Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

恆勤集團有限公司
HangKan Group Limited

(incorporated in Cayman Islands with limited liability)
(Stock code: 8331)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

The Board of Directors (the "**Board**") of HangKan Group Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (together the "**Group**") for the year ended 31 December 2018. This announcement, containing the main text of the 2018 Annual Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of annual results. This 2018 annual results announcement of the Company is available for viewing on the websites of Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk and of the Company at www.ourhkg.com.

CHARACTERISTICS OF THE GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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

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

Corporate Information

BOARD OF DIRECTORS

Executive Director
Mr. SU Chun Xiang (appointed on 9 January 2018)

Independent Non-executive Directors
Mr. KO Yat Fei (appointed on 9 January 2018)
Mr. CHOW Chi Hang Tony (appointed on 9 January 2018)
Ms. SHAO Yu (appointed on 9 January 2018)

AUTHORISED REPRESENTATIVES

Mr. SU Chun Xiang
Mr. KAM Tik Lun

COMPANY SECRETARY

Mr. KAM Tik Lun

COMPLIANCE OFFICER

Mr. SU Chun Xiang

AUDIT COMMITTEE

Mr. KO Yat Fei *(Chairman)*
Mr. CHOW Chi Hang Tony
Ms. SHAO Yu

NOMINATION COMMITTEE

Mr. CHOW Chi Hang Tony *(Chairman)*
Mr. KO Yat Fei
Ms. SHAO Yu

REMUNERATION COMMITTEE

Mr. KO Yat Fei *(Chairman)*
Mr. CHOW Chi Hang Tony
Ms. SHAO Yu

AUDITORS

Elite Partners CPA Limited
10/F, 8 Observatory Road
Tsim Sha Tsui
Kowloon, Hong Kong

REGISTERED OFFICE

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

HONG KONG OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 1103A, 11th Floor
148 Electric Road
North Point
Hong Kong

COMPANY'S WEBSITE

http://www.ourhkg.com

COMPANY'S STOCK CODE

8331.HK

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

LEGAL ADVISERS

(As to Cayman Islands Law)
Conyers Dill & Pearman

PRINCIPAL BANKERS

Bank of China Limited (Wuhu branch)
Industrial and Commercial Bank of China
(Fanchang branch)

Management Discussion and Analysis

CHANGE OF COMPANY NAME

A special resolution in relation to the change of company name was passed by the Shareholders at the annual general meeting of the Company held on 16 July 2018. A Certificate of Incorporation on Change of Name was issued by the Registrar of Companies in the Cayman Islands on 17 July 2018 certifying the change of the English name of the Company from "Feishang Non-metal Materials Technology Limited" to "HangKan Group Limited" and the dual foreign name in Chinese of the Company from "飛尚非金屬材料科技有限公司" to "恆勤集團有限公司". The Certificate of Registration of Alteration of Name of Registered Non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong on 8 August 2018 certifying that the Company has altered its name and is now registered under the name of "HangKan Group Limited 恆勤集團有限公司" in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

BUSINESS REVIEW

The gradual recovery of the general economy and further advancement of the supply-side reform policy resulted in improvement in profitability in the iron and steel industry. However, as discussed in the business review for the 2018 third quarterly report for the nine months ended 30 September 2018 (the "2018 Third Quarterly Report") of the Company, the iron and steel industry was still over casted by overcapacity. Measures adopted to address overcapacity and rising costs continued to exert adverse impact on sales of pelletising clay of the Group for the year ending 31 December 2018. In spite of the difficult situation, the Group has strived to enhance major customers' satisfaction through improved quality management, resulting in an increase in sales of drilling mud and pelletising clay in 2018 as compared to the corresponding period in 2017. It was also set out in the business review for the 2018 Third Quarterly Report of the Company that investment prospects of the energy industry continued to be uncertain. Although investment in infrastructure construction has increased, prices for the oil and gas market continued to fluctuate. The investment sentiment of oil and gas transportation pipelines construction projects, which was directly linked to the Group's drilling mud business, was still weak.

Key Performance

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

		2018	2017	Variance
Revenue	*CNY'000*	**51,204**	28,796	77.8%
Loss attributable to shareholders	*CNY'000*	**(57,585)**	(72,080)	(20.1)%
Basic loss per share	*CNY*	**(10.05) cents**	(14.21) cents	(29.3)%
Return on equity	*%*	**(79.1)**	(64.6)	22.4%
Net assets per share	*CNY*	**0.11**	0.20	(45.0)%
Trade receivables collection period	*Days*	**35**	55	(36.4)%

Business Strategies Review with Progress of Implementation

The Group aims to strengthen its market position in the PRC. In order to achieve this objective, the Group intends to pursue the following strategies. The following table sets out the Group's business strategies as disclosed in the 2017 Annual Report with the actual progress of implementation as at 31 December 2018.

Business Strategy	Implementation Plan	Progress of Implementation as of 31 December 2018
Broaden customer base and develop product recognition	(i) Collaborating with external institutions in the PRC for the development of new technologies and new bentonite products to cater for high-valued downstream markets other than iron ore pelletising and civil engineering;	(i) The Group has completed techno-economic viability study of two new bentonite products as mentioned below. The external institutions are currently conducting laboratory-scale testing of the two products. In addition, the internal research and development team was working on the multifunctional pelletising clay; and it was also working with the external institutions on the techno-economic viability of several other new bentonite products and processing technologies;
	(ii) attending and participating in industry forums and events to network with other industry professionals and potential customers; and	(ii) The management team had attended and participated in an industry seminar and established contacts with several industry experts and potential customers to explore cooperation opportunities and there were three new drilling mud customer and two new pelletising clay customers starting their purchases with the Group in 2018; and
	(iii) expanding sales and marketing team to further enhance sales and marketing activities.	(iii) The Group was in the process of recruiting more experienced personnel for sales and marketing.
Development of new production technology and new products	Signing collaboration agreements with two universities and one research institute.	Completed techno-economic viability study of two new products: (a) polyaniline/ montmorillonitenano-composite conductive coating materials and (b) titanium dioxide/ montmorillonitenano-composite materials and photocatalytic.

Business Strategy	Implementation Plan	Progress of Implementation as of 31 December 2018
Recruitment of more talents	Recruiting more experienced personnel who possess abundant knowledge and rich experience in various aspects of the business, including mine design and construction, mining, processing, sales and marketing and research and development of principal products.	The Group was in the process of recruiting more experienced personnel for processing, sales and marketing, and research and development.
Acquisition of other non-metal mines	Evaluating any potential targets meeting the criteria when opportunities arise.	The Company entered MOU with the Potential Vendor to acquire certain equity interest in a company in the PRC principally engaging in mining, processing and sales of black marble (dolerite) mine. For further details, please refer to the Company's announcement dated 14 February 2017.
Improvement of plant and equipment	Upgrading current processing plant by, among others, purchasing new processing equipment such as Raymond mill, modifying the rotary drum dryer and construction of new storage bins for storing pelletising clay.	Completed the feeding system for one pelletizing clay production line; Completed the construction of new storage facilities for pelletising clay; Completed the expansion of storage facilities for dried bentonite ore to be processed into drilling mud; Replaced the old forklift truck; Replaced a transformer in the processing plant; and Completed the modification of existing rotary drum dryer. Purchased one new flour mill. Completed the modification of existing transformer room.

Use of Listing Proceeds

The actual net proceeds from the placing of the 125,000,000 new shares of the Company on 29 December 2015 (the "Listing Date") (the "Placing") was approximately HK$12.7 million. There was approximately HK$12.3 million of the proceeds remain unutilised as at the date of this announcement and had been placed as short-term interest-bearing deposits with authorised financial institutions in Hong Kong and the PRC. The Group is aware of the uncertainties of China's general economic conditions and therefore adopts a conservative approach in the use of proceeds. Set out below is the revised timeline, as disclosed in the Company's announcement dated 21 March 2016, from the Listing Date to 31 December 2017 for the Group to deploy the net proceeds raised from the Placing taking into account the actual placing price of HK$0.32 per share in accordance with the implementation of future plans, and the actual use of net proceeds up to the date of this announcement:

	Revised timeline as disclosed in the Company's announcement dated 21 March 2016									Actual use of net proceeds up to the date of this announcement (HK$ million)
	From Listing Date up to 31 December 2015 (HK$ million)	For the six months ended 30 June 2016 (HK$ million)	For the six months ended 31 December 2016 (HK$ million)	For the six months ended 30 June 2017 (HK$ million)	For the six months ended 31 December 2017 (HK$ million)	For the six months ended 30 June 2018 (HK$ million)	For the six months ended 31 December 2018 (HK$ million)	Total net proceeds (HK$ million)	Approximate percentage of net proceeds %	
Development of production technology for new products	–	–	–	–	7.7	–	–	7.7	60.6	–
Improvement of plant and equipment	–	0.4	4.6 (Note)	–	–	–	–	5.0	39.4	0.4 (Note)
Total	–	0.4	4.6	–	7.7	–	–	12.7	100.0	0.4

Note:

China's economy has been in the L-type bottom stage since 2016 and in the key stage which old growth model has weakened and the new growth model has yet to be established. The Company has decided to postpone the (i) modification and/or improvement of its existing Raymond mill; and (ii) enhancement of electricity power capacity of its processing plant which was originally scheduled in the second half of 2016 until a sustainable positive industry signal is envisaged.

Mine Property Summary

The Group holds the mining rights to Huanghu Bentonite Mine. The following table sets out certain information of the mine and details of the mining licence.

Location	Huanghu Bentonite Mine Fanchang county, Wuhu city, Anhui province	
Equity Interest held by the Group	100%	
Date of initial commercial production	Commercial production of pelletising clay in 2004 and drilling mud in 2010	
Permitted mining right area	7.2982 km^2	
Mining method	Open-pit	
Mining depth/elevation limit	From 57 mASL to −23 mASL	
Permitted annual production capacity	230,000 m^3 (equivalent to approximately 400,000 tonnes)	
Validity period of current licence	9 September 2015 to 9 March 2019	
Reserve data (as of 1 July 2015) (Note 1)	Dry	Wet
Proved reserve (metric tonnes)	1,720,000	2,151,000
Probable reserve (metric tonnes)	4,724,000	5,910,000
Total (metric tonnes)	6,444,000	8,061,000
Reserve data (as of 31 December 2018) (Note 2)	Dry	Wet
Proved reserve (metric tonnes)	1,421,000	1,752,000
Probable reserve (metric tonnes)	4,724,000	5,910,000
Total (metric tonnes)	6,145,000	7,662,000
Average quality of bentonite		
Active montmorillonite	47.0%	
Colloid index	61.1 ml/15g	
Swelling capacity	8.7 ml/g	
Capital expenditure for the year ended 31 December 2018	CNY Nil	
Output for the year ended 31 December 2018 (metric tonnes)	104,000	

Notes:

(1) The reserve data as of 1 July 2015 is extracted from the independent technical report dated 18 December 2015 contained in the Prospectus prepared by SRK Consulting (Hong Kong) Limited under the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia, December 2012.

