恆勤集團有限公司
HangKan Group Limited

(incorporated in Cayman Islands with limited liability)

(Stock code: 8331)

ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The Board of Directors (the "**Board**") of HangKan Group Limited (the "**Company**") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (together the "**Group**") for the year ended 31 December 2019.

The auditing process for the annual results for the year ended 31 December 2019 has not been completed due to the outbreak of the novel coronavirus epidemic. The unaudited results contained herein have not been agreed by the Company's auditors. An announcement relating to the audited results will be made when the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants. The unaudited annual results contained herein have been reviewed by the audit committee of the Company.

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

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

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

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. SU Chun Xiang
Mr. PANG Ho Yin (appointed on 15 May 2019)

Independent Non-executive Directors
Mr. LEE Ming Tung (appointed on 24 June 2019)
Mr. KO Yat Fei (retired on 24 June 2019)
Mr. CHOW Chi Hang Tony
Ms. SHAO Yu

AUTHORISED REPRESENTATIVES

Mr. SU Chun Xiang
Mr. KAM Tik Lun (resigned on 31 August 2019)
Ms. CHIK Wai Chun (appointed on 31 August 2019)

COMPANY SECRETARY

Mr. KAM Tik Lun (resigned on 31 August 2019)
Ms. CHIK Wai Chun (appointed on 31 August 2019)

COMPLIANCE OFFICER

Mr. SU Chun Xiang

AUDIT COMMITTEE

Mr. LEE Ming Tung *(Chairman)* (appointed on 24 June 2019)
Mr. KO Yat Fei *(Chairman)* (retired on 24 June 2019)
Mr. CHOW Chi Hang Tony
Ms. SHAO Yu

NOMINATION COMMITTEE

Mr. CHOW Chi Hang Tony *(Chairman)*
Mr. LEE Ming Tung (appointed on 24 June 2019)
Mr. KO Yat Fei (retired on 24 June 2019)
Ms. SHAO Yu

REMUNERATION COMMITTEE

Mr. LEE Ming Tung *(Chairman)* (appointed on 24 June 2019)
Mr. KO Yat Fei *(Chairman)* (retired on 24 June 2019)
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

71 Fort Street
P.O. Box 500, George Town
Grand Cayman KY1-1106
Cayman Islands

HONG KONG OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

COMPANY'S WEBSITE

http://www.ourhkg.com

COMPANY'S STOCK CODE

8331.HK

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Global Services (Cayman) Limited
71 Fort Street
P.O. Box 500, George Town
Grand Cayman KY1-1106
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

LEGAL ADVISERS

(As to Cayman Islands Law)
Appleby Global Services (Cayman) Limited

PRINCIPAL BANKERS

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

Management Discussion and Analysis

BUSINESS REVIEW

The gradual recovery of the general economy and further advancement of the supply-side reform policy resulted in improvement in profitability in the iron and steel industry. However, as discussed in the business review for the 2019 third quarterly report for the nine months ended 30 September 2019 (the "2019 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 ended 31 December 2019 (the "Year"). 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 2019 as compared to the corresponding period in 2018. It was also set out in the business review for the 2019 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.

Business Strategies Review with Progress of Implementation

The Group aims to strengthen its market position in the People's Republic of China (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 2018 Annual Report with the actual progress of implementation as at 31 December 2019.

Business Strategy	Implementation Plan	Progress of Implementation as of 31 December 2019
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;

Business Strategy	Implementation Plan	Progress of Implementation as of 31 December 2019
	(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 one new drilling mud customer and three new pelletising clay customers starting their purchases with the Group in 2019; 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/montmorillonite nano-composite conductive coating materials and (b) titanium dioxide/ montmorillonite nano-composite materials and photocatalytic.
Recruitment of more talents	Recruiting more experienced personnel who possess abundant knowledge and rich experience in various aspects of the business, including mine design and construction, mining, processing, sales and marketing and research and development of principal products.	The Group was in the process of recruiting more experienced personnel for processing, sales and marketing, and research and development.
Acquisition of other non-metal mines	Evaluating any potential targets meeting the criteria when opportunities arise.	The Company entered MOU with the Potential Vendor to acquire certain equity interest in a company in the PRC principally engaging in mining, processing and sales of black marble (dolerite) mine on 14 February 2017. As per the result of the Company's internal assessment , the acquisition is not viable and is abandoned.

Management Discussion and Analysis

Business Strategy	Implementation Plan	Progress of Implementation as of 31 December 2019
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; Completed the modification of existing rotary drum dryer; Purchased one new flour mill; Completed the modification of existing transformer room; Purchased one electric motor and one electric belt scale; Purchased and completed the construction of two new storage tanks; and Purchased one flour mill and fittings of the machine.

Management Discussion and Analysis

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	2.1311 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 March 2019 to 9 March 2022	
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 2019) (Note 2)	Dry	Wet
Proved reserve (metric tonnes)	1,271,000	1,552,000
Probable reserve (metric tonnes)	4,724,000	5,910,000
Total (metric tonnes)	5,995,000	7,462,000
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	CNY Nil	
Output for the Year (metric tonnes)	149,000	

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 2019 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 2019 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 2019.

