming effective.

Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine.

(p) Ranking of Shares issued upon exercise of options

Our Shares to be allotted and issued upon the exercise of an option will not carry voting rights until completion of the registration of the option holder (or any other person nominated by the option holder) as our Shareholder thereof in the register of members of our Company. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank *pari passu* in all respects with Shares in issue on the date of the exercise and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation, as attached to the other fully-paid Shares in issue on the date of exercise, save that they will not rank for any dividend or other distribution declared or recommended or resolved to be paid or made by reference to a record date falling on or before the date of entry of such Shareholder in the register of members of our Company.

(q) Effect of alterations to capital

Upon any variation in the share capital of our Company arising from any reduction, sub-division or consolidation of share capital, any rights issue or the issue of any share capital by way of capitalisation of profits or reserves or in connection with an open offer to our Shareholders (each a "**Relevant Event**"), the number or nominal amount of Shares comprised in each option and/or the subscription price thereunder may be adjusted in any manner as our Board (having received a confirmation in writing from the auditors of our Company or an approved independent financial adviser that in their/its opinion the adjustments proposed satisfy the requirements of the note to Rule 23.03(13) of the GEM Listing Rules and/or the rules, requirements and guidelines issued by the Stock Exchange from time to time) may deem appropriate provided always that:

(i) no increase shall be made in the aggregate subscription price relating to any option;

(ii) any adjustments should give each option holder the same proportion of the share capital of our Company as that to which he or she was previously entitled prior to such adjustments;

(iii) no adjustments shall be made which will enable a Share to be issued at less than its nominal value; and

(iv) where the Relevant Event arises from an issue of Shares, references to options shall include references to options that have been exercised prior to the date of the adjustment in respect of Shares which otherwise do not rank and are not entitled to participate in the issue by reason of the option holder not having been then registered as the holder of the relevant Shares.

(r) Lapse of options

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

(i) the date of expiry of the option as may be determined by the Board;

(ii) the date of lapse as provided in paragraphs (k), (m), (n) or (o) above; and

(iii) the date on which the option holder commits a breach of paragraph (i) above.

(s) Alteration of the Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of the Board except that:

(i) any alteration to the advantage of the option holders or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 23.03 of the GEM Listing Rules; and

(ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted,

shall first be approved by our Shareholders in general meeting except where the proposed alteration takes effect automatically under the existing terms of the Share Option Scheme. Any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must be approved by Shareholders in general meeting.

(t) Cancellation of options

Any unexercised option may be cancelled if the relevant option holder so agrees. Issuance of new options to the same option holder may only be made if there are unissued options available under the Share Option Scheme (excluding the cancelled options) within the 10% Limit or the Limit as refreshed pursuant to rule 5.1(b) of the Share Option Scheme and in compliance with the terms of the Share Option Scheme in force from time to time.

(u) Termination of the Share Option Scheme

Our Company may by ordinary resolution in general meeting at any time terminate the Share Option Scheme and in such event no further options shall be granted but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(v) Administration of the Share Option Scheme

The Share Option Scheme shall be administered by the Board whose decision (save as otherwise provided therein) shall be final and binding on all parties.

(w) Condition of the Share Option Scheme

The Share Option Scheme is conditional upon: (i) the approval for the listing of, and permission to deal in, our Shares in issue and to be issued, and any Shares to be issued pursuant to the exercise of Options under the Share Option Scheme, being granted by the Listing Committee of the Stock Exchange; (ii) the **[REDACTED]** becoming unconditional and not being terminated according to the terms thereof; and (iii) the commencement of dealing of our Shares on the Stock Exchange.

(x) Present status of the Share Option Scheme

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for listing of and permission to deal in our Shares which fall to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(y) Value of Options

Our Directors consider it inappropriate to disclose the value of the options which may be granted under the Share Option Scheme as if they had been granted at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and to a certain extent would be misleading to investors.

6. OTHER INFORMATION

A. Estate duty

We have been advised that no material liability for estate duty is likely to fall on us or any of our subsidiaries in the PRC and that the Cayman Islands currently have no estate duty, inheritance tax or gift tax.

B. Tax and other indemnities

Mr. Li, Laitan Investments and Feishang (together, the "**Indemnifiers**"), have entered into the Deed of Indemnity in favour of our Company (for itself and as trustee for each of its present subsidiaries) (being a material contract referred to in "Summary of material contracts" in this appendix) to provide the following indemnities in favour of our Group. Under the Deed of Indemnity, amongst others, the Indemnifiers will jointly and severally indemnify each of the members of our Group against the following:

(i) tax liabilities (including all reasonable fines, penalties, costs, charges, expenses and interest relation to taxation) which might be payable by any member of our Group in respect of any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into or occurring on or before the Listing Date; and

(ii) all claims, damages, losses, costs, expenses, actions and proceedings (if any) arising out of or in connection with any non-compliance or alleged non-compliance by any member of our Group with any applicable PRC rules, regulations and laws on or before the Listing Date.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries in the Cayman Islands and the PRC.