(2) The reserve data as of 31 December 2018 has been substantiated by the Group's internal expert by adjusting those reserves extracted by the Group's mining activities from July 2015 to December 2018 from the proved reserve as of 1 July 2015. All assumptions and technical parameters set out in the independent technical report contained in the Prospectus have not been materially changed and continued to apply to the reserve data as of 31 December 2018.

(3) There is no exploration activity carried out by the Group during the year ended 31 December 2018.

Employees and Remuneration Policy

On 31 December 2018, the Group had a total of 93 full-time employees (2017: 87) for its main business. For the year ended 31 December 2018, the Group incurred staff costs, including Directors' remuneration, of approximately CNY9.4 million (2017: CNY17.4 million).

The Group deeply understands that talented and professional employees are valuable assets to the Group. The Group will continue to determine the employee remuneration policy based on industry practice, the merits of employees, the industry experience and capabilities and will provide them with various employee benefits including medical and retirement benefits. The remuneration and compensation packages of the Directors are determined with reference to the performance of the Group, the performance of individuals, and salaries paid by comparable companies. None of the Directors, their respective associates or any of the Group's executives participated in the determination of their respective remuneration.

The Company has adopted a share option scheme pursuant to which selected participants may be granted options to subscribe for shares as incentives or rewards for their services rendered to the Group and any entity in which any member of the Group holds an equity interest.

As of 31 December 2018 and the date of this announcement, the Group has maintained good working relationships with its employees. The management team and employees have remained stable.

Community Relationship

For the year ended 31 December 2018, the Group did not run into any disputes or conflicts with its surrounding communities.

Environmental Policy and Measure

The Group is well aware of the importance of maintaining a good ecological environment and embraces the idea of environmental protection. Apart from ensuring on-going compliance with the relevant environmental protection laws and regulations in the PRC, in order to further reduce the environmental impacts of the operations, the Group has implemented several measures to effectively reduce the need for coal energy and electricity thus contributing to a significant decrease in carbon emissions and harmful gas emissions, to prevent fugitive dust emission at the mining site, to reduce impact on nearby brooks and to manage waste rock dump.

Management Discussion and Analysis

FINANCIAL REVIEW

Items of the Consolidated Statement of Profit or Loss

Items	For the year ended 31 December 2018 CNY'000	For the year ended 31 December 2017 CNY'000	Change (%)
Revenue	**51,204**	28,796	77.8
Cost of sales	**(29,257)**	(18,456)	58.5
Gross profit	**21,947**	10,340	112.3
Other income	**1,474**	693	112.7
Selling and distribution expenses	**(6,740)**	(3,148)	114.1
Administrative and other expenses	**(15,293)**	(73,536)	(79.2)
Finance costs	**(1,283)**	(376)	241.2
Prepayment written off	**(57,430)**	–	–
Gain (Loss) on disposal/deconsolidation of subsidiaries	**874**	(5,616)	(115.6)
Income tax expense	**(1,134)**	(437)	159.5
Loss and total comprehensive expense for the year	**(57,585)**	(72,080)	(20.1)

Revenue

Breakdown of the Group's Revenue by Products

	2018		2017	
	CNY'000	**%**	CNY'000	%
Drilling mud	**16,200**	**31.6**	10,185	35.4
Pelletising clay	**35,004**	**68.4**	16,926	58.8
Ballasts and others	**N/A**	**N/A**	1,685	5.8
Total revenue	**51,204**	**100.0**	28,796	100.0

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

	2018		2017	
	Sales volume (tonnes)	**Average selling price (CNY/tonne)**	Sales volume (tonnes)	Average selling price (CNY/tonne)
Drilling mud	**39,929**	**405.7**	27,631	368.6
Pelletising clay	**87,999**	**397.8**	57,246	295.7
Ballasts and others	**N/A**	**N/A**	N/A	N/A

The revenue increased by approximately 77.8% from approximately CNY28.8 million in 2017 to approximately CNY51.2 million in 2018. The increase in revenue was mainly contributed by the increase in sales volume and average selling price of both drilling mud and pelletising clay. Due to the release of production capacity of China's iron and steel industry, the clients' demand for both drilling mud and pelletising clay increased in 2018. Since the Group continuously focused on quality management, market efforts to maintained good relationship with key customers, the sales volume recorded an impressive boost by approximately 50.7% from approximately 85,000 tonnes in 2017 to approximately 128,000 tonnes in 2018.

Cost of Sales

Breakdown of the Group's Cost of Sales

Cost Items	**2018**		2017	
	CNY'000	**%**	CNY'000	%
Extraction costs	**708**	**2.4**	657	3.6
Processing costs				
–Air-drying costs	**1,881**	**6.4**	1,655	9.0
–Consumables, materials and supplies	**12,508**	**42.7**	5,192	28.1
–Depreciation and amortisation	**1,046**	**3.6**	1,047	5.7
–Staff costs	**4,287**	**14.7**	3,042	16.5
–Transportation costs	**3,685**	**12.6**	2,860	15.5
–Utility costs	**3,184**	**10.9**	2,984	16.2
–Others	**1,050**	**3.6**	423	2.3
Sales tax and surcharges	**908**	**3.1**	596	3.1
Total cost	**29,257**	**100**	18,456	100.0

Breakdown of the Group's Cost of Sales by Products

Cost Items	**2018**			2017		
	Average cost of sales	**Total cost of sales**		Average cost of sales	Total cost of sales	
	CNY/tonne	**CNY'000**	**%**	CNY/tonne	CNY'000	%
Drilling mud	**216.7**	**8,654**	**29.6**	234.0	6,465	35.0
Pelletising clay	**234.1**	**20,603**	**70.4**	185.1	10,596	57.4
Ballasts and others	**N/A**	**N/A**	**N/A**	N/A	1,395	7.6
		29,257	**100.0**		18,456	100.0

The total cost of sales increased by approximately 58.5% from approximately CNY18.5 million in 2017 to approximately CNY29.3 million in 2018. The sharp rise in total cost of sales was mainly due to: (i) the significant increase in sales volume of both pelletising clay and drilling mud; and (ii) an increase in the unit costs of pelletising clay, which was partly offset by the decrease in unit processing costs of drilling mud. The increase in unit costs of pelletising clay was caused by the portion of raw pelletising clay directly purchased from third parties with a higher average cost compared with those of self-made. The decrease in unit processing cost was attributed to the economies of scale, whereby the high sales volume dilutes the unit fixed production cost such as rental fees, depreciation, etc.

Cost of sales for drilling mud increased by approximately 33.9% from approximately CNY6.5 million in 2017 to approximately CNY8.7 million in 2018. The increase in cost of sales for drilling mud was mainly due to an increase in the sales volume of drilling mud by approximately 44.5%, which is partially offset by the decrease in unit processing costs by approximately 7.4% from approximately CNY234.0 per tonne in 2017 to approximately CNY216.7 per tonne in 2018. The reason for the decrease in unit processing costs is economic scale as discussed above.

Cost of sales for pelletising clay increased by approximately 94.4% from approximately CNY10.6 million in 2017 to approximately CNY20.6 million in 2018. The increase in cost of sales for pelletising clay was mainly due to: (i) the increase in the sales volume of pelletising clay by approximately 53.7%; and (ii) the raw pelletising clay purchased externally.

Gross Profit and Gross Margin

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

	2018		2017	
	Gross profit CNY'000	**Gross profit margin %**	Gross profit CNY'000	Gross profit margin %
Drilling mud	**7,546**	**46.6**	3,719	36.5
Pelletising clay	**14,401**	**41.1**	6,330	37.4
Ballasts and others	**N/A**	**N/A**	291	17.3
	21,947	**42.9**	10,340	35.9

The overall gross profit increased by approximately 112.3% from approximately CNY10.3 million in 2017 to approximately CNY21.9 million in 2018, while the overall gross profit margin increased from approximately 35.9% in 2017 to approximately 42.9% in 2018. The significant increase in the overall gross profit was mainly contributed by the increase in sales volume and average selling price of both drilling mud and pelletising clay. The increase in overall gross profit margin was mainly due to: (i) the rise in average selling price; and (ii) the decrease in unit processing cost because of economies of scale.

Gross profit for the sale of drilling mud significantly increased by approximately 102.9% from approximately CNY3.7 million in 2017 to approximately CNY7.5 million in 2018, while the gross profit margin for the sale of drilling mud also increased from approximately 36.5% in 2017 to approximately 46.6% in 2018. The increase in gross profit for the sale of drilling mud was mainly attributed to the increase in sales volume by approximately 44.5% and increase in average selling price by approximately 10.1%. The increase in gross profit margin for the sale of drilling mud was mainly due to: (i) the increase of the average selling price of drilling mud and (ii) the decrease in unit cost of drilling mud by approximately 7.4% from approximately CNY234.0 per tonne in 2017 to approximately CNY216.7 per tonne in 2018. The reason for the drop on unit cost of drilling mud has been discussed above.

Gross profit for the sale of pelletising clay significantly increased by approximately 127.5% from approximately CNY6.3 million in 2017 to approximately CNY14.4 million in 2018, while the gross profit margin for the sale of pelletising clay also increased from approximately 37.4% in 2017 to approximately 41.1% in 2018. The increase in gross profit and gross profit margin for the sale of pelletising clay was mainly contributed by the increase in the sales volume of pelletising clay by approximately 53.7% and the increase in the average selling price by approximately 34.5%, which was partially set off by the relative high average cost of raw pelletising clay purchased from third party.

Other Income

Other income increased by approximately CNY0.8 million from approximately CNY0.7 million in 2017 to approximately CNY1.5 million in 2018. The increase were mainly attributed to (a) the grant from Fanchang County People's Government*（繁昌縣人民政府）in the third quarter of 2018 and (b) the guarantee fee from the Back-to-back Guarantee Agreement.

Selling and Distribution Expenses

The selling and distribution expenses increased by approximately 114.1% from approximately CNY3.1 million in 2017 to approximately CNY6.7 million in 2018. This was primarily due to the increase in transportation cost arising from the increase in sales volume of drilling mud and pelletising clay, which the Group was responsible for the delivery cost which has been factored into the selling price and the increase in unit transportation price raised by the third parties with provision of transportation service.

Administrative and Other Expenses

The administrative and other expenses decreased by approximately 79.2% from approximately CNY73.5 million in 2017 to approximately CNY15.3 million in 2018. The administrative and other expenses from 2017 was mainly included the shares-based payment of approximately CNY46.0 million, the legal and professional fees of approximately CNY16.7 million and operating expenses of approximately CNY10.8 million.

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

Finance Costs

The finance costs increased by approximately 241.2% from approximately CNY376,000 in 2017 to approximately CNY1.3 million in 2018. This was due to the increase in interest expense of the short-term loans in 2018.

