恆勤集團有限公司

HangKan Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8331)

ANNUAL REPORT 2018

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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.

Contents

Corporate Information

BOARD OF DIRECTORS

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

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

AUTHORISED REPRESENTATIVES

Mr. SU Chun Xiang
Mr. KAM Tik Lun

COMPANY SECRETARY

Mr. KAM Tik Lun

COMPLIANCE OFFICER

Mr. SU Chun Xiang

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

AUDITORS

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

REGISTERED OFFICE

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

HONG KONG OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

COMPANY'S WEBSITE

http://www.ourhkg.com

COMPANY'S STOCK CODE

8331.HK

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LEGAL ADVISERS

(As to Cayman Islands Law)
Conyers Dill & Pearman

PRINCIPAL BANKERS

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

Management Discussion and Analysis

CHANGE OF COMPANY NAME

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

BUSINESS REVIEW

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

Key Performance

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

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

Management Discussion and Analysis

Business Strategies Review with Progress of Implementation

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

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

Business Strategy	Implementation Plan	Progress of Implementation as of 31 December 2018
Recruitment of more talents	Recruiting more experienced personnel who possess abundant knowledge and rich experience in various aspects of the business, including mine design and construction, mining, processing, sales and marketing and research and development of principal products.	The Group was in the process of recruiting more experienced personnel for processing, sales and marketing, and research and development.
Acquisition of other non-metal mines	Evaluating any potential targets meeting the criteria when opportunities arise.	The Company entered MOU with the Potential Vendor to acquire certain equity interest in a company in the PRC principally engaging in mining, processing and sales of black marble (dolerite) mine on 14 February 2017. As per the result of the Company's internal assessment , the acquisition is not viable and is abandoned.
Improvement of plant and equipment	Upgrading current processing plant by, among others, purchasing new processing equipment such as Raymond mill, modifying the rotary drum dryer and construction of new storage bins for storing pelletising clay.	Completed the feeding system for one pelletizing clay production line; Completed the construction of new storage facilities for pelletising clay; Completed the expansion of storage facilities for dried bentonite ore to be processed into drilling mud; Replaced the old forklift truck; Replaced a transformer in the processing plant; and Completed the modification of existing rotary drum dryer. Purchased one new flour mill. Completed the modification of existing transformer room.

Management Discussion and Analysis

Use of Listing Proceeds

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

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

Note:

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

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 2018) (Note 2)	Dry	Wet
Proved reserve (metric tonnes)	1,421,000	1,752,000
Probable reserve (metric tonnes)	4,724,000	5,910,000
Total (metric tonnes)	6,145,000	7,662,000
Average quality of bentonite		
Active montmorillonite	47.0%	
Colloid index	61.1 ml/15g	
Swelling capacity	8.7 ml/g	
Capital expenditure for the year ended 31 December 2018	CNY Nil	
Output for the year ended 31 December 2018 (metric tonnes)	104,000	

Notes:

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

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

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

Management Discussion and Analysis

Employees and Remuneration Policy

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

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

The Company has adopted a share option scheme pursuant to which selected participants may be granted options to subscribe for shares as incentives or rewards for their services rendered to the Group and any entity in which any member of the Group holds an equity interest. For details of the share option scheme, please refer to note 28 to the consolidated financial statements under the heading "Equity-settled share option scheme of the Company" of this report.

Details of the staff pension scheme are set out in note 29 to the consolidated financial statements, and retired employees are entitled to benefits under the social pension scheme approved and provided by the labour and social security authority of the local governments.

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

Community Relationship

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

Environmental Policy and Measure

The Group is well aware of the importance of maintaining a good ecological environment and embraces the idea of environmental protection. Apart from ensuring on-going compliance with the relevant environmental protection laws and regulations in the PRC, in order to further reduce the environmental impacts of the operations, the Group has implemented several measures to effectively reduce the need for coal energy and electricity thus contributing to a significant decrease in carbon emissions and harmful gas emissions, to prevent fugitive dust emission at the mining site, to reduce impact on nearby brooks and to manage waste rock dump. For details of the Group's performance on environmental, social and governance ("ESG") aspects and compliance with relevant laws and regulations that have a significant impact on the Group, please refer to the section under heading "Environmental, Social and Governance Report" for the year 2018 of this annual report.