(3) There is no exploration activity carried out by the Group during the Year.

Employees and Remuneration Policy

On 31 December 2019, the Group had a total of 93 full-time employees (2018: 93) for its main business. For the year ended 31 December 2019, the Group incurred staff costs, including Directors' remuneration, of approximately CNY10.2 million (2018: CNY9.4 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 2019 and the date of this announcement, the Group has maintained good working relationships with its employees. The management team and employees have remained stable.

FINANCIAL REVIEW

Items of the Consolidated Statement of Profit or Loss

Items	**For the year ended 31 December 2019 CNY'000 (unaudited)**	For the year ended 31 December 2018 CNY'000 (audited)	**Change** (%)
Revenue	**58,099**	51,204	13.5
Cost of sales	**(28,153)**	(29,257)	(3.8)
Gross profit	**29,946**	21,947	36.4
Other income	**2,337**	1,474	58.5
Selling and distribution expenses	**(7,308)**	(6,740)	8.4
Administrative and other expenses	**(15,907)**	(15,293)	4.0
Finance costs	**(451)**	(1,283)	(64.8)
Prepayment written off	**–**	(57,430)	–
Gain on disposal of subsidiaries	**–**	874	–
Income tax expense	**(1,209)**	(1,134)	6.6
Profit (loss) and total comprehensive income (expense) for the Year	**7,408**	(57,585)	(112.9)

Revenue

Breakdown of the Group's Revenue by Products

	2019		2018	
	CNY'000 (unaudited)	%	CNY'000 (audited)	%
Drilling mud	**20,351**	**35.0**	16,200	31.6
Pelletising clay	**37,748**	**65.0**	35,004	68.4
Total revenue	**58,099**	**100**	51,204	100.0

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

	2019		2018	
	Sales volume (tonnes)	Average selling price (CNY/tonne)	Sales volume (tonnes)	Average selling price (CNY/tonne)
Drilling mud	**45,926**	**443.1**	39,929	405.7
Pelletising clay	**81,574**	**462.7**	87,999	397.8

The revenue increased by approximately 13.5% from approximately CNY51.2 million in 2018 to approximately CNY58.1 million in 2019. The increase in revenue was mainly contributed by: (i) the increase in sales volume and average selling price of drilling mud; and (ii) the increase in average selling price of pelletising clay, which was partly offset by the decrease in sales volume of pelletising clay. Thanks to the stable investment environment in infrastructure construction industry, the demand of drilling mud was strong in 2019 and its sales volume recorded an increase by approximately 15.0% from approximately 40,000 tonnes in 2018 to approximately 46,000 tonnes in 2019. Since the Group continuously focused on quality management and customer service, average selling prices of both drilling mud and pelletsing clay were steady with rise in 2019.

Cost of Sales

Breakdown of the Group's Cost of Sales

Cost Items	2019 CNY'000 (unaudited)	2019 %	2018 CNY'000 (audited)	2018 %
Extraction costs	**935**	**3.3**	708	2.4
Processing costs				
–Air-drying costs	**2,063**	**7.3**	1,881	6.4
–Consumables, materials and supplies	**8,027**	**28.5**	12,508	42.7
–Depreciation and amortisation	**1,102**	**3.9**	1,046	3.6
–Staff costs	**5,071**	**18.0**	4,287	14.7
–Transportation costs	**4,240**	**15.1**	3,685	12.6
–Utility costs	**3,756**	**13.3**	3,184	10.9
–Others	**1,991**	**7.1**	1,050	3.6
Sales tax and surcharges	**968**	**3.5**	908	3.1
Total cost	**28,153**	**100.0**	29,257	100

Breakdown of the Group's Cost of Sales by Products

Cost Items	2019 Average cost of sales CNY/tonne	2019 Total cost of sales CNY'000 (unaudited)	2019 %	2018 Average cost of sales CNY/tonne	2018 Total cost of sales CNY'000 (audited)	2018 %
Drilling mud	**194.5**	**8,932**	**31.7**	216.7	8,654	29.6
Pelletising clay	**235.6**	**19,221**	**68.3**	234.1	20,603	70.4
		28,153	**100.0**		29,257	100.0

The total cost of sales decreased by approximately 3.8% from approximately CNY29.3 million in 2018 to approximately CNY28.2 million in 2019. The decrease in total cost of sales was mainly attributed to: (i) the decrease in sales volume of pelletising clay; and (ii) the decrease in unit processing costs of drilling mud. The offset factor was the increase in sales volume of drilling mud. The decrease in unit processing cost was mainly contributed by the decrease in cost of consumables and materials such as sodium carbonate.