Gain (Loss) on Disposal/De-consolidation of Subsidiaries

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

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

Reference was also made to the announcement dated 29 June 2018 in relation to disposal of the entire issued share capital of Lucky Capital. On 29 June 2018, the Company and the Purchaser entered into the Disposal Agreement, pursuant to which the Company agreed to sell and the Purchaser agreed to purchase the entire issued share capital of Lucky Capital at the Consideration of HK$1.0 million. Completion of the Disposal took place immediately and members of the Disposal Group have ceased to be subsidiaries of the Company. The Disposal has resulted in a gain of approximately CNY874,000 as record in the consolidated financial statement for the year ended 31 December 2018.

Please refer to the section under heading "De-consolidation of certain subsidiaries of the Group" for the detailed explanation of the Deconsolidation and Disposal.

Income Tax Expense

The Group had an income tax expense of approximately CNY1.1 million in 2018 as compared to approximately CNY0.4 million in 2017. The increase was mainly due to a rise in the profit before tax in Wuhu Feishang Non-metallic Material Company Limited, the indirect wholly-owned subsidiary of the Company.

Loss and Total Comprehensive Expense for the Year

The loss and total comprehensive expense for the year was approximately CNY57.6 million in 2018, a decrease of approximately CNY14.5 million from the loss of approximately CNY72.1 million in 2017. During the reporting period, the Group has recorded a substantial increase in revenue. However, the loss for the year ended 31 December 2018 is mainly due to the primarily attributable to the impairment loss of approximately CNY57.4 million to be made on the prepayments made by the former Board on behalf of the Company to certain suppliers, which is non-cash in nature and has no adverse impact on the business and operation of the Group. The Board considers that overall operational and financial position of the Group as a whole is still remain good.

FINANCIAL RESOURCES REVIEW

Liquidity, Financial Resources and Capital Structure

As at 31 December 2017 and 2018, the Group had net current assets of approximately CNY90.6 million and approximately CNY52.8 million, respectively.

As at 31 December 2018, the Group had cash and cash equivalents of approximately CNY30.0 million which was mainly dominated in CNY.

As at 31 December 2018, the Group had a general bank facility of CNY20 million (2017: nil) which was secured by pledged fixed deposits.

Gearing Ratio

As at 31 December 2018, the gearing ratio was nil (2017: nil) as the Group was not in need of any material debt financing during the Year.

Currency Exposure and Management

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

Contingent Liabilities

As at 31 December 2018, the Group did not have any loan capital or debt securities issued or agreed to be issued, outstanding bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits, finance leases or hiring purchase commitments or guarantees or material contingent liabilities.

OUTLOOK

It is expected that there will be no fundamental change in the general situation of oversupply in the iron and steel industry and the problem of overcapacity has yet to be addressed. In addition, affected by the new series of real estate market regulation and control policies, it is expected that the iron and steel industry will be confronted with major challenges, imposing great pressure on the demand for pelletising clay. Although the Group strives to maintain sales volume of pelletising clay by means of, among others, improved product quality and "selling more with lower margin" strategy, the Group may not be able to maintain the current level of gross profit margin in the coming months. The Group intends to continue expanding its customer base and market share by boosting product awareness of pelletising clay, refining its production technology and developing new products with a view to enhance the Group's overall competitiveness to cope with the unfavorable business environment.

By dint of the weak investment sentiment in infrastructure construction in the energy industry coupled with impacts from the new series of real estate market control policies, the sales of the Group's drilling mud will be adversely affected seriously. The Group aims to maintain the sales volume of drilling mud by improving product quality and adhering to the "selling more with lower margin" strategy, and yet the Group may not be able to maintain the current level of gross profit margin in the forthcoming months due to the increasing pressure on the selling price.

CAPITAL COMMITMENTS

As at 31 December 2018, the Group did not have significant capital commitments.

EVENTS AFTER THE REPORTING PERIOD

There have been no other material events occurring after the reporting period and up to the date of this annual report.

FUND RAISING ACTIVITIES

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

Placing of Shares

On 16 November 2018, a total of 111,762,000 new shares (the "Placing Shares") of nominal value of HK0.01 each in the share capital of the Company were successfully placed under the General Mandate by the Placing Agent to one Placee, namely P.B. Capital Advanced Fund SPC ("P.B. SPC") (acting on behalf of and for the account of P.B. Capital Advanced Fund 1 Segregated Portfolio) at the Placing Price of HK$0.207 per the Placing Share pursuant to the terms and conditions of the Placing Agreement on 22 October 2018. The aggregate of 111,762,000 new shares of the Company represents 20% of issued share capital of the Company immediately before the completion of the Placing and approximately 16.67 % of the issued share capital of the Company as enlarged by the allotment and issue of Placing Shares. Details of the Placing of Shares was set out in the Company's announcements dated 22 October 2018, 9 November 2018 and 16 November 2018.

The net proceeds from the Placing, after deducting the commissions and other fees and expenses in relation to the placing, amounted to approximately HK$21.6 million (equivalent to approximately CNY18.2 million). For the year ended 31 December 2018, the Group had used the net proceeds as follows:

	Original allocation of net proceeds			**Utilization up to 31 December 2018**		**Remaining balance of unused net proceeds as at 31 December 2018**	
	HK$ (million)	CNY Equivalent (million)	% of net proceeds	HK$ (million)	CNY Equivalent (million)	HK$ (million)	CNY Equivalent (million)
Repayment of short-term debt and other payables of the Group	8.3	7.0	38.8%	6.1	5.2	2.2	1.9
Settlement of professional and audit fees	6.6	5.6	30.8%	2.2	1.9	4.4	3.7
General working capital of the Group	6.5	5.5	30.4%	0.4	0.3	6.1	5.2
Total	21.4	18.1	100%	8.7	7.4	12.7	10.8

The following table sets out the breakdown of the use of proceeds as general working capital of the Group:

	HK$'000	CNY'000
Administrative expenses	111.0	93.7
Consultation and service	39.3	33.2
Rental costs	122.2	103.2
Staff cost (including the Director's emoluments)	90.0	76.0
Total	362.4	306.1

As shows above, the remaining balance of unused net proceeds as at 31 December 2018 of approximately HK$12.9 million.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

(a) De-consolidation of Certain Subsidiaries of the Group

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

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

(b) Updates on matters relating to the De-consolidation Subsidiaries

Reference was also made to the announcement dated 29 June 2018 in relation to disposal of the entire issued share capital of Lucky Capital. On 29 June 2018, the Company and the Purchaser entered into the Disposal Agreement, pursuant to which the Company agreed to sell and the Purchaser agreed to purchase the entire issued share capital of Lucky Capital at the Consideration of HK$1 million. Completion of the Disposal took place immediately and members of the Disposal Group have ceased to be subsidiaries of the Company. As a result, the Group recorded a gain on disposal of De-consolidated Subsidiaries of HK$1 million of the year ended 31 December 2018.

Save for the aforesaid, the Group had no other significant investment, material acquisition and disposal of subsidiaries during the year.

OTHER INFORMATION

(a) Prepayment to suppliers

Reference was also made to the Company's announcements of annual results for the year ended 31 December 2017, interim results for the six months ended 30 June 2018 and third quarterly results for the nine months ended 30 September 2018, regarding the prepayments made by the Company to certain suppliers. During the year ended 31 December 2017, the Group entered into several trading agreements for the purchases of materials (the "Purchases Transactions") for its ordinary business with trade deposits of approximately CNY57.8 million in total that had been paid to those suppliers namely Lituo Enterprise (HK) Limited, Trade Rosy Global Limited and Kai Muk Company. Following the complete change in the composition of the Board with effect from 12 February 2018 and having assessed the Purchases Transactions by the Current Board, the Current Board considered that the Purchases Transactions were not be in the best interests of the Company given the facts that all of the Purchases Transactions were entered into by the Former Board and the Current Board has no knowledge about those suppliers. As the trading contracts were concluded by the Former Board, the Current Board has not conducted business with these suppliers before and therefore has no detailed information about their credit worthiness, payment records, business history, shareholding structure and financial background etc. The same applies to the suppliers who have not conducted business with the Current Board before. As deposits have been paid by the Company but the trading contracts have yet to be performed and there had been concern by the Group over the quality of materials from the suppliers, both parties have no detailed information as to how to contact each other effectively to follow up the transactions. As such, the Current Board has taken a prudent approach to terminate all the transactions and to obtain refund of deposits first in order to preserve the assets of the Group and protect the interest of the Company. The Current Board considers that by signing these termination agreements, all these suppliers have acknowledged and agreed that they have received the deposits and that they shall refund all the deposits by the end of June 2018.

Up to the date of this announcement, there have been defaults by the suppliers to refund all the deposits and only HK$500,000 refund has been recovered. The breakdown of the outstanding refundable trade deposits is set out below:

	HK$'000
Refund of deposits due by:	
Lituo Enterprise (HK) Limited (Note 1)	35,000
Kai Muk Company (Note 2)	9,030
Trade Rosy Global Limited (Note 1)	14,500
Lituo Enterprise (HK) Limited (Note 1)	10,930
	69,460
Less: Amount recovered (from Kai Muk Company)	(500)
	68,960

Note 1: Updates on matters relating to the refund of the deposits by Lituo Enterprise (HK) Limited and Trade Rosy Global Limited

Despite the Company has repeatedly demanded for the return of the deposits, Lituo Enterprise (HK) Limited failed to return the deposits as previously agreed. The Company has instituted legal proceedings and served the writ of summons and statement of claim against Lituo Enterprise (HK) Limited on 18 October 2018 to recover the outstanding deposits amounted HK$35,000,000 and HK$10,930,000 under High Court Action No. 2449 of 2018 and High Court Action No. 2450 of 2018 respectively. Lituo Enterprise (HK) Limited filed its defence on 28 November 2018.

In connection with the refund of the deposits by Trade Rosy Global Limited, on 1 November 2018, the Company has instructed a legal representative to issue demand letter to Trade Rosy Global Limited requesting the refund of deposits on 1 November 2018. Trade Rosy Global Limited has, up and until the date of this announcement, failed and/or refused to pay the deposit or any part thereof.

Note 2: Updates on matters relating to the refund of the deposit by Kai Muk Company

Despite repeated demands, Kai Muk has still failed to refund of remaining balance of a deposit amounted HK$8,530,000.

The Company has instituted legal proceedings and served the writ of summons and statement of claim against Kai Muk Company on 30 July 2018 and 14 September 2018 respectively to recover the remaining balance of a deposit amounted HK$8,530,000 under High Court Action No. 1767 of 2018. Kai Muk Company filed a defence on 31 October 2018 to defend against the claim. Subsequent to the filing of the defence, a reply to the defence was filed and served on 29 November 2019. Thereafter, the parties have filed a consent summons on the proposed directions of the said action, and an order nisi on the proposed directions became absolute on 25 February 2019, pursuant to which the parties shall exchange their respective witness statements by 8 April 2019.

Further announcement(s) will be made by the Company as and when appropriate to keep the shareholders informed of any material developments in the above matters.