The Indemnifiers are under no liability under the Deed of Indemnity in respect of any taxation:

(i) to the extent that provision or reserve has been made for such taxation in the audited accounts of any member of our Group for any accounting period up to 30 June 2015;

(ii) to the extent that such taxation or liability falling on any of the members of our Group in respect of any accounting period commencing on or after 1 July 2015, and ending on the Listing Date, where such liability for such taxation would not have arisen but for some act or omission of, or transaction voluntarily entered into by any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers, otherwise than any such act, omission or transaction:

(A) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after 1 July 2015; or

(B) carried out, made or entered into pursuant to a legally binding commitment created on or before 1 July 2015 or pursuant to any statement of intention made in the document; or

(iii) to the extent that such taxation liabilities or claim arise or are incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the taxation authority of the PRC, or any other relevant authority (whether in Hong Kong or the PRC or any other part of the world) coming into force after the date of the Deed of Indemnity or to the extent such claim arises or is increased by an increase in rates of taxation or claim after the date of the Deed of Indemnity with retrospective effect; or

(iv) to the extent that any provision or reserve made for taxation in the audited accounts of any member of our Group up to 30 June 2015 which is finally established to be an over-provision or an excessive reserve in which case the Indemnifiers liability (if any) in respect of taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this paragraph to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

C. Litigation

Neither our Company nor any of our subsidiaries is engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance is known by the directors to be pending or threatened by or against any member of our Group.

D. Promoters

Our Company has no promoter for the purposes of the GEM Listing Rules. Save as disclosed in this document, within the two years immediately preceding the date of this document, no cash, securities or other benefit has been paid, allotted or given nor is any proposed to be paid, allotted or given to any promoters in connection with the **[REDACTED]** and the related transactions described in this document.

E. Application for listing

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this document, and any Shares which may fall to be issued pursuant to the exercise of any options may be granted under the Share Option Scheme on the Stock Exchange. All necessary arrangements have been made to enable the securities to be admitted into CCASS. The Sole Sponsor is independent of our Company in accordance with Rule 6A.07 of the GEM Listing Rules.

The Sole Sponsor will be paid by our Company a total fee of HK$3.5 million to act as the sponsor to our Company in connection with the **[REDACTED]**.

F. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately HK$20,000, and are payable by our Company.

G. Qualifications of experts

The following are the qualifications of the experts which have given their opinions or advice which are contained, or referred to, in this document:

Expert	Qualification
Celestial Capital Limited	Licensed corporation under the SFO permitted to engage in Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities
SHINEWING (HK) CPA Limited	Certified Public Accountants
SRK Consulting (Hong Kong) Limited	Independent technical consultant
CRU Consulting	Independent industry consultant
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Commerce & Finance Law Offices	Qualified PRC legal advisers
Susan Border	Competent person (within the meaning of Chapter 18A of the GEM Listing Rules)

H. Consents of experts

Each of the experts referred to above has given and has not withdrawn its written consent to the issue of this document with inclusion of its report and/or letter and/or valuation certificate(s) and/or the references to its name in the form and context in which they are respectively included.

As of the Latest Practicable Date, none of the experts referred to above have any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

I. Binding effect

This document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

J. Miscellaneous

Except as disclosed in this document, within the two years preceding the date of this document:

(a) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid for either cash or a consideration other than cash;

(b) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and

(c) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries.

Our Directors confirm that:

(a) no founder, management or deferred shares or debentures of our Company or any of our subsidiaries have been issued or agreed to be issued;

(b) since 30 June 2015 (being the date to which the latest audited combined financial statements of our Group were made up) there has not been any material adverse change in the financial or trading position or prospects of our Group;

(c) all necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement;

(d) no company within our Group is presently listed on any stock exchange or traded on any trading system;

(e) subject to the provisions of the Cayman Islands Companies Law, the register of members of our Company will be maintained in Hong Kong by **[REDACTED]**; and

(f) there has not been any interruption in the business of our Group which may have or have had a material adverse effect on the financial position of our Group in the 24 months preceding the date of this document.

K. Bilingual document

The English language and Chinese language versions of this document are being published separately, in reliance upon the exemption provided in section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this document delivered to the Registrar of Companies in Hong Kong for registration were copies of the written consents referred to in "Statutory and general information – 6. Other information – G. Qualifications of experts" in Appendix V to this document, and copies of the material contracts referred to in "Statutory and general information – 2. Further information about the business – A. Summary of material contracts" in Appendix V to this document.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Minter Ellison at Level 25, One Pacific Place, 88 Queensway, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this document:

(a) the Memorandum and Articles of Association of our Company;

(b) the accountants' report from SHINEWING (HK) CPA Limited, the text of which is set out in Appendix I to this document;

(c) the report from SHINEWING (HK) CPA Limited in respect of the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this document;

(d) the audited combined financial statements of our Group for each of the two years ended 31 December 2013 and 2014 and the six months ended 30 June 2015;

(e) the Independent Technical Report from SRK Consulting (Hong Kong) Limited, the text of which is set out in Appendix III to this document;

(f) the letter of advice prepared by Conyers Dill & Pearman summarising certain aspects of Cayman Islands Companies Law referred to in Appendix IV to this document;

(g) the Cayman Islands Companies Law;

(h) the material contracts referred to in "Statutory and general information – 2. Further information about the business – A. Summary of material contracts" in Appendix V to this document;

(i) the service agreements referred to in "Statutory and general information – 4. Further information about Directors, management and staff – A. Particulars of Directors' service agreements" in Appendix V to this document;

(j) the written consents referred to in "Statutory and general information – 6. Other information – G. Qualifications of experts" in Appendix V to this document;

(k) the PRC legal opinions prepared by Commerce & Finance Law Offices, our PRC legal advisers as to PRC laws;

(l) the industry report prepared by CRU Consulting as referred to in "Industry overview" of this document; and

(m) the rules of the Share Option Scheme.