Cost of sales for drilling mud increased by approximately 3.2% from approximately CNY8.7 million in 2018 to approximately CNY8.9 million in 2019. The increase in cost of sales for drilling mud was mainly attributed to the increase in the sales volume by approximately 15.0%. The offset factor was the decrease in unit processing costs from CNY216.7 per tonne in 2018 to CNY194.5 per tonne in 2019. The reason for the decrease in unit processing costs has been discussed above.

Cost of sales for pelletising clay decreased by approximately 6.7% from approximately CNY20.6 million in 2018 to approximately CNY19.2 million in 2019. The decrease in cost of sales for pelletising clay was mainly due to the decrease in sales volume by approximately 7.3% from 87,999 tonnes in 2018 to 81,574 tonnes in 2019.

Gross Profit and Gross Margin

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

	2019		2018	
	Gross profit CNY'000 (unaudited)	**Gross profit margin % (unaudited)**	Gross profit CNY'000 (audited)	Gross profit margin % (audited)
Drilling mud	**11,419**	**56.1**	7,546	46.6
Pelletising clay	**18,527**	**49.1**	14,401	41.1
	29,946	**51.5**	21,947	42.9

The overall gross profit increased by approximately 36.4% from approximately CNY21.9 million in 2018 to approximately CNY29.9 million in 2019, and the overall gross profit margin increased from approximately 42.9% in 2018 to approximately 51.5% in 2019. The increase in the overall gross profit was mainly due to: (i) the increase in sales volume and average selling price of drilling mud; and (ii) the increase in average selling price of pelletising clay. The increase in overall gross profit margin was contributed by the combined effect of increase in average selling price of both drilling mud and pelletising clay and decrease in unit processing cost of drilling mud.

Gross profit for the sale of drilling mud significantly increased by approximately 51.3% from approximately CNY7.5 million in 2018 to approximately CNY11.4 million in 2019, while the gross profit margin for the sale of drilling mud increased from approximately 46.6% in 2018 to approximately 56.1% in 2019. The increase in gross profit for the sale of drilling mud was mainly contributed by the increase in sales volume by approximately 15.0%. The increase in gross profit margin was attributed to: (i) the increase in average selling price of drilling mud by approximately 9.2% from CNY405.7 per tonne in 2018 to CNY443.1 per tonne in 2019; and (ii) the decrease in unit cost of drilling mud by 10.2% from CNY216.7 per tonne in 2018 to CNY194.5 per tonne in 2019. The reason for the decrease in unit cost of drilling mud has been discussed above.

Gross profit for the sale of pelletising clay increased by approximately 28.7% from approximately CNY14.4 million in 2018 to approximately CNY18.5 million in 2019, while the gross profit margin for the sale of pelletising clay increased from approximately 41.1% in 2018 to approximately 49.1% in 2019. The increase in gross profit and gross profit margin for the sale of pelletising clay was mainly contributed by the increase in the average selling price by approximately 16.3% from CNY397.8 per tonne in 2018 to CNY462.7 per tonne in 2019. The offset factor for the gross profit is the decrease in the sales volume by approximately 7.3%.

Other Income

Other income increased by approximately CNY0.9 million from approximately CNY1.5 million in 2018 to approximately CNY2.3 million in 2019. The increases were mainly attributed to (a) an increase in bank interest income; and (b) an increase in guarantee fee from the Back-to-back Guarantee Agreement.

Selling and Distribution Expenses

The selling and distribution expenses increased by approximately 8.4% from approximately CNY6.7 million in 2018 to approximately CNY7.3 million in 2019. This was primarily due to an increase in transportation cost arising from the increased in sales volume of drilling mud, which the Group was responsible for the delivery cost which has been factored into the selling price.

Administrative and Other Expenses

The administrative and other expenses increased by approximately 4.0% from approximately CNY15.3 million in 2018 to approximately CNY15.9 million in 2019. The increases were mainly due to (a) the increase in staff cost because of the raise in bonus of administrative departments; and (b) the increase in operating expenses.

Finance Costs

The finance costs decreased by approximately 64.8% from approximately CNY1.3 million in 2018 to approximately CNY451,000 in 2019. This was due to the decrease in interest expense of the short-term loans in 2019.

Income Tax Expense

The Group had an income tax expense of approximately CNY1.2 million in 2019 as compared to approximately CNY1.1 million in 2018. 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.

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

The profit and total comprehensive income for the Year was approximately CNY7.4 million in 2019, an increase of approximately CNY65 million from the loss of approximately CNY57.6 million in 2018. 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 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 whole still remain good.

FINANCIAL RESOURCES REVIEW

Liquidity, Financial Resources and Capital Structure

As at 31 December 2018 and 2019, the Group had net current assets of approximately CNY52.8 million and approximately CNY55.5 million, respectively.

As at 31 December 2019, the Group had cash and cash equivalents of approximately CNY39.2 million which was mainly dominated in CNY.

As at 31 December 2019, the Group had a general bank facility of CNY20 million (2018: CNY20 million) which was secured by pledged fixed deposits.