Despite the fact that the Company has obtained positive legal opinions on the merits of the legal actions against the Suppliers, the Board believes that the Suppliers may not have sufficient assets to refund the prepayments. The Board, after prudent consideration, has made full provision for impairment for the possible unrecoverable prepayments to those Suppliers. The Company would closely monitor the litigation progress and/or repayment, and will make further announcement(s) to inform its Shareholders and potential investors of development of the above cases as and when appropriate.

(b) Back-to-back Guarantee Agreement

Reference was also made to the Company's announcement on 30 July 2018, Wuhu Feishang Non-metal Material Co., Limited（蕪湖飛尚非金屬材料有限公司）, a wholly-owned subsidiary of the Company established in the PRC ("Feishang Material") entered into the Back-to-back Guarantee Agreement, pursuant to which Feishang Material has agreed to provide financial guarantee to the Wuhu Haiyuan Copper Industrial Co., Limited（蕪湖市海源銅業有限責任公司）, a company established in the PRC and an Independent Third Party (the "Borrower"), by means of pledging its deposit in the sum of RMB20 million for procuring the Borrower to obtain the loan of RMB18 million provided by the lending bank. In return, Feishang Material shall receive a guarantee fee of 6% of the amount of deposit pledged by Feishang Material. The provision of Guarantee in favour of the Borrower will better utilize the Group's surplus cash with reasonable return.

(c) Concerns Raised By The Company's Auditors

As disclosed on page 43 of this announcement, the auditor of the Company expressed a qualified opinion in relation to the opening balances and corresponding figures ("Audit Qualification").

The Audit Qualification is a consequential result arising from the disclaimer of opinion expressed by the auditor of the Company, containing certain qualifications in respect of (a) De-consolidation of certain subsidiaries; (b) Prepayment to suppliers; and (c) Inventories contained in the consolidated financial statements for the year ended 31 December 2017, the details of which have been set out in the auditor's report for 2017 Financial Statements dated 31 May 2018.

The Board and the Audit committee's view

The Board and the audit committee agree with the auditor's view in respect of the Audit Qualification. The audit committee of the Company has reviewed the management's position on the major judgement areas. There is no disagreement by the audit committee of the Company with the management's position on the qualified opinion issued by the Company's auditor.

The audit committee of the Company had further discussed with the auditor the impact of the Audit Qualification in subsequent financial year:

1) The Audit Qualification (a) will likely be reflected in the comparative figures of the consolidated financial statements for the year ending 31 December 2019;

2) The Audit Qualification (b) and (c) will likely be removed for the year ending 31 December 2019 as the possible effects of those items do not affect the results of the Group for the year ended 31 December 2018 and will not recur.

Profiles of Directors and Senior Management

EXECUTIVE DIRECTOR

Mr. SU Chun Xiang, aged 31, was appointed as an executive Director on 9 January 2018, the authorised representative and the compliance officer of the Company on 9 February 2018. Mr. Su obtained a degree a degree of Master of Engineering in Software Engineering from Xiamen University (廈門大學) in the People's Republic of China (the "PRC") in 2012. Mr. Su has extensive experience in finance and investment fund management. He was the founder and the general manager of the risk control department of 昆明貴金屬交易所 (Kunming Precious Metal Exchange*) in the PRC and was the marketing director of the trading department of the COFCO Futures Co., Ltd. (中糧期貨有限公司) in the PRC. Mr. Su is currently the chairman of the board of an assets management company located in Beijing, the PRC, responsible for the overall investment management thereof. Mr. Su has also obtained the qualifications of 基金從業人員 (Fund Practitioner*) and 期貨從業人員 (Futures Practitioner*) respectively in the PRC.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. KO Yat Fei, aged 29, was appointed as an independent non-executive Director on 9 January 2018. He is the chairman of each of the audit committee and remuneration committee and the member of the nomination committee of the Company. Mr. Ko was educated at and holds a Bachelor's degree in Commerce (Honours) in Accounting from Hong Kong Shue Yan University. Mr. Ko is a member of Hong Kong Institute of Certified Public Accountants and holds a practicing certificate. Mr. Ko has more than six years of experience in accounting, auditing and corporate advisory. He has worked in local and international Certified Public Accountants firm and Deloitte Touche Tohmatsu. Currently, Mr. Ko is a Practicing Director of a local Certified Public Accountants firm.

Mr. CHOW Chi Hang Tony, aged 27, was appointed as an independent non-executive Director on 9 January 2018. He is the chairman of nomination committee and the member of each of the audit committee and remuneration committee of the Company. Mr. Chow obtained a degree of Bachelor of Laws and a Postgraduate Certificate in Laws from The Chinese University of Hong Kong in 2014 and 2015 respectively. Mr. Chow is currently a practicing Barrister-At-Law in Hong Kong practicing in both civil and criminal litigation.

Ms. SHAO Yu, aged 40, was appointed as an independent non-executive Director on 9 January 2018. She is the member of audit committee, nomination committee and remuneration committee of the Company. Ms. Shao was educated at and holds a degree of Bachelor of International Economics and Trade from Beijing Foreign Studies University (北京外國語大學) in the PRC. Ms. Shao has extensive experience in marketing and general corporate management. She has served as a senior manager for several enterprises in the PRC for over 10 years. From May 2013 to June 2015, Ms. Shao has served as the general manager of the sales department of 北京紅石房地產有限公司 (Beijing Hong Shi Real Estate Company Limited*). From July 2015 to December 2016, She was the chief operating officer of 北京漢頌律師事務所 (Beijing Hansong Law Firm*). Currently, Ms. Shao is the chairwoman of the board and the chief executive officer of a local television culture enterprise in the PRC, responsible for the overall operation and management thereof.

COMPANY SECRETARY

Mr. KAM Tik Lun, aged 42, was appointed as the company secretary and authorised representative of the Company on 31 December 2017. Mr. Kam holds a Bachelor of Commerce from Concordia University, Canada and a Postgraduate Diploma and a Master of Laws in International Corporate and Financial Law from The University of Wolverhampton, United Kingdom. Mr. Kam is a fellow of The Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants in the United Kingdom. Mr. Kam has over 14 years' experience in the financial markets. He has vast experience in providing company secretarial, financial analysis and corporate advisory services. He is currently the company secretary of Dining Concepts Holdings Limited (stock code: 8056) from 28 February 2017 and also an independent non-executive director of Easy Repay Finance & Investment Limited (stock code: 8079), and HMV Digital China Group Limited (stock code: 8078), which are all listed on the Growth Enterprise Market of the Stock Exchange.

.* For identification purpose only

Report of the Directors

The Directors are pleased to present the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in notes 1 to the consolidated financial statements of this announcement.

BUSINESS REVIEW

A fair review of the business of the Company as well as a discussion and analysis of the Group's performance during the year as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the laws of Hong Kong), including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the sections headed "Management Discussion and Analysis" and "Corporate Governance Report – Risk management and internal control" of this announcement. These discussions form part of this Directors' report.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

DIVIDEND POLICY

The Company has adopted a dividend policy ("Dividend Policy"), pursuant to which the Company may declare and distribute dividends to the shareholders of the Company (the "Shareholders") to allow Shareholders to share the Company's profits and for the Company to retain adequate reserves for future growth.

The recommendation of the payment of any dividend is subject to the absolute discretion of the Board, and any declaration of final dividend will be subject to the approval of the Shareholders. In proposing any dividend payout, the Board shall also take into account, inter alia, the Group's financial results, the general financial condition of the Group, the Group's current and future operations, the level of the Group's debts to equity ratio, return on equity and the relevant financial covenants, liquidity position and capital requirement of the Group, surplus received from the Company's subsidiaries and any other factors that the Board deem appropriate. The Company's ability to pay dividends is also subject to the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and all relevant applicable laws, rules and regulations in the Cayman Islands, Hong Kong and the Memorandum and Articles of Association of the Company.

The Board will continually review the Dividend Policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time, and the Dividend Policy shall in no way constitute a legally binding commitment by the Company that dividends will be paid in any particular amount and/or in no way obligate the Company to declare a dividend at any time or from time to time.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 13 to the consolidated financial statements of this announcement.

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

As at 31 December 2018, so far as was known to the Directors, the following persons/entities (other than the Directors or chief executives of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"), or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of substantial shareholders	**Long/short position**	**Capacity**	**Number of shares**	Notes	**Percentage of the issued shares** (%)
Mr. ZHANG Qiang	Long position	Beneficial owner	275,000,000		41.01
Ms. WANG Jie	Long position	Interest of spouse	275,000,000	1	41.01
P.B. Capital Advanced Fund SPC – P.B. Capital Advance Fund 1 Segregated Portfolio	Long position	Beneficial owner	111,762,000		16.67
P.B. Global Asset Management Limited	Long position	Investment Manager	111,762,000	2	16.67

Notes:

1. Ms. WANG Jie is the spouse of Mr. ZHANG Qiang. Therefore, Ms. WANG Jie is deemed to be interested in the Shares in which Mr. ZHANG Qiang is interested.

2. P.B. Capital Advanced Fund SPC ("P.B. SPC") (acting on behalf of and for the account of P.B. Capital Advanced Fund 1 Segregated Portfolio) is managed by P.B. Global Asset Management Limited, a company incorporated with limited liability in Hong Kong licensed by the Securities and Futures Commission for Type 4 (Advising on Securities) and Type 9 (Asset Management) regulated activities under the Securities and Futures Ordinance and specialised in asset management and investment advisory services. The figure refers to the same holding in 111,762,000 shares held by the P.B. Capital Advanced Fund SPC – P.B. Capital Advance Fund 1 Segregated Portfolio. P.B. Global Asset Management Limited is the investment manager of P.B. Capital Advanced Fund SPC – P.B. Capital Advance Fund 1 Segregated Portfolio and is thereby deemed to have an interest in the shares in which P.B. Capital Advanced Fund SPC – P.B. Capital Advance Fund 1 Segregated Portfolio is interested.

Save as disclosed above, as at 31 December 2018, no other interests or short positions in the Shares or underlying Shares of the Company were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Report of the Directors

DIRECTORS

The Directors during the year and up to the date of this announcement were:

Executive Directors:
Mr. DENG Li (appointed on 13 March 2017; resigned on 9 February 2018)
Mr. ZHANG Yongmin (appointed on 23 March 2017; resigned on 9 February 2018)
Mr. TSAI Nam Lun (appointed on 5 December 2017; resigned on 9 February 2018)
Mr. SU Chun Xiang (appointed on 9 January 2018)

Independent non-executive Directors:
Ms. CHAN Shuk Kwan, Winnie (appointed on 5 December 2017; resigned on 9 January 2018)
Ms. YIN Yi (appointed on 5 December 2017; resigned on 9 January 2018)
Ms. CHEUK Tat Yee (appointed on 5 December 2017; resigned on 12 February 2018)
Mr. KO Yat Fei (appointed on 9 January 2018)
Mr. CHOW Chi Hang Tony (appointed on 9 January 2018)
Ms. SHAO Yu (appointed on 9 January 2018)

In accordance with Articles 84(1) of the Articles of Association of the Company (the "Articles of Association"), Mr. SU Chun Xiang and Mr. KO Yat Fei shall retire at the forthcoming annual general meeting (the "AGM") and, being eligible, would offer themselves for re-election.

