恆勤集團有限公司
HangKan Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8331)

2018

THIRD QUARTERLY REPORT

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

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This report, for which the directors (the "Directors") of HangKan Group Limited (the "Company", together with its subsidiaries, the "Group") 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 report 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 report misleading.

THIRD QUARTERLY RESULTS (UNAUDITED)

The board of Directors (the "Board") of the Company is pleased to announce the unaudited condensed consolidated results of the Group for the three months and nine months ended 30 September 2018 (the "Reporting Period"), together with the comparative unaudited figures for the corresponding periods in 2017 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2018

		Three months ended 30 September		Nine months ended 30 September	
		2018	2017	**2018**	2017
	Notes	***CNY'000***	*CNY'000*	***CNY'000***	*CNY'000*
Revenue	*3*	**15,591**	7,371	**36,806**	18,830
Cost of sales		**(7,803)**	(4,570)	**(21,595)**	(11,523)
Gross profit		**7,788**	2,801	**15,211**	7,307
Other income		**728**	(80)	**1,096**	246
Gain on disposal of de-consolidated subsidiaries		**–**	–	**874**	–
Selling and distribution expenses		**(2,007)**	(902)	**(4,562)**	(2,334)
Administrative and other expenses		**(294)**	(1,494)	**(7,074)**	(6,789)
Finance costs		**(382)**	(98)	**(836)**	(283)
Profit (loss) before tax		**5,833**	227	**4,709**	(1,853)
Income tax expense	*4*	**(539)**	(132)	**(743)**	(232)
Profit (loss) and total comprehensive income (expense) for the period attributable to the owners of the Company		**5,294**	95	**3,966**	(2,085)
Earnings (loss) per share (CNY):					
Basic and diluted	*6*	**0.95 cents**	0.02 cents	**0.71 cents**	(0.42) cents

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2018

	Share Capital *CNY'000*	Share premium *CNY'000*	Other reserve *CNY'000* *(Note i)*	Share option reserve *CNY'000*	Statutory reserve *CNY'000* *(Note ii)*	Safety fund and production maintenance fund *CNY'000* *(Note iii)*	Retained earnings *CNY'000*	Total *CNY'000*
At 1 January 2017 (Audited)	4,188	25,954	23,351	–	3,401	808	5,034	62,736
Loss and total comprehensive expense for the period	–	–	–	–	–	–	(2,085)	(2,085)
Appropriation to statutory reserve	–	–	–	–	70	–	(70)	–
Appropriation and utilisation of safety fund and production maintenance fund, net	–	–	–	–	–	115	(115)	–
At 30 September 2017 (Unaudited)	4,188	25,954	23,351	–	3,471	923	2,764	60,651
At 1 January 2018 (Audited)	4,698	107,932	23,351	37,833	3,556	970	(67,157)	111,183
Profit and total comprehensive income for the period	–	–	–	–	–	–	3,966	3,966
Lapsed of share options	–	–	–	(37,833)	–	–	37,833	–
Appropriation and utilisation of safety fund and production maintenance fund, net	–	–	–	–	384	115	(499)	–
At 30 September 2018 (Unaudited)	4,698	107,932	23,351	–	3,940	1,085	(25,857)	115,149

Notes:

(i) Other reserve

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

(ii) Statutory reserve

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

(iii) Safety fund and production maintenance fund

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL RESULTS

For the three months and nine months ended 30 September 2018

1. GENERAL INFORMATION AND BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 15 July 2015 and its shares were listed on GEM of the Stock Exchange on 29 December 2015.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial statements for the nine months ended 30 September 2018 are consistent with those used in the annual accounts for the year ended 31 December 2017. The Group has adopted new or revised standards, amendments to standards and interpretations of IFRSs which are effective for accounting periods commencing on or after 1 January 2018. The adoption of such new or revised standards, amendments to standards and interpretations does not have material impact on the consolidated accounts and does not result in substantial changes to the Group's accounting policies.