Gearing Ratio

As at 31 December 2019, the gearing ratio was nil (2018: 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 2019, the Group did not have any loan capital or debt securities issued or agreed to be issued, outstanding bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits, finance leases or hire purchase commitments or guarantees or material contingent liabilities.

Management Discussion and Analysis

OUTLOOK

Due to the outbreak of the novel coronavirus ("COVID-19") in early 2020 in China and around the world, the Chinese economy will inevitably face more challenges and further slow down. Unprecedented measures including the lockdown of Hubei province and the extension of the Spring Festival holiday will affect both production and consumption, especially in the first quarter of 2020. Notwithstanding that, the Chinese government has responded with the implementation of strong fiscal and monetary stabilising policies, which will support infrastructure construction and the iron and steel and energy sectors, aiming to limit the adverse impacts of COVID-19.

Within the bentonite industry, uncertainties due to COVID-19 will cause market competition to further intensify, and prices face downward pressure. Meanwhile, 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 COVID-19 and 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 2019, 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 announcement.

FUND RAISING ACTIVITIES

Use of Listing Proceeds

In respect of the listing proceeds from the initial public offering of the Company in 2015 was approximately HK$12.7 million. The listing proceeds of HK$9.1 million remains unutilised and has been placed as short-term interest-bearing deposit with authorised financial institutes in the PRC.

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								
	From Listing Date up to 31 December 2015 (HK$ million)	**For the six months ending 30 June 2016** (HK$ million)	**For the six months ending 31 December 2016** (HK$ million)	**For the six months ending 30 June 2017** (HK$ million)	**For the six months ending 31 December 2017** (HK$ million)	**Total net proceeds** (HK$ million)	**Approximate percentage of proceeds** %	**Actual use of net proceeds up to the date of this announcement** (HK$ million)	
Development of production technology for new products	–	–	–	–	7.7	7.7	60.6	–	(Note 1)
Improvement of plant and equipment	–	0.4	4.6	–	–	5.0	39.4	3.6	(Note 2)
Total	–	0.4	4.6	–	7.7	12.7	100.0	3.6	

Notes:

(1) The proceeds in the amount of HK$7.7 million was scheduled to be utilised in the payment of research and development fee and payment for the patents of production technology by various collaborating institutes by the end of 2017. However, payment has not been made for the intended uses as the research results were not as anticipated. The Group intends to utilise the remaining proceeds for the intended uses on or before 31 December 2021.

(2) China's economy has been in the L-type bottom stage and in the key stage since 2016 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 since the second half of 2016 until a sustainable positive industry signal is envisaged. As the demand for the Company's products are strong, the Company has re-commenced the plant and equipment improvement plan in 2019.

Use of Proceeds from Placing

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 completed. The net proceeds from the Placing, after deducting the commissions and other fees and expenses in relation to the placing, amounted to approximately HK$21.4 million (equivalent to approximately CNY18.1 million). 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 Group had used the net proceeds for the Year and the expected timeline for the utilization of the remaining net proceeds is set out below:

	Original allocation of net proceeds			Utilization up to 31 December 2018		Utilization up to 31 December 2019		Expected amounts to be utilized for the year ended 31 December 2020	
	HK$ (million)	CNY Equivalent (million)	% of net proceeds	HK$ (million)	CNY Equivalent (million)	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	6.1	5.4	2.2	1.6
Settlement of professional and audit fees	6.6	5.6	30.8%	2.2	1.9	3.6	3.2	3.0	2.4
General working capital of the Group (note)	6.5	5.5	30.4%	0.4	0.3	4.5	3.9	2.0	1.6
Total	21.4	18.1	100%	8.7	7.4	14.2	12.5	7.2	5.6

Note:

The following table sets out the breakdown of the use of proceeds as general working capital of the Group up to 31 December 2019:

	HK$'000	CNY'000
Administrative expenses	902.9	796.3
Consultation and service	2,349.3	2,071.9
Rental costs	599.2	528.4
Staff cost (including the Director's emoluments)	645.8	569.5
Total	4,497.2	3,966.1

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no other significant investment, material acquisition and disposal during the Year.

OTHER INFORMATION

(a) Prepayment to suppliers

Reference was made to the Company's 2018 Annual Report, 2019 Interim Results and third quarterly results for the nine months ended 30 September 2019, regarding the failure of the suppliers namely Lituo Enterprise (HK) Limited, Trade Rosy Global Limited and Kai Muk Company (together the "Suppliers") to refund the trade deposits in the total amount of approximately CNY57.8 million to the Company. The Company has:

i) instituted legal proceedings against Lituo Enterprise (HK) Limited on 18 October 2018 to recover the outstanding deposits amounted HK$10,930,000 under High Court Action No. 2449 of 2018. After Lituo Enterprise (HK) Limited filed its defence on 28 November 2018, the Company sought legal advice from its legal adviser and was advised to amend the statement of claim in this action. As the Judiciary has adjourned court proceedings and closed court registries/offices since 29 January 2020 owing to the novel coronavirus epidemic and the Judiciary has announced resumption of proceedings in March 2020, it is envisaged that the application for the amendment will be taken out in April 2020. The case is in progress;