INDEPENDENCE CONFIRMATION

The Company has received annual confirmation from each of the independent non-executive Directors as regards their independence to the Company pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers that each of the independent non-executive Directors is independent to the Company.

DIRECTORS' SERVICE CONTRACT

There is no unexpired Directors' service contract which is not terminable by the Company within one year without payment of compensation, other than statutory compensation, of any Director proposed for re-election at the forthcoming AGM.

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year.

EMPLOYEES AND EMOLUMENT POLICY

The Group recognises the importance of high calibre and competent staff and continues to review and provide remuneration packages to employees with reference to the level and composition of pay, prevailing market practices and individual performance.

Staff benefits include contributions to the Mandatory Provident Fund Schemes and a discretionary bonus payment which is linked to the profit performance of the Group and individual performance. Other various benefits, such as medical and retirement benefits, are also provided. In addition, share options may be granted to eligible employees of the Group in accordance with the terms of the approved Share Option Scheme.

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

The Company has adopted the Share Option Scheme as an incentive to Directors and eligible employees of the Group.

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

As at 31 December 2018, none of the Directors or chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered into the register required to be kept by the Company under section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Rules 5.48 to 5.67 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES OF THE COMPANY AND OTHER CORPORATION

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

SHARE OPTION SCHEME

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

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

As announced by the Board in the Company's announcement dated 28 March 2018, out of the 50,000,000 share options granted, 8,810,000 share options have been exercised, 13,100,000 share options have been lapsed and 28,090,000 share options remain outstanding and held by the consultants. Having assessed by the Board, the Board considered that the continuing engagement with the consultants was not necessary and therefore the Company had entered into the termination agreement with each of them respectively to cease their services immediately and, as agreed thereof, all the outstanding share options held by them had also been cancelled.

Save as disclosed above, as at 31 December 2018, no options had been granted pursuant to the Share Option Scheme.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

There was no transactions, arrangements or contracts of significance to which the Company or any related company (holding companies, subsidiaries, or fellow subsidiaries) was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2018 and up to the date of this announcement, none of the Directors and controlling shareholders of the Company or their respective close associates (as defined in the GEM Listing Rules) has any interest in a business that competes or may compete with the business of the Group and any other conflicts of interests which such person had or may have with the Group.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year, the Group did not enter into any transactions which need to be disclosed as connected transactions/continuing connected transactions pursuant to Chapter 20 of the GEM Listing Rules.

PERMITTED INDEMNITY

The Articles of Association provides that the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty; provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the Directors.

A directors' liability insurance is in place to protect the Directors against potential costs and liabilities arising from claims brought against the Directors.

RELATED PARTY TRANSACTIONS

During the year ended 31 December 2018, the related party transactions either did not constitute connected transactions/continuing connected transactions or constituted connected transactions/continuing connected transactions but were exempt from all disclosure and independent Shareholders' approval requirements under the GEM Listing Rules.

PUBLIC FLOAT

As at the date of this announcement, based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this announcement, there is sufficient public float of not less than 25% of the Company's issued Shares as required under the GEM Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association although there are no restrictions against such rights under the laws of Cayman Islands.

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

There was no purchase, sale or redemption of the Shares by the Company or any of its subsidiaries throughout the year.

AUDIT COMMITTEE

The Company has the Audit Committee which was established in accordance with the requirements of the GEM Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three independent non-executive Directors, namely, Mr. KO Yat Fei (the chairman of the Audit Committee), Mr. CHOW Chi Hang Tony and Ms. SHAO Yu. The Audit Committee meets regularly with the Company's senior management and the Company's auditors to consider the Company's financial reporting process, the effectiveness of internal controls, the audit process and risk management. The audited consolidated financial statements of the Group for the year ended 31 December 2018 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such statements complied with applicable IFRSs and that adequate disclosure has been made in respect thereof.

AUDITORS

The consolidated financial statements of the Company for the year ended 31 December 2018 have been audited by Elite Partners CPA Limited ("Elite Partners") who was appointed as the auditor of the Company effect from 23 March 2018. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Elite Partners as auditor of the Company.

On behalf of the Board

HangKan Group Limited
SU Chun Xiang
Executive Director

Hong Kong, 7 March 2019

Corporate Governance Report

The Board and the management of the Company are committed to the maintenance of good corporate governance practices and procedures. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, sustainable business growth and enhancing shareholders' value.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as contained in Appendix 15 to the GEM Listing Rules as its own code of corporate governance and the Company has complied with the code provisions as set out in the CG Code save and except for code provisions A.2.1 and A.6.7 throughout the year ended 31 December 2018.

Chairman and Chief Executive Officer

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

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

Responsibilities of directors

Pursuant to Code Provision A.6.7 of the CG Code, independent non-executive directors and non-executive directors, as equal board members, should attend general meeting of the Company. During the Year, Ms. CHEUK Tat Yee and Ms. SHAO Yu were unable to attend the extraordinary general meeting of the Company held on 26 January 2018 due to their other business engagement.

Code of Conduct Regarding Securities Transactions by Directors

The Company has adopted Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by Directors in respect of the shares of the Company (the "Code of Conduct"). The Company has made specific enquiry to all Directors, and all Directors have confirmed that they have fully complied with the required standard of dealings set out in the Code of Conduct throughout the year ended 31 December 2018. The Company also has written guidelines regarding securities transactions on terms no less exacting than the required standard set out in the Required Standard of Dealings for senior management and any individuals who may have access to inside information in relation to the securities of the Company.

BOARD OF DIRECTORS

Composition

As at the date of this announcement, the Board comprises four Directors, consisting of one executive Director, namely Mr.SU Chun Xiang, and three independent non-executive Directors, namely Mr. KO Yat Fei, Mr. CHOW Chi Hang Tony and Ms. SHAO Yu. The biographical details of each Director are disclosed on page 21 of this announcement.

All Directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity.

Independent non-executive Directors

In compliance with Rule 5.05 of the GEM Listing Rules, the Company has appointed three independent non-executive Directors representing more than one-third of the board and at least one of whom has appropriate professional qualifications, or accounting or related financial management expertise. The Company has received from each independent non-executive Director an annual confirmation of his independence and the Company considers such directors to be independent in accordance with each and the various guidelines set out in Rule 5.09 of the GEM Listing Rules.

Directors' Re-election

Pursuant to the Articles of Association of the Company, the Directors shall hold office subject to retirement by rotation at the annual general meetings of the Company at least once every three years. In addition, any Director appointed by the Board during a year, to fill a casual vacancy, shall hold office only until the first general meeting of the Company after his appointment and shall be subject to re-election in that meeting. Any Director appointed by the Board 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. The term of office of each independent non-executive Director is for a period of one year from 9 January 2019 to 8 January 2020 subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles of Association.

Responsibilities of the Board and Management

The Board, is responsible for providing high-level guidance and effective oversight of the management of the Company, formulation and approval of the Group's development, business strategies, policies, annual budgets and business plans, recommendation of any dividend and supervision of management in accordance with the regulations governing the meetings of the Board, and the Articles of Association of the Company.

The day-to-day management of the Group's business and the major decisions are made after consultation with the Board and appropriate Board committees, as well as senior management.

The Company considers that risk management function and internal control system are essential and that the Board plays an important role in implementing monitoring and risk management and internal financial control.

Matters specifically decided by the Board and those reserved for the management, such as daily management, administration and operation of the Company, etc., are reviewed by the Board on a periodic basis. The management shall report back to the Board.

The procedures to enable Directors to seek independent professional advice in appropriate circumstances at the Company's expenses were established.

The Articles of Association state the responsibilities and operational procedures of the Board. The Board will meet at least four times a year at regular intervals to consider operational reports and financial results of the Company and policies. Significant operational policies have to be discussed and passed by the Board.

During the year ended 31 December 2018, the attendance record of each Director is set out below:

	Number of meetings attended/held				
Name of Directors	Board Meeting	Remuneration Committee Meeting	Audit Committee Meeting	Nomination Committee Meeting	General Meeting
Executive Directors					
Mr. DENG Li (resigned on 9 February 2018)	0/0	–	–	–	1/1
Mr. ZHANG Yongmin (resigned on 9 February 2018)	0/0	–	–	–	0/1
Mr. TSAI Nam Lun (resigned on 9 February 2018)	0/0	–	–	–	0/1
Mr. SU Chun Xiang (appointed on 9 January 2018)	5/5	–	–	–	1/2
Independent non-executive Directors					
Ms. CHAN Shuk Kwan, Winnie (resigned on 9 January 2018)	0/0	–	–	–	–
Ms. YIN Yi (resigned on 9 January 2018)	0/0	–	–	–	–
Ms. CHEUK Tat Yee (resigned on 12 February 2018)	0/0	–	–	–	0/1
Mr. KO Yat Fei (appointed on 9 January 2018)	5/5	1/1	2/2	1/1	2/2
Mr. CHOW Chi Hang Tony (appointed on 9 January 2018)	5/5	1/1	2/2	1/1	2/2
Ms. SHAO Yu (appointed on 9 January 2018)	5/5	1/1	2/2	1/1	1/2
Total Number of Meetings Held	5	1	2	1	2

BOARD DIVERSITY POLICY

The Company has a board diversity policy ("Board Diversity Policy") whereby it recognizes and embraces the benefits of a diversity of Board members. The Board Diversity Policy aimed to set out the approach to achieve diversity on the Board. In designing the Board's composition, board diversity has been considered from numbers of measurable aspects including gender, age, length of services, knowledge and professional industry background. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regards for the benefits of diversity on the Board.

During the year ended 31 December 2018 and as at the date of this announcement, the Board comprises four Directors, one of which is female. The following tables further illustrate the diversity of the Board members as of the date of this announcement:

	Age Group			
Name of Director	**25-29**	**30-35**	**35-39**	**40-44**
Mr. SU Chun Xiang		✓		
Mr. KO Yat Fei	✓			
Mr. CHOW Chi Hang Tony	✓			
Ms. SHAO Yu				✓

	Professional Experience			
Name of Director	**Finance and investment fund management**	**Accounting and finance**	**Law**	**Marketing and general corporate management**
Mr. SU Chun Xiang	✓			
Mr. KO Yat Fei		✓		
Mr. CHOW Chi Hang Tony			✓	
Ms. SHAO Yu				✓

Directors' Induction and Continuous Professional Development

During the financial year, all the Directors attended a training session organised by the Company. Topics of the training included update on the GEM Listing Rules and continuing and statutory obligations for directors of listed companies. In addition, relevant reading materials on risk management and internal control and ESG have been circulated to all the Directors.

The Company understands that the Directors should participate in appropriate continuous professional development programs to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. All Directors are encouraged to attend relevant training courses at the Company's expenses.