3. REVENUE AND SEGMENT INFORMATION

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

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	**2018**	2017
	CNY'000	*CNY'000*	***CNY'000***	*CNY'000*
Drilling mud	**4,808**	2,365	**11,308**	6,848
Pelletising clay	**10,783**	5,006	**25,498**	11,982
	15,591	7,371	**36,806**	18,830

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

4. INCOME TAX EXPENSE

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	**2018**	2017
	CNY'000	*CNY'000*	***CNY'000***	*CNY'000*
Current tax:				
PRC Enterprise Income Tax ("EIT")	**428**	82	**679**	131
Deferred taxation:				
Current period	**111**	50	**64**	101
	539	132	**743**	232

Notes:

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

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

(iii) Under the Law of the PRC on EIT ("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 periods.

(iv) Feishang Material was recognised as a High Technology Enterprise and subject to EIT at 15% in accordance with the EIT Law for both periods.

5. DIVIDEND

No dividend was paid, declared or proposed by the Group during the Reporting Period (nine months ended 30 September 2017: nil).

6. 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:

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	**2018**	2017
	CNY'000	*CNY'000*	***CNY'000***	*CNY'000*
Earnings (loss)				
Earnings (loss) for the purpose of basic and diluted earnings (loss) per share	**5,294**	95	**3,966**	(2,085)

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	**2018**	2017
Number of shares				
Weighted average number of ordinary shares for the purpose of basic and diluted earnings (loss) per share *('000 shares)*	**558,810**	500,000	**558,810**	500,000
Basic and diluted earnings (loss) per share *(CNY)*	**0.95 cents**	0.02 cents	**0.71 cents**	(0.42) cents

Note:

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

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 have been 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 paragraph headed "Management Discussion – Outlook" of the Company's annual report for the year ended 31 December 2017 (the "2017 Annual Report") and the business review for the 2018 interim report for the six months ended 30 June 2018 (the "2018 Interim Report") of the Company, the iron and steel industry was still overcasted 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 2017. 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 the first nine months of 2018 as compared to the corresponding period in 2017. It was also set out in the paragraph headed "Management Discussion – Outlook" of the 2017 Annual Report and the business review for the 2018 Interim 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.

FINANCIAL REVIEW

Revenue

The revenue increased by approximately 95.5% from approximately CNY18.8 million for the nine months ended 30 September 2017 to approximately CNY36.8 million for the nine months ended 30 September 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. Although China's iron and steel industry still faced overcapacity, the Group managed to increase the sales volume and average selling price of pelletising clay through strengthening its quality management, marketing and sales effort. Since the Group's adopted the strategy of "selling more with low margin" for drilling mud from the second half of 2017 and the continuous marketing effort of the Group, the sales volume of drilling mud managed to record an increase for the nine months ended 30 September 2018, compared to the nine months ended 30 September 2017's.

Gross Profit

The overall gross profit increased by approximately 108.2% from approximately CNY7.3 million for the nine months ended 30 September 2017 to approximately CNY15.2 million for the Reporting Period, and the overall gross profit margin increased from approximately 38.8% for the nine months ended 30 September 2017 to approximately 41.3% for the Reporting Period. The increase in overall gross profit margin was mainly due to the increase in profit margin of pelletising clay, which is attributed to the increase in average selling price and the increase in the proportion of sales volume of pelletising clay. The increasing effect in overall gross profit margin was partially offset by the decrease in gross profit margin of drilling mud.

Other Income

Other income increases by approximately CNY0.9 million from approximately CNY0.2 million for the nine months ended 30 September 2017 to approximately CNY1.1 million for the nine months ended 30 September 2018. The increase were mainly attributed to (a) an increase in bank interest income; (b) granted from Fanchang County People's Government*（繁昌縣人民政府）in the third quarter of 2018 and (c) the guarantee fee from the Back-to-back Guarantee Agreement.

Selling and Distribution Expenses

The selling and distribution expenses increased by approximately 95.5% from approximately CNY2.3 million for the nine months ended 30 September 2017 to approximately CNY4.6 million for the nine months ended 30 September 2018. This was primarily due to an increase in transportation cost arising from increased sales volume of drilling mud and pelletising clay, which the Group was responsible for delivery which has been factored into its selling price.