ii) instituted legal proceedings against, Lituo Enterprise (HK) Limited and another company which was the payee designated by Lituo Enterprise (HK) Limited under the underlying contract, to recover the outstanding deposits amounted to HK$35,000,000 under High Court Action No. 2450 of 2018. Lituo Enterprise (HK) Limited filed its defence on 28 November 2018. As the another company ("the 2nd Defendant"), which is a company incorporated in the British Virgin Islands with no principal office registered in Hong Kong, the Company appointed a service agent on 18 December 2019 to have served a warning letter, together with the Order of Master Kot dated 9 November 2018 on the 2nd Defendant, thereby requiring the 2nd Defendant to file an acknowledgement of proceedings on or before 23 January 2020 with the High Court of Hong Kong; The 2nd Defendant has no response thereto and on 10 March 2020 the Company, by way of an ex-parte application, applied for Judgement to be granted against the 2nd Defendant. The case is in progress.

iii) issued demand letter to Trade Rosy Global Limited requesting the refund of deposits amounted HK$14,500,000 on 1 November 2018. Trade Rosy Global Limited does not respond and has failed and/or refused to pay the deposit or any part thereof. Thereafter, there had been discussion by the Company with its legal adviser to explore the alternate legal action to institute winding up proceedings against Trade Rosy Global Limited in British Virgin Islands. However, based on the limited information about Trade Rosy Global Limited and its lack of response, the Board considered that the lengthy period of time and substantial legal costs and expenses to be incurred if it were to initiate legal proceedings against Trade Rosy Global Limited to recover the deposit. Accordingly, the Board considered that it would be in the best interest of the Company and its shareholders as a whole to refrain from taking any further action against Trade Rosy Global Limited for the time being until there is a better chance to seek meaningful remedial actions to recover the deposit from Trade Rosy Global Limited.; and

iv) instituted legal proceedings against Kai Muk Company to recover the remaining balance of a deposit amounted HK$8,530,000 under High Court Action No. 1767 of 2018. The parties attended a mediation session on 28 October 2019 but were unable to reach an agreement on any settlement arrangement. Thereafter, the parties were initially scheduled to fix a date for pre-trial review and trial on 29 January 2020, but such appointment was rescheduled due to the closure of court offices in view of the novel coronavirus epidemic. The court offices have gradually re-opened for registry business in March 2020. The parties will proceed with fixing dates for the pre-trial review and trial once notified of the date of the rescheduled fix date appointment. The case is in progress.

As disclosed in the 2018 Annual report dated 7 March 2019, full provision for impairment for the possible unrecoverable prepayments to the Suppliers had been made by the Company during the year ended 31 December 2018.

The Company will make further announcement(s) and/or update the above in its financial reports to inform its Shareholders and potential investors of any material development of the above court proceedings as and when appropriate.

(b) Back-to-back Guarantee Agreement

Reference was made to the announcement dated 29 July 2019 in relation to the renewal of financial guarantee services. A Renewal Agreement to renew the Back-to-back Guarantee Agreement was entered by 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 (the "Wuhu Subsidiary"), pursuant to which the Wuhu Subsidiary has agreed to provide financial guarantee to the Borrower by means of pledging its deposit in the sum of CNY20 million for procuring the Borrower to obtain the loan of CNY19 million provided by the lending bank. The Guarantee shall be for a term of one year. In return, the Wuhu Subsidiary shall receive a guarantee fee of 6% of the amount of deposit pledged by the Wuhu Subsidiary. The Board considers that the Group has surplus cash in CNY in excess of the working capital needs for its business operation in the PRC. The provision of Guarantee in favour of the Borrower will better utilize the Group's surplus cash with reasonable return.

As save as above, there is no material event undertaken by the Company or the Group during the Year and up to the date of this announcement.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

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

As at 31 December 2019, 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 2019, 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.

Management Discussion and Analysis

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

As at 31 December 2019, 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.

As at 31 December 2019, no options were 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 2019 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.

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. LEE Ming Tung (chairman of the Audit Committee) (appointed on 24 June 2019), Mr. KO Yat Fei (the chairman of the Audit Committee) (retired on 24 June 2019), 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 unaudited consolidated financial statements of the Group for the Year have been reviewed by the Audit Committee.

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.

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. 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.

COMPLIANCE

As at 31 December 2019, as stated in "Business – Legal proceedings and regulatory compliance – Regulatory non-compliance" of the Prospectus, in relation to the incidents of non-compliance with the applicable laws and regulations including those relating to environmental protection, land rehabilitation, safety, etc., the Group had already taken remedial actions and implemented relevant internal control measures. All these aspects have been in compliance with applicable laws and regulations as at the date of this announcement. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations, in particular, those which have a significant impact on the Group. The compliance committee of the Company is not aware of the occurrence of any other material non-compliance incidents during the reporting period.