Responsibilities of Directors

In the course of discharging their duties, the Directors act in good faith, with due diligence and care, and in the best interests of the Company and its Shareholders. Their responsibilities include the following:

- attending regular Board meetings and focusing on business strategy, operational issues and financial performance;
- active participation in the respective board of directors of the subsidiaries of the Company;
- approval of annual budgets covering strategy, financial and business performance, key risks and opportunities;
- monitoring the quality, timeliness, relevance and reliability of internal and external reporting;
- monitoring and managing potential conflicts of interest of senior management, the Board and Shareholders of the Company;
- consideration of misuse of corporate assets and abuse of related party transactions; and
- ensuring processes are in place to maintain the overall integrity of the Company, including financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all laws and ethics.

To enable the Directors to fulfill their obligations, an appropriate organisational structure is in place with clearly defined responsibilities and limits of authority.

Corporate Governance Functions

The Board is responsible for performing the following corporate governance duties as required under the CG Code:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors; and
- to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

During the financial year, the Board had performed the following corporate governance duties:

– approval of quarterly results, interim results and annual results of the Group;

– approval of Elite Partners CPA Limited as the auditors of the Group and the corresponding audit plan through the Audit Committee;

– review the compliance with the CG Code; and

– review of the effectiveness of the risk management and internal control systems of the Company through the Audit Committee.

BOARD COMMITTEES

The Company has established three board committees, namely, the Audit Committee, Nomination Committee and Remuneration Committee on 12 December 2015, with specific terms of reference relating to authority and duties, to strengthen the Board's functions and enhance its expertise.

Audit Committee

As at the date of this announcement, the Audit Committee comprises three independent non-executive Directors, namely Mr. KO Yat Fei, Mr. CHOW Chi Hang Tony and Ms. SHAO Yu and is chaired by Mr. KO Yat Fei.

The Audit Committee reports directly to the Board and reviews financial statements and internal controls in order to protect the interests of the Shareholders.

The terms of reference of the Audit Committee have complied with the CG Code and the Audit Committee will meet regularly with the Company's independent auditors, at least twice a year, to discuss accounting issues, and reviews effectiveness of internal controls and risk evaluation. Written terms of reference, which describe the authority and duties of the Audit Committee are regularly reviewed and updated by the Board. The term of reference of Audit Committee are amended pursuant to the Board resolutions passed on 21 December 2018 and are posted on the designated website of the GEM at www.hkgem.com and the website of the Company at www.ourhkg.com.

During the financial year, the Audit Committee held four meetings, at which it:

– approved Elite Partners CPA Limited as the auditors of the Group and the corresponding audit plan;

– reviewed the financial statements for the year ended 31 December 2017, three months ended 31 March 2018, six months ended 30 June 2018 and nine months ended 30 September 2018;

– reviewed the effectiveness of the risk management and internal control systems, and such review covered all material controls including financial control;

– reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions; and

– reviewed the external auditors' findings.

The Audit Committee had also reviewed the Group's audited annual results for the year ended 31 December 2018 and confirmed that it complies with the applicable standard, the GEM Listing Rules, and other applicable legal requirements and that adequate disclosures have been made. There is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditors.

During the year ended 31 December 2018, the attendance record of the meetings is set out on page 31.

Nomination Committee

As at the date of this announcement, the Nomination Committee comprises three independent non-executive Directors, namely Mr. CHOW Chi Hang Tony, Mr. KO Yat Fei and Ms. SHAO Yu and is chaired by Mr. CHOW Chi Hang Tony.

The terms of reference of the Nomination Committee have complied with the CG Code which are posted on the designated website of the GEM at www.hkgem.com and the website of the Company at www.ourhkg.com.

The Nomination Committee's responsibilities include reviewing and recommending the structure, size, composition and diversity of the Board and recommending any change thereon; assessing the independence of independent non-executive Directors and recommending the re-election of Directors, etc.

During the financial year, the Nomination Committee held one meeting, at which it:

– reviewed the structure, size, composition and diversity (including the skills, knowledge and experience) of the Board;

– assessed the independence of the independent non-executive Directors; and

– reviewed and made recommendations to the Board on re-election of retiring Directors at the AGM.

During the year ended 31 December 2018, the attendance record of the meetings is set out on page 31.

The Board adopted the Board Diversity Policy in accordance with the requirement set out in the CG Code. Such policy aims to set out the approach towards achieving diversity on the Board.

In assessing the Board composition, the Nomination Committee would consider a number of perspectives as set out in the Board Diversity Policy, including but not limited to professional qualifications, regional and industry experience, educational and cultural background, skills, industry knowledge and reputation, gender, ethnicity, language skills and length of service, when making recommendations to the Board on the appointment and re-appointment of Directors and Directors' succession planning.

The Company considers that the current composition of the Board is well balanced and of a diverse mix appropriate for the business of the Company.

Remuneration Committee

As at the date of this announcement, the Remuneration Committee comprises three independent non-executive Directors, namely Mr. KO Yat Fei, Mr. CHOW Chi Hang Tony and Ms. SHAO Yu and is chaired by Mr. KO Yat Fei.

The Remuneration Committee's responsibilities include reviewing, considering and making recommendation to the Board on (i) the Company's remuneration policy for Directors and senior management, (ii) remuneration packages for individual executive Directors and senior management including benefits in kind, pension rights and compensation payments, and (iii) remuneration of independent non-executive Directors, etc.

The terms of reference of the Remuneration Committee have complied with the CG Code and are posted on the designated website of the GEM at www.hkgem.com and the website of the Company at www.ourhkg.com.

During the financial year, the Remuneration Committee held one meeting, at which it made recommendation to the Board on the forthcoming remuneration policy and the remuneration of the executive Directors and the independent non-executive Directors.

During the year ended 31 December 2018, the attendance record of the meetings is set out on page 31.

The Group recognises the importance of high caliber and competent staff and continues to provide remuneration packages to employees with reference to prevailing market practices and individual performance. Other benefits, such as medical and retirement benefits, are also provided. In addition, share options may be granted to eligible employees of the Group (including Directors) in accordance with the terms of the Share Option Scheme.

COMPLIANCE COMMITTEE

As at the date of this announcement, Mr. SU Chun Xiang is the Compliance Officer of the Group. The primary purpose is to monitor and oversee the compliance-related issues of the Group. The committee meets quarterly to discuss, among others, existing and potential compliance issues, formulate solutions to such compliance issues, and report to the Board if necessary.

AUDITORS' REMUNERATION

The remuneration of external auditors of the Company, SHINEWING (HK) CPA Limited (resigned on 26 March 2018) and Elite Partners CPA Limited (appointed on 26 March 2018), in respect of audit services and non-audit services for the year ended 31 December 2018 is set out below:

Description of services performed	**Fee** (HK$)
Audit Services	550,000
Non-audit services for quarterly reports and interim report	170,000

AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2017 were audited by Elite Partners CPA Limited, who were appointed as the Company's auditor on 26 March 2018 to fill the casual vacancy arising from the resignation of SHINEWING (HK) CPA Limited on 26 March 2018. Save as disclosed above, there has been no other change of auditors for the preceding three years.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining a sound and effective internal control and risk management systems. Such systems are in place and designed to manage risks and provide reasonable assurance against any material misstatement or loss in order to safeguard the interests of the shareholders and the assets of the Group against unauthorised use or disposition, ensuring maintenance of proper books and records for the provision of reliable financial information, and ensuring compliance with the relevant rules and regulations.

During the year, the Group has engaged a professional internal control consultant to continue the review and scrutiny of the Group's overall operations and risk management assessment to ensure the internal controls and risk management systems are functioning adequately. The Board is implementing the recommendations suggested by this consultant to improve the overall internal control of the Group and to prevent recurrence of previous deficiencies. The Board through its Audit Committee are kept regularly apprised of significant risks that may impact on the Group's performance.

Process and Main Features of Risk Management and Internal Control

The goal of the Group is to identify and manage the risks which are inherent in the Group's business and its operating markets so that the risks can be reduced, mitigated, transferred or avoided.

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems. The Board would oversee its management in the design, implementation and monitoring of the risk management and internal control systems.

The Board oversees the Group's overall risk management and internal control process through the Audit Committee which forms an important part of the corporate governance regime of the Group. The Audit Committee assists the Board in monitoring the risk exposures, the design and operating effectiveness of the relevant risk management and internal control systems. The Audit Committee oversees the following procedures for and on behalf of the Board:

(i) Periodic assessment of key operational risks and control measures aimed at mitigating, reducing or transferring such risks; the strengths and weaknesses of the overall internal control system, and action programs to address the control weaknesses or improve the assessment process;

(ii) Regularly review the business processes and operational reports, including the action plan to address the identified weaknesses in control, and the latest status and monitor results in the implementation of the recommendations; and

(iii) The external auditors regularly report on the control issues identified in the course of their work and meet with the Audit Committee to discuss the scope and results of the review.

The Audit Committee will then report to the Board after properly reviewing the effectiveness of the Group's risk management and internal control systems. The Board considers the works and findings of the Audit Committee in forming its own view on the effectiveness of such systems.

The Group does not maintain its own internal audit team due to cost saving reason. However, the professional internal control consultant engaged by the Company would assist the Audit Committee to review the effectiveness of the Group's risk management and internal control systems and the external auditor of the Company would also assess the adequacy and effectiveness of certain key risk management and internal controls of the Group as part of their statutory audit process. The Group would review the need for an internal audit function on an annual basis.

The Group's risk management and integrated internal control framework, as disclosed in the below chart, are closely intertwined, and major control measures are tested to assess performance. This "top-down" approach is complemented by the "bottom-up" aspects, which require the head of the operating unit to participate in the identification of operational risks to determine the Group's major risks.

<table>
<tr><td rowspan="3">"Top-down" Overseeing, identification, assessment and mitigation of risk at corporate level.</td><td colspan="4">The Board of Directors</td></tr>
<tr><td>Responsible for the Group's risk management and internal control systems.</td><td>Sets strategic objectives and reviews the effectiveness of the Group's risk management and internal control systems.</td><td>Monitors the nature and extent of the Group's major risks.</td><td>Provides guidance on the importance of risk management and risk management culture.</td></tr>
<tr><td>Management</td><td colspan="3">Audit Committee</td></tr>
<tr><td rowspan="3">"Bottom-up" Identification, assessment and mitigation of risk at business unit level and across functional areas.</td><td>Designs, implements, and monitors risk management and internal control systems.</td><td colspan="3">Assists the Board in monitoring risk exposure, design and operating effectiveness of the underlying risk management and internal control systems.</td></tr>
<tr><td colspan="4">Operational level</td></tr>
<tr><td colspan="2">Risk identification, assessment and mitigation performed across the business.</td><td colspan="2">Risk management process and internal control practised across business operations and functional areas.</td></tr>
</table>

Review of Effectiveness of the Risk Management and Internal Control Systems

The Board has overseen the Group's risk management and internal control systems on an ongoing basis to ensure that a review of the effectiveness of the Group's risk management and internal control systems has been conducted at least once a year.