Administrative and Other Expenses

The administrative and other expenses increased by approximately 4.2% from approximately CNY6.8 million for the nine months ended 30 September 2017 to approximately CNY7.1 million for the nine months ended 30 September 2018. The increase was mainly due to the increase staff cost because of the raise in headcount and bonus of administrative departments.

Finance Costs

The finance costs increased by approximately 195.4% from approximately CNY0.3 million for the nine months ended 30 September 2017 to approximately CNY0.8 million for the nine months ended 30 September 2018. This was due to the increase in interest expense of the short terms loans during the Reporting Period.

Income Tax Expense

The Group had an income tax expense of approximately CNY0.7 million for the nine months ended 30 September 2018 as compared to approximately CNY0.2 million for the nine months ended 30 September 2017. The increase was mainly due to a raise 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 Period

Due to the combined effect of the aforesaid factors, the profit and total comprehensive income attributable to the owners of the Company for the nine months ended 30 September 2018 was approximately CNY4.0 million, an increase of approximately CNY6.1 million from the loss and total comprehensive expense of approximately CNY2.1 million for the nine months ended 30 September 2017.

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 30 September 2018, the Group did not have any significant 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 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, 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.

DIVIDEND

In order to retain resources for the Group's business development, the Board does not recommend the payment of a dividend for the Reporting Period (nine months ended 30 September 2017: Nil).

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

As at 30 September 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.

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 30 September 2018, no options had been granted pursuant to the Share Option Scheme.

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

As at 30 September 2018, so far as 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 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 SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of substantial shareholder	**Long/short position**	**Capacity**	**Number of Shares**	**Percentage of the issued Shares** *(%)*
Mr. ZHANG Qiang	Long position	Beneficial Owner	275,000,000	49.21

Save as disclosed above, as at 30 September 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.

CORPORATE GOVERNANCE CODE

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. Throughout the Reporting Period, the Company has complied with the code provisions as set out in the CG Code, save and except for code provision A.2.1, as set out below.

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.

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.

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 Reporting Period.

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.

INTEREST IN COMPETING BUSINESS

During the Reporting Period, none of the Directors and controlling shareholders of the Company or their respective close associates (as defined in the GEM Listing Rules) had 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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company 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 Reporting Period.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

(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 period ended 30 June 2018.

Save for the aforesaid, the Group had no other material acquisition and disposal of subsidiaries during the nine months ended 30 September 2018.

INTERNAL CONTROL

As disclosed in the annual report of the Company for 2017, the Board was satisfied to the effectiveness of the Group's internal control and risk management systems for the year ended 31 December 2017. The Company has put in place internal control systems to safeguard its assets including keeping proper books and records of the Group. For examples, all fixed assets shall be recorded in the "Fixed Assets Register" with details, such as location of the fixed asset (if applicable), assets identification number, quantities, purchases cost, depreciation rate and date of purchase. Number tags with unique and sequential identification number shall be attached to each fixed assets for recognition. "Fixed Assets Register" shall be updated timely by the accounts clerk whenever changes of ownership aroused and reviewed by finance manager on a semi-annual basis. To safeguard the fixed assets owned by the Group, CCTVs have been installed in the entrance to limit the access with Companies' staff and other authorized guest only to monitor and protect the Group's properties. Fixed assets count shall be performed semi-annually, i.e. end of June and December, by the accounting and finance department, usually the finance manager, to ensure the existence and activity status of the assets as well as the accuracy of the accounting record. As far as accounting record is concerned, all business record shall be retained for a period of not less than seven years. All accounting voucher shall be kept in the locked cabinet within the accounting and finance department room and external warehouse. The cabinet key shall be keep by an executive director, financial controller and finance manager. The last one who leaves the office among the custodian is responsible to lock the cabinet before leaving office. As the accounting record is confidential, only director(s) and accounting and finance department could access vouchers. All accounting vouchers are not allowed to be taken away from the office without proper authorization from financial controller or director(s).

The Board has engaged a professional internal control consultant to continue the review and scrutiny of the Group's overall operations. 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.