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.

Unaudited Consolidated Statement of Profit or Loss and Other Comprehensive Income

The Board of the Company is pleased to announce the unaudited consolidated annual results of the Group for the year ended 31 December 2019, together with the comparative audited figures for the corresponding periods in 2018 as follows:

	Notes	**2019 CNY'000 (unaudited)**	2018 CNY'000 (audited)
Revenue	4	**58,099**	51,204
Cost of sales		**(28,153)**	(29,257)
Gross profit		**29,946**	21,947
Other income		**2,337**	1,474
Selling and distribution expenses		**(7,308)**	(6,740)
Administrative and other expenses		**(15,907)**	(72,723)
Finance costs	6	**(451)**	(1,283)
Gain on disposal of subsidiaries		**–**	874
Profit (Loss) before tax		**8,617**	(56,451)
Income tax expense	7	**(1,209)**	(1,134)
Profit (Loss) and total comprehensive income (expense) for the year attributable to owners of the Company	8	**7,408**	(57,585)
Earnings (loss) per share (CNY):			
Basic	10	**1.10 cents**	(10.05) cents
Diluted	10	**1.10 cents**	(10.05) cents

Unaudited Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	**2019 CNY'000 (unaudited)**	2018 CNY'000 (audited)
Non-current assets			
Property, plant and equipment		**15,470**	11,323
Prepaid lease payments		**–**	2,509
Right-of-use assets		**2,701**	–
Intangible asset		**4,933**	5,056
Restricted bank balances		**9,935**	8,965
Deferred tax assets		**142**	306
		33,181	28,159
Current assets			
Inventories		**3,158**	2,166
Trade, bills and other receivables	11	**14,483**	15,989
Prepaid lease payments		**–**	77
Pledged bank deposits		**20,000**	20,000
Bank balances and cash		**39,158**	29,993
		76,799	68,225
Current liabilities			
Trade and other payables	12	**18,922**	14,504
Lease liability		**205**	–
Income tax payables		**2,158**	916
		21,285	15,420
Net current assets		**55,514**	52,805
		88,695	80,964

Unaudited Consolidated Statement of Financial Position – Cont'd

As at 31 December 2019

	Notes	**2019 CNY'000 (unaudited)**	2018 CNY'000 (audited)
Capital and reserves			
Share capital		**5,688**	5,688
Reserves		**74,479**	67,071
Total equity		**80,167**	72,759
Non-current liabilities			
Asset retirement obligations		**8,143**	7,725
Deferred income		**385**	480
		8,528	8,205
		88,695	80,964

Unaudited Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital CNY'000	Share premium CNY'000	Other reserve CNY'000 (Note i)	Statutory reserve CNY'000 (Note ii)	Safety fund and production maintenance fund CNY'000 (Note iii)	Accumulated loss CNY'000	Total CNY'000
At 1 January 2019	5,688	126,103	23,351	4,103	1,178	(87,664)	72,759
Profit and total comprehensive income for the year	–	–	–	–	–	7,408	7,408
Appropriation to statutory reserve	–	–	–	1,089	–	(1,089)	–
Appropriation and utilisation of safety fund and production maintenance fund, net	–	–	–	–	160	(160)	–
At 31 December 2019 (unaudited)	5,688	126,103	23,351	5,192	1,338	(81,505)	80,167

	Share capital CNY'000	Share premium CNY'000	Share options reserve CNY'000	Other reserve CNY'000 (Note i)	Statutory reserve CNY'000 (Note ii)	Safety fund and production maintenance fund CNY'000 (Note iii)	Accumulated loss CNY'000	Total CNY'000
At 1 January 2018	4,698	107,932	37,833	23,351	3,556	970	(67,157)	111,183
Loss and total comprehensive expense for the year	–	–	–	–	–	–	(57,585)	(57,585)
Appropriation to statutory reserve	–	–	–	–	547	–	(547)	–
Appropriation and utilisation of safety fund and production maintenance fund, net	–	–	–	–	–	208	(208)	–
Lapsed of share options	–	–	(37,833)	–	–	–	37,833	–
Placing of new shares (Note 29)	990	19,677	–	–	–	–	–	20,667
Transaction costs attribute to the issue of new shares (Note 29)	–	(1,506)	–	–	–	–	–	(1,506)
At 31 December 2018 (audited)	5,688	126,103	–	23,351	4,103	1,178	(87,664)	72,759

Notes:

(i) Other reserve

It represented (a) the capital contribution from the previous controlling shareholder, Mr, Li Feilie ("Mr. Li") of Feishang International Holdings Limited ("Feishang International") during the fiscal year of 2002 to 2003; and (b) the difference between the nominal value of the issued share capital of the Company and share capital of the then holding company, Feishang International, upon the group reorganisation.