The Directors acknowledge their responsibility for reviewing the effectiveness of the Group's internal control and risk management systems and would communicate regularly with the Audit Committee and the professional internal control consultant engaged by the Group. The Board has reviewed through the work of its Audit Committee and the annual internal control review report and the findings performed by professional internal control consultant and was satisfied to the effectiveness of the Group's internal control and risk management systems for the year ended 31 December 2018.

Inside information

With regard to the internal controls and procedures for the handling and dissemination of inside information, the Group is in compliance with under the Part XIVA and relevant parts of the Securities and Future Ordinances and GEM Listing Rules. To be certain that all the staff members in the Group are aware of the inside information handling, the Group's disclosure policy sets out guidance and procedures to ensure that the inside information of the Group is disseminated to the public completely, accurately and timely. Besides, the Board is responsible to approve the dissemination of the information. The Group also has reasonable measures regarding keeping the sensitive information confidential and ensuring the confidentiality terms are in place in the significant agreements.

COMPANY SECRETARY

The company secretary of the Company has duly complied with the relevant training requirement under Rule 5.15 of the GEM Listing Rules.

CONSTITUTIONAL DOCUMENTS

During the 31 December 2018, there had been no significant changes in the constitutional documents of the Company.

A copy of the Memorandum and Articles of Association of the Company is posted on the designated website of the GEM at www.hkgem.com and the website of the Company at www.ourhkg.com.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

(a) Procedures for convening an extraordinary general meeting and putting forward proposals at shareholders' meetings

Shareholders may put forward proposals at general meetings by requisitioning an extraordinary general meeting. Pursuant to Article 58 of the Articles of Association, extraordinary general meetings may be convened by the Board on the written requisition of any one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. The requisition shall be deposited at the principal office of the Company in Hong Kong (Unit 1103A, 11th Floor, 148 Electric Road, North Point, Hong Kong) or, in the event the Company ceases to have such a principal office, the registered office (Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands) specifying the business to be transacted at the meeting and signed by the requisitionist(s). If the Board does not within 21 days from the date of deposit of the requisition proceed to convene the meeting to be held, the requisitionist(s) himself (themselves) may convene the general meeting in the same manner provided that any meeting so convened shall be held within two months after the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

(b) Communication with Shareholders and investors

Shareholders are provided with detailed information about the Company set out in the quarterly/interim/annual report and/or the circular so that they can exercise their rights in an informed manner.

The Company uses a range of communication tools, such as the annual general meeting, the annual report, interim report, quarterly report, various notices, announcements and circulars, to ensure its Shareholders are kept well informed of key business imperatives.

General meetings of the Company provide a direct forum of communication between its Shareholders and the Board. Shareholders are welcome to put forward enquiries to the Board or the management thereat and the chairman of the Board, or in his absence, an executive Director, as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee, or in their absence, other members of the respective committees, and where applicable, the independent board committee, will be commonly be present and available to answer questions and Shareholders may also contact the company secretary of the Company to direct their written enquires.

The Company is committed to enhance communications and relationships with its investors. Designated management maintains an open dialogue with institutional investors and analysts to keep them abreast of the Company's developments.

The Company also maintains a website at www.ourhkg.com, where updates on the Company's business developments and operations, financial information and news can be found.

Shareholders may at any time send their enquiries and concerns to the Board in writing through the company secretary of the Company whose contact details are as follows: –

Unit 1103A, 11th Floor, 148 Electric Road, North Point, Hong Kong
Fax: +852 3753 2360
Email: info@ourhkg.com

In addition, procedure for Shareholders to propose a person for election as a Director is available on the Company's website at www.ourhkg.com.

The above procedures are subject to the Articles of Association and applicable laws and regulations.

DIRECTORS' RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the financial statements for the year ended 31 December 2018, the Directors have adopted suitable accounting policies and applied them consistently. The Directors are also responsible for keeping proper accounting records with reasonable accuracy for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities. The financial statements for the reporting year have been prepared on a going concern basis.

The Board has not taken any different view from that of the audit committee regarding the selection, appointment, resignation or dismissal of external auditors.

Environmental, Social and Governance Report

The details of environmental, social and governance report of the Group will be disclosed in its annual report, which will be issued in or before 31 March 2019.

Extract from Independent Auditor's Report

The following is an extract of the report from the independent auditors, Elite Partners CPA Limited, on the Group's annual audited financial statements for the year ended 31 December 2018.

QUALIFIED OPINION

We have audited the consolidated financial statements of HangKan Group Limited (formerly known as "Feishang Non-metal Materials Technology Limited") (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the basis for qualified opinion paragraph, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standard Board ("IASB") and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR QUALIFIED OPINION

Opening balances and comparative figures

The auditor's report on the consolidated financial statements of the Group for the year ended 31 December 2017 ("2017 Financial Statements") contained qualification on the limitation of audit scope of (i) de-consolidation of certain subsidiaries; (ii) prepayment to suppliers; and (iii) inventories ("Qualifications"). Details of which has been set out in the auditor's report for 2017 Financial Statements dated 31 May 2018.

As the 2017 Financial Statements formed the basis for the comparative figures presented in the current year's consolidated financial statements, any adjustments found to be necessary in respect of the Qualification would have an effect on (i) the opening balances on the consolidated financial position of the Group as at 31 December 2018; (ii) comparative figures in the consolidated financial statements for the year ended 31 December 2018; and (iii) the related disclosures thereof in the consolidated financial statements of the Group for the year ended 31 December 2018.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	**2018** **CNY'000**	2017 CNY'000
Revenue	4	**51,204**	28,796
Cost of sales		**(29,257)**	(18,456)
Gross profit		**21,947**	10,340
Other income		**1,474**	693
Selling and distribution expenses		**(6,740)**	(3,148)
Administrative and other expenses		**(72,723)**	(73,536)
Finance costs	6	**(1,283)**	(376)
Gain (Loss) on disposal/deconsolidation of subsidiaries		**874**	(5,616)
Loss before tax		**(56,451)**	(71,643)
Income tax expense	7	**(1,134)**	(437)
Loss and total comprehensive expense for the year	8	**(57,585)**	(72,080)
Attributable to:			
Owners of the Company		**(57,585)**	(71,874)
Non-controlling interests		**–**	(206)
		(57,585)	(72,080)
Loss per share (CNY):			
Basic	10	**(10.05) cents**	(14.21) cents
Diluted	10	**(10.05) cents**	(14.21) cents

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 CNY'000	2017 CNY'000
Non-current assets			
Property, plant and equipment		**11,323**	12,187
Prepaid lease payments		**2,509**	2,586
Intangible asset		**5,056**	5,142
Restricted bank balances		**8,965**	8,043
Deferred tax assets		**306**	497
		28,159	28,455
Current assets			
Inventories		**2,166**	2,421
Trade, bills and other receivables	11	**15,989**	69,042
Prepaid lease payments		**77**	77
Pledged bank deposits		**20,000**	–
Bank balances and cash		**29,993**	32,206
		68,225	103,746
Current liabilities			
Trade and other payables	12	**14,504**	12,944
Income tax payables		**916**	169
		15,420	13,113
Net current assets		**52,805**	90,633
		80,964	119,088

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 CNY'000	2017 CNY'000
Capital and reserves			
Share capital	13	**5,688**	4,698
Reserves		**67,071**	106,485
		72,759	111,183
Non-controlling interests		**–**	–
Total equity		**72,759**	111,183
Non-current liabilities			
Asset retirement obligations		**7,725**	7,330
Deferred income		**480**	575
		8,205	7,905
		80,964	119,088

1. CORPORATE INFORMATION AND BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 15 July 2015 and its shares were listed on the GEM of the Stock Exchange on 29 December 2015. Its ultimate controlling shareholder is Mr. Zhang Qiang（張強）, who held approximately 41.01% interests in the Company, continued to be the single largest shareholder of the Company.

The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the address of the principal place of business of the Company is Xiao Keshan, Xingang Town, Fanchang County, Wuhu, Anhui Province, the People's Republic of China (the "PRC").

The Group is principally engaged in the bentonite mining, production and sales of drilling mud and pelletising clay.

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

2. APPLICATIONS OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

New and Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board for the first time:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014-2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATIONS OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) *(Continued)*

New and Amendments to IFRSs that are mandatorily effective for the current year *(Continued)*

2.1 IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue and IAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue from the mining and sales of drilling mud and pelletising clay which arise from contracts with customers.

Information about the Group's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in notes 3 and 4 respectively.

Summary of effects arising from initial application of IFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were n ot affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017	**Reclassification**	**Carrying amounts under IFRS 15 at 1 January 2018***
	CNY'000	CNY'000	CNY'000
Current Liabilities			
Trade and other payables			
Trade payables	1,896	–	1,896
Other payables and accruals	9,988	–	9,988
Accrued director's remuneration	54	–	54
Advance from customers (Note)	1,006	(1,006)	–
Contract liabilities (Note)	–	1,006	1,006
	12,944	–	12,944

2. APPLICATIONS OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS) *(Continued)*

New and Amendments to IFRSs that are mandatorily effective for the current year *(Continued)*

2.1 IFRS 15 Revenue from Contracts with Customers *(Continued)*

Summary of effects arising from initial application of IFRS 15 (Continued)

Note:

As at 1 January 2018, advances from customers of CNY1,006,000 in respect of sales of goods previously included in trade and other payables were reclassified to contract liabilities of CNY1,006,000 included in trade and other payables.

Excepts as described above, the application of IFRS 15 has no impact on the Group's consolidated financial statements.

2.2 IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items (for example, financial guarantee contracts) and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 Financial Instruments: Recognition and Measurement.

Accounting policies resulting from application of IFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of IFRS 9

Classification and measurement of financial assets

The Group's financial assets are classified into loan and receivables which subsequently measured at amortised cost previously. Upon the initial application of IFRS 9, the Group's financial assets are classified as financial assets at amortised costs based on the business model under which the financial assets are managed and its contractual cash flow characteristics. Accordingly, there was no impact on the amounts recognised in relation to financial assets from the application of IFRS 9.

2. APPLICATIONS OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS) *(Continued)*

New and Amendments to IFRSs that are mandatorily effective for the current year *(Continued)*

2.2 IFRS 9 Financial Instruments *(Continued)*

Summary of effects arising from initial application of IFRS 9 (Continued)

Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables.

Except for those which had been determined as credit impaired under IAS 39, trade receivables have been assessed individually with outstanding significant balances, the remaining balances are grouped based on past due analysis.

ECL for other financial assets at amortised cost, including restricted bank balances bill receivables, pledged bank deposits, bank balances, are assessed on 12m ECL basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, no additional credit loss allowance has been recognised against accumulated loss.

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[2]
IFRIC-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3	Definition of a Business[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 IAS 1 and IAS 8	Definition of Materials[2]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle[1]

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

2 Effective for annual periods beginning on or after 1 January 2020.

3 Effective for business combination for which the acquisition date is on or after the first annual periods beginning on or after 1 January 2020.