As disclosed in the paragraph headed "Measures taken by the Existing Management" in the Company's annual results announcement for the year ended 31 December 2017 (the "2017 Results Announcement"), the audit qualifications for the Company's results for the year ended 31 December 2017 are principally due to the lack of certain accounting supporting documents, caused solely by a colluded action of non-cooperative Former Board and the legal representatives, the directors, the management and the personnel assigned by the Former Board. The Board considers that the audit qualification was not related to the effectiveness of the internal control and risk management systems of the Group. The Board believes that there are inherent limitations in any internal control system that reduce the level of assurance, such as collusion of two or more people to circumvent the system or someone on the management team who has the authority to do so could override any aspect of a control system.

The Board considers that the Company is in compliance with the Corporate Governance Code as set out in the GEM Listing Rules (including the review of the effectiveness of the Group's internal control and risk management systems) for the year ended 31 December 2017. However, in view of the incident and in order to mitigate the risk of occurrence of similar incident in future, the Company has taken steps and new procedures to strengthen the internal control measures as more particularly disclosed in the paragraph headed "Measures taken by the Existing Management" in the 2017 Results Announcement.

Details of the Group's new procedures implemented on financial reporting and book-keeping are described below:

(1) The Financial Controller in Hong Kong will collect all supporting documents for transactions of the Company and its non-PRC subsidiaries;

(2) Monthly management accounts as well as copies of supporting documents for material transactions of the Company's principal subsidiary will be sent to and collected by the head of the accounting team in Company's principal subsidiary, who will pass all of them to the Financial Controller after his review;

(3) The Financial Controller will pass all of (i) the supporting documents for transactions of the Company and its non-PRC subsidiaries collected by himself and (ii) the monthly management accounts as well as copies of supporting documents for material transactions of the Company's principal subsidiary received from the head of the accounting team to the Accounting Firm for book-keeping and preparation of vouchers, ledgers and management accounts of the Company and its subsidiaries on a monthly basis;

(4) After preparing the accounting vouchers, ledgers and management accounts of the Company and its subsidiaries, the Accounting Firm will send the accounting vouchers, ledgers and management accounts to the Financial Controller for review and back up; and

(5) The head of the accounting team in Company's principal subsidiary shall pay visits to the offices of the operating subsidiaries from time to time to supervise the work of the onsite accounting teams.

The Board considers the above new procedures of the Group implemented on financial reporting and book-keeping can assist the existing management of the Company to review the books and records of the Company and its subsidiaries more closely and to maintain back-up copies of supporting documents for material transactions of the Group. The Company has reasons to expect that the disclaimer of opinion of auditor will all be removed in the next annual results announcement.

OTHER INFORMATION

(a) Prepayment to suppliers

Reference was also made to the Company's announcement of annual results for the year ended 31 December 2017 and interim results for the six months ended 30 June 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 Board, the Board considered that the Purchases Transactions were not be in the best interests of the Company given that facts that all of the Purchases Transactions has been entered into by the Former Board and the 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 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 report, 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.

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 within 5 days, failing which the Company will institute legal proceedings against Trade Rosy Global Limited.

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

On 20 June 2018, the Company has instructed a legal representative to issue demand letter to Kai Muk Company requesting the 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.

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.

(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 Board considers that the Group has surplus cash in excess of its working capital needs. The provision of Guarantee in favour of the Borrower will better utilize the Group's surplus cash with reasonable return.

EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the Reporting Period, the Company entered into a Placing Agreement with the Placing Agent for the issue and allotment of a maximum of 111,762,000 Placing Shares at the Placing Price of HK$0.207 per share on a best effort basis. Reference is made to the announcement of the Company dated 22 October 2018 in relation to the placing of new shares of the Company under the General Mandate.

AUDIT COMMITTEE

The Company has an audit committee ("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 (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 unaudited condensed consolidated financial statements of the Group for the Reporting Period 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.

PUBLIC FLOAT

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

BOARD OF DIRECTORS

As at the date of this report, the executive Director is Mr. SU Chun Xiang; and the independent non-executive Directors are Mr. KO Yat Fei, Mr. CHOW Chi Hang Tony and Ms. SHAO Yu.

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

Hong Kong, 8 November 2018

* *The English name is for identification purpose only*