(ii) Statutory reserve

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

(iii) Safety fund and production maintenance fund

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

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 71 Fort Street, P.O. Box 500, George Town, Grand Cayman KY1-1106, Cayman Islands and the address of the principal place of business of the Company is Unit 1103A, 11th Floor, 148 Electric Road, North Point, Hong Kong.

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 IFRS, that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standard Board ("IASB") for the first time in the current year:

IFRS 16	Leases
IFRIC-Int 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

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

IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current interim period. IFRS 16 superseded IAS 17 Leases ("IAS 17"), and the related interpretations.

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

Definition of a lease

The Group has elected 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 standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of IFRS 16:

The Group recognised lease liabilities of CNY523,000 and right-of-use assets of CNY3,109,000 at 1 January 2019.

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

As a lessee *(Continued)*

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 8.90%.

	Note	CNY'000
Operating lease commitments disclosed as at 31 December 2018		578
Lease liabilities at 1 January 2019 discounted at relevant incremental borrowing rates		523
Analysed as		
Current		339
Non-current		184
		523

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Note	CNY'000
Right-of-use assets relating to operating leases recognised upon application of IFRS 16		523
Reclassified from prepaid lease payments	(a)	2,586
		3,109
By class:		
Office premises		523
Land use rigths		2,586
		3,109

Notes:

(a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to CNY77,000 and CNY2,509,000 respectively were reclassified to right-of-use assets.

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

As a lessee *(Continued)*

There is no impact of transition to IFRS 16 on accumulated losses at 1 January 2019.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Notes	Carrying amount previously reported at 31 December 2018	Adjustments	Carrying amount under IFRS 16 at 1 January 2019
		CNY'000	CNY'000	CNY'000
Non-current assets				
Prepaid lease payments		2,509	(2,509)	–
Right-of-use assets		–	3,109	3,109
Current assets				
Prepaid lease payments		77	(77)	–
Current liabilities				
Lease liabilities		–	339	339
Non-current liabilities				
Lease liabilities		–	184	184

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

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

New and amendments to IFRSs in issue but not yet effective

IFRS 17	Insurance Contracts[1]
Amendments to IFRS 3	Definition of Business[2]
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 Material[4]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[4]

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

2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

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

4 Effective for annual periods beginning on or after 1 January 2020

The directors of the Company consider that the application of all new and amendments to IFRSs and IASs is unlikely to have a material impact on the Group's financial position and performance as well as disclosure in foreseeable future.

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.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

4. REVENUE

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

Disaggregation of revenue from contracts with customers

	2019 CNY'000 (unaudited)	2018 CNY'000 (audited)
Types of goods		
Drilling mud	**20,351**	16,200
Pellestising clay	**37,748**	35,004
	58,099	51,204
Timing of revenue recognition		
At a point in time	**58,099**	51,204
Over time	**–**	–
	58,099	51,204

Performance obligations
Information about the Group's performance obligations is summarised below:

Sale of bentonite products
The performance obligation is satisfied upon delivery of the drilling mud and pellestising clay and payment is generally due within 60 to 90 days from delivery, except for new customers, where payment in advance is normally required.

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.

5. SEGMENT INFORMATION *(Continued)*

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:

	2019 CNY'000 (unaudited)	2018 CNY'000 (audited)
Customer A	**14,465**	15,264
Customer B	**13,191**	8,716
Customer C	**10,355**	9,163
Customer D	**9,198**	6,723

Information from major products

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

	2019 CNY'000 (unaudited)	2018 CNY'000 (audited)
Drilling mud	**20,351**	16,200
Pelletising clay	**37,748**	35,004
	58,099	51,204

6. FINANCE COSTS

	2019 CNY'000 (unaudited)	2018 CNY'000 (audited)
Interest expenses on unsecured borrowing	**–**	888
Interest expenses on lease liability	**33**	–
Unwinding of discount on provision for dismantlement	**418**	395
	451	1,283

7. INCOME TAX EXPENSE

	2019 CNY'000 (unaudited)	2018 CNY'000 (audited)
Current tax:		
PRC Enterprise Income Tax ("EIT")	**1,790**	966
Over-provision in previous year	**(745)**	(23)
	1,045	943
Deferred taxation:		
Current year	**164**	191
	1,209	1,134

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 2019, 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 CNY4,706,000 (2018: CNY3,616,000). 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. PROFIT(LOSS) FOR THE YEAR

	2019 CNY'000 (unaudited)	2018 CNY'000 (audited)
Profit(loss) for the year has been arrived at after charging:		
Directors' and chief executive's emoluments	**497**	442
Salaries, wages, allowances and other benefits	**8,598**	7,386
Contributions to retirement benefits scheme (excluding directors' and chief executive's emoluments)	**1,151**	1,302
Total staff costs	**10,246**	9,130
Auditor's remuneration	**519**	465
Amortisation of intangible asset	**123**	86
Amortisation of prepaid lease payments	**–**	77
Amount of inventories recognised as an expense	**27,185**	28,349
Exchange (gain)/loss, net	**(70)**	658
Depreciation of property, plant and equipment	**1,226**	1,170
Depreciation of right-of-use assets	**408**	–
Loss on disposal/written off of property, plant and equipment	**9**	362
Research and development cost (Note a)	**3,358**	2,110
Prepayment written off	**–**	57,430
Lease payments paid under operating lease in respect of		
– plant and equipment	**–**	2,190
– office properties	**–**	269
Expenses related to short-term leases – plant and equipment	**2,932**	–

Notes:

(a) Staff cost of approximately CNY824,000 (2018: CNY443,000) are included in the research and development cost for the year ended 31 December 2019.

9. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2019, nor has any dividend been proposed since the end of the reporting period (2018: nil).

10. EARNINGS (LOSS) PER SHARE

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

	2019 CNY'000 (unaudited)	2018 CNY'000 (audited)
Earnings (Loss)		
Earnings (loss) for the purpose of basic and diluted earnings (loss) per share	**7,408**	(57,585)

	2019	2018
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings (loss) per share ('000 shares)	**670,572**	572,895
Basic and diluted earnings (loss) per share (CNY)	**1.10 cents**	(10.05) cents

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

The diluted earnings per share is same as basic earnings per share for the year ended 31 December 2019 as there were no potential ordinary shares in issue for the year.

11. TRADE, BILLS AND OTHER RECEIVABLES

	2019 CNY'000 (unaudited)	2018 CNY'000 (audited)
Trade receivables – goods	**6,789**	6,344
Less: allowance for credit loss	**–**	–
	6,789	6,344
Bills receivables	**6,996**	8,936
Prepayments and deposits	**529**	482
Other receivables	**169**	227
	14,483	15,989

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

As at 31 December 2019, trade receivables from contracts with customers amounted to CNY6,789,000 (2018: CNY6,344,000).

The Group offers revolving credit to its two customers amounted approximately CNY1,300,000 as at 31 December 2019 (2018: CNY1,300,000). 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 2019 (2018: CNY1,300,000). 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 CNY5,489,000 as at 31 December 2019 (2018: CNY5,044,000), 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.

	2019 CNY'000 (unaudited)	2018 CNY'000 (audited)
Within 30 days	**6,784**	5,491
31 to 60 days	**5**	853
Total	**6,789**	6,344

12. TRADE AND OTHER PAYABLES

	2019 **CNY'000** **(unaudited)**	2018 CNY'000 (audited)
Trade payables	**3,886**	2,668
Other payables and accruals	**13,202**	10,867
Accrued directors' remunerations	**–**	26
Contract liabilities	**1,834**	943
	18,922	14,504

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

	2019 **CNY'000** **(unaudited)**	2018 CNY'000 (audited)
Within 30 days	**3,286**	1,950
31 to 60 days	**279**	627
61 to 90 days	**83**	15
91 to 365 days	**230**	31
Over 1 year	**8**	45
Total	**3,886**	2,668

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.

DELAY IN PUBLICATION OF AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019 AND DELAY IN DESPATCH OF THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

As a result of the outbreak of the novel coronavirus epidemic, the ability to conduct an audit of the Group's financial statement has been affected, mainly as a result of the travel restrictions and quarantine measures imposed by the relevant authorities, in particular, the quarantine requirement stipulated under the Compulsory Quarantine of Certain Persons Arriving at Hong Kong Regulation (Ch. 599C of the Laws of Hong Kong) ("**Compulsory Quarantine Regulation**"). As based on current situation, staff of the auditors of the Company will travel to the Group's office in the PRC to conduct audit field work after the expiry of the Compulsory Quarantine Regulation (i.e. the staff of the auditors of the Company will not be put under quarantine after returning from the PRC to Hong Kong), the Company currently expects that more time will be required complete the audit work in the PRC and hence there will be a delay in the publication of audited results of the Group for the year ended 31 December 2019 and the despatch of the Company's annual report for the year ended 31 December 2019. Based on preliminary agreement with the auditors of the Company, it is expected that barring unforeseen circumstances, the audit of the annual results for the year ended 31 December 2019 will be completed on or before 15 May 2020 on the assumption that the auditor commence the audit works in Wuhu, Anhui province in early May 2020. The Company expects that the annual report of the Company for the year ended 31 December 2019 will be published on or before 15 May 2020.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to (i) the audited results for the year ended 31 December 2019 as agreed by the Company's auditors and the material differences (if any) as compared with the unaudited annual results contained herein, and (ii) the proposed date on which the forthcoming annual general meeting will be held, In addition, the Company will issue further announcement(s) as and when necessary if there are other material developments in the completion of the auditing process.

The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

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

23 March 2020

As at the date of this announcement, the Board comprises (i) two executive Directors, namely Mr. SU Chun Xiang and Mr. PANG Ho Yin; and (ii) three independent non-executive Directors, namely Mr. LEE Ming Tung, Mr. CHOW Chi Hang Tony and Ms. SHAO Yu.

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.