4 Effective for annual periods beginning on or after 1 January 2021.

5 Effective for annual periods beginning on or after a date to be determined.

Except for the new and amendments to IFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

2. APPLICATIONS OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) *(Continued)*

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

2. APPLICATIONS OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) *(Continued)*

IFRS 16 Leases *(Continued)*

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of CNY578,000. In addition, the Group currently considers refundable rental deposits paid of CNY164,000 as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening accumulated loss without restating comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited ("the "GEM Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

4. REVENUE

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

Disaggregation of revenue from contracts with customers

	2018 **CNY'000**	2017 CNY'000
Types of goods		
Drilling mud	**16,200**	10,185
Pellestising clay	**35,004**	16,926
Ballasts and others	**–**	1,685
	51,204	28,796
Timing of revenue recognition		
At a point in time	**51,204**	28,796
Over time	**–**	–
	51,204	28,796

5. SEGMENT INFORMATION

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

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

Information about geographical areas

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

Information about major customers

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

	2018 **CNY'000**	2017 CNY'000
Customer A	**15,264**	8,583
Customer B	**6,723**	5,278
Customer C	**9,163**	4,492
Customer D	**NA***	3,278
Customer E	**8,716**	NA*

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

Information from major products

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

	2018 **CNY'000**	2017 CNY'000
Drilling mud	**16,200**	10,185
Pelletising clay	**35,004**	16,926
Ballasts and others	**–**	1,685
	51,204	28,796

6. FINANCE COSTS

	2018 CNY'000	2017 CNY'000
Interest expenses on unsecured borrowing	**888**	–
Unwinding of discount on provision for dismantlement	**395**	376
	1,283	376

7. INCOME TAX EXPENSE

	2018 CNY'000	2017 CNY'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	**966**	335
Over-provision in previous year	**(23)**	(13)
	943	322
Deferred taxation:		
Current year	**191**	115
	1,134	437

Notes:

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

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

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

(d) Feishang Material was recognised as a High Technology Enterprise and subject to EIT Law at 15% for both fiscal years.

(e) As at 31 December 2018, the aggregate amount of temporary differences associated with the PRC subsidiary's undistributed retained earnings for which deferred tax liabilities have not been recognised were approximately CNY3,616,600 (2017: CNY3,069,700). No deferred tax liabilities have been recognised in respect of these temporary differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such temporary differences will not be reversed in the foreseeable future.

8. LOSS FOR THE YEAR

	2018 CNY'000	2017 CNY'000
Loss for the year has been arrived at after charging:		
Directors' and chief executive's emoluments	**442**	12,906
Salaries, wages, allowances and other benefits	**7,386**	3,149
Contributions to retirement benefits scheme (excluding directors' and chief executive's emoluments) (Note a)	**1,302**	1,006
	9,130	17,061
Staff costs included in inventories	**310**	410
Total staff costs	**9,440**	17,471
Equity-settled share-based payment		
– Directors	**–**	12,192
– Consultants	**–**	33,872
	–	46,064
Auditor's remuneration	**465**	477
Amortisation of intangible asset	**86**	67
Amortisation of prepaid lease payments	**77**	77
Amount of inventories recognised as an expense	**28,349**	17,870
Exchange loss, net	**658**	2,637
Depreciation of property, plant and equipment	**1,170**	1,157
Loss on disposal/written off of property, plant and equipment	**362**	5
Research and development cost (Note b)	**2,110**	1,485
Prepayment written off	**57,430**	–
Lease payments paid under operating lease in respect of		
– plant and equipment	**2,190**	1,972
– office properties	**269**	184

Notes:

(a) Contributions to retirement benefits scheme of Feishang Material mainly comprised cost of approximately CNY1,295,000 (2017: CNY957,000) offset by the reversal of provision for prior years of approximately CNYNil (2017: CNY43,000). The Group reversed the provision for retirement benefits costs after considering respective relevant local rules and regulations.

(b) Staff cost of approximately CNY443,000 (2017: CNY315,000) are included in the research and development cost for the year ended 31 December 2018.

9. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2018, nor has any dividend been proposed since the end of the reporting period (2017: nil).

10. LOSS PER SHARE

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

	2018 **CNY'000**	2017 CNY'000
Loss		
Loss for the purpose of basic and diluted loss per share	**(57,585)**	(71,874)

	2018	2017
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share ('000 shares)	**572,895**	505,653
Basic and diluted loss per share (CNY)	**(10.05) cents**	(14.21) cents

The computation of diluted loss per share has considered and does not assume the exercise of the Company's share options for the years ended 31 December 2018 and 2017 since their assumed exercise would result in a decrease in loss per share.

11. TRADE, BILLS AND OTHER RECEIVABLES

	2018 **CNY'000**	2017 CNY'000
Trade receivables – goods	**6,344**	3,381
Less: allowance for credit loss	**–**	–
	6,344	3,381
Bills receivables	**8,936**	7,085
Prepayments (Note)	**90**	58,308
Other receivables	**619**	268
	15,989	69,042

11. TRADE, BILLS AND OTHER RECEIVABLES *(Continued)*

Note: As at 31 December 2017, included in prepayments was an amount of approximately CNY57,846,000 which represented trade deposits paid to suppliers for purchases of materials. During the year, the Company has instructed a legal representative to issue demand letter for requesting the refund of remaining balance CNY57,846,000 and the Company has instituted legal proceedings and served the writ of summons and statement of claim against the creditors. Based on the current situation and due to the current tardiness of the repayment, the remaining outstanding balance CNY57,430,000 may not be recoverable. As such, it was in the opinion of the Directors to make a provision for impairment for the remaining outstanding balance of the prepayment.

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to CNY6,344,000 and CNY3,381,000 respectively.

The Group offers revolving credit to its two customers amounted approximately CNY1,300,000 as at 31 December 2018 (2017: one customer amounted CNY900,000). This revolving credit provides for a predetermined credit limit that may be outstanding at any one time based on their background, credit history, length of business relationship and historical transaction amounts. The Group generally evaluates the credit limits granted to the customer annually upon renewal of the relevant sales agreements and upon special request from the customers. The Group held charges on such customers' buildings as collaterals over the balance of approximately CNY1,300,000 as at 31 December 2018 (2017: CNY900,000). Such collateral is not transferable and rentable and can be realised by the Group at first priority upon the liquidation or deregistration of such customer. For the remaining balances of approximately CNY5,044,000 as at 31 December 2018 (2017: CNY2,481,000), the Group does not hold any collateral over these amounts.

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

	2018 **CNY'000**	2017 CNY'000
Within 30 days	**5,491**	2,944
31 to 60 days	**853**	357
61 to 90 days	**–**	77
91 to 180 days	**–**	–
More than 180 days	**–**	3
Total	**6,344**	3,381

12. TRADE AND OTHER PAYABLES

	2018 **CNY'000**	2017 CNY'000
Trade payables	**2,668**	1,896
Other payables and accruals	**10,867**	9,988
Accrued directors' remunerations	**26**	54
Advance from customers	**–**	1,006
Contract liabilities	**943**	–
	14,504	12,944

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

	2018 **CNY'000**	2017 CNY'000
Within 30 days	**1,950**	1,682
31 to 60 days	**627**	119
61 to 90 days	**15**	22
91 to 365 days	**31**	28
Over 1 year	**45**	45
Total	**2,668**	1,896

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.

The Group receives payments from customers based on billing schedule as established in contracts. Contract liabilities represents payments that are usually received in advance under the contracts which are mainly from sales of drilling mud and pelletising clay.

The following table shows the amount of the revenue recognised for the year ended 31 December 2018 relates to carried-forward contract liabilities.

	2018 **CNY'000**
Revenue recognised that was included in the contract liabilities balance at 1 January 2018	
Sales of drilling mud and pelletising clay	**1,006**

13. SHARE CAPITAL

	Number of shares		Share capital			
	2018	2017	2018		2017	
				(Equivalent to)		(Equivalent to)
	'000	'000	HK$'000	CNY'000	HK$'000	CNY'000
Ordinary share of HK$0.01 each						
Authorised						
At the end of the financial year	10,000,000	10,000,000	100,000		100,000	
Issued and fully paid						
At the beginning of the financial year	558,810	500,000	5,588	4,698	5,000	4,188
Placing of new shares (Note a)	111,762	40,000	1,118	990	400	347
Subscription of new shares (Note b)	–	10,000	–	–	100	87
Issue of shares upon exercise of share options (Note c)	–	8,810	–	–	88	76
At the end of the financial year	670,572	558,810	6,706	5,688	5,588	4,698

Notes:

(a) On 31 October 2017, the Company entered into a private placing agreement with a placing agent for the placing of an aggregate 40,000,000 new ordinary shares of the Company at a placing price of HK$1.45 per share. The gross proceeds raised amounted to HK$58,000,000 (before transaction costs of approximately HK$1,312,000) and resulted in the net increase in share capital and share premium of HK$400,000 and HK$56,288,000 respectively (equivalent to CNY347,000 and CNY48,808,000 respectively). The placing was completed on 24 November 2017. Details of the placing are set out in the Company's announcements dated 31 October 2017 and 24 November 2017 respectively.

On 22 October 2018, the Company entered into a private placing agreement with a placing agent for the placing of an aggregate 111,762,000 new ordinary shares of the Company at a placing price of HK$0.207 per share. The gross proceeds raised amounted to HK$23,135,000 (before transaction costs of approximately HK$1,506,000) and resulted in the net increase in share capital and share premium of HK$1,118,000 and HK$21,629,000 respectively (equivalent to CNY990,000 and CNY18,171,000 respectively). The placing was completed on 16 November 2018. Details of the placing are set out in the Company's announcements dated 22 October 2018, 9 November 2018 and 16 November 2018 respectively.

(b) On 31 October 2017, the Company entered into a subscription agreement with Mr. Cheong Weixiong for the placing and subscription of 10,000,000 new ordinary shares of the Company at a subscription price of HK$1.45 per share. The gross proceeds raised amounted to HK$14,500,000 and resulted in the net increase in share capital and share premium of approximately HK$100,000 and HK$14,400,000 respectively. (equivalent to CNY87,000 and CNY12,486,000 respectively). The subscription was completed on 24 November 2017. Details of the subscription are set out in the Company's announcement dated 31 October 2017 and 24 November 2017 respectively.

(c) During the year ended 31 December 2017, 8,810,000 share options had been exercised by holders at an exercise price of HK$1.64 per option to subscribe for 8,810,000 ordinary shares of the Company at a total consideration of approximately HK$14,448,000 in which the consideration was credited to share capital of approximately HK$88,000 and share premium of approximately HK$14,360,000 (equivalent to CNY76,000 and CNY12,453,000 respectively). The share options reserve has been decreased by approximately HK$9,493,000 (equivalent to CNY8,232,000) and was transferred to share premium account.

By Order of the Board
HangKan Group Limited
SU Chun Xiang
Executive Director

Hong Kong, 7 March 2019

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

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

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