Management Discussion and Analysis

FINANCIAL REVIEW

Items of the Consolidated Statement of Profit or Loss

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

Revenue

Breakdown of the Group's Revenue by Products

	2018		2017	
	CNY'000	**%**	CNY'000	%
Drilling mud	**16,200**	**31.6**	10,185	35.4
Pelletising clay	**35,004**	**68.4**	16,926	58.8
Ballasts and others	**N/A**	**N/A**	1,685	5.8
Total revenue	**51,204**	**100.0**	28,795	100.0

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

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

Management Discussion and Analysis

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

Cost of Sales

Breakdown of the Group's Cost of Sales

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

Breakdown of the Group's Cost of Sales by Products

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

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

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

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

Gross Profit and Gross Margin

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

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

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

Management Discussion and Analysis

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

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

Other Income

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

Selling and Distribution Expenses

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

Administrative and Other Expenses

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

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

Finance Costs

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

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

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

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

Reference was also made to the announcement dated 29 June 2018 in relation to disposal of the entire issued share capital of Lucky Capital. On 29 June 2018, the Company and the Purchaser entered into the Disposal Agreement, pursuant to which the Company agreed to sell and the Purchaser agreed to purchase the entire issued share capital of Lucky Capital at the Consideration of HK$1.0 million. Completion of the Disposal took place immediately and members of the Disposal Group have ceased to be subsidiaries of the Company. The Disposal has resulted in a gain of approximately CNY 874,000 as record in the consolidated financial statement for the year ended 31 December 2018.

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

Income Tax Expense

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

Loss and Total Comprehensive Expense for the Year

The loss and total comprehensive expense for the year was approximately CNY57.6 million in 2018, a decrease of approximately CNY14.5 million from the loss of approximately CNY72.1 million in 2017. During the reporting period, the Group has recorded a substantial increase in revenue. However, the loss for the year ended 31 December 2018 is mainly due to the primarily attributable to the impairment loss of approximately CNY57.4 million to be made on the prepayments made by the former Board on behalf of the Company to certain suppliers, which 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.

Management Discussion and Analysis

FINANCIAL RESOURCES REVIEW

Liquidity, Financial Resources and Capital Structure

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

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

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

Gearing Ratio

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

Currency Exposure and Management

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

Contingent Liabilities

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

OUTLOOK

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

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

CAPITAL COMMITMENTS

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

EVENTS AFTER THE REPORTING PERIOD

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

FUND RAISING ACTIVITIES

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

Placing of Shares

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

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

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

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

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

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

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

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

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

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

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

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

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

OTHER INFORMATION

(a) Prepayment to suppliers

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

Up to the date of this 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. Lituo Enterprise (HK) Limited filed its defence on 28 November 2018.

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

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

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

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

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

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

(b) Back-to-back Guarantee Agreement

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

(c) Concerns Raised By The Company's Auditors

As disclosed on page 71 of this annual report, the auditor of the Company expressed a qualified opinion in relation to the opening balances and corresponding figures. ("Audit Qualification").

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

The Board and the Audit committee's view

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

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

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

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

Profiles of Directors and Senior Management

EXECUTIVE DIRECTOR

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

COMPANY SECRETARY

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

.* For identification purpose only

Report of the Directors

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

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in notes 1 and 33 respectively to the consolidated financial statements of this annual report.

BUSINESS REVIEW

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

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2018 and the state of affairs of the Group and of the Company at that date are set out in the consolidated financial statements on pages 76 to 143.

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

DISTRIBUTABLE RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 79 to 80 of this annual report.

The Company's reserves available for distribution to Shareholders at 31 December 2018 amounted to CNY50,183,000 (2017: CNY95,715,000).

FINANCIAL SUMMARY

A summary of the published results, assets and liabilities of the Group for the last five financial years is set out on page • of this annual report.

DIVIDEND POLICY

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

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

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 17 to the consolidated financial statements of this annual report.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 27 to the consolidated financial statements of this annual report.

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

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

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

Notes:

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

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

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

DIRECTORS

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

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

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

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

INDEPENDENCE CONFIRMATION

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

DIRECTORS' SERVICE CONTRACT

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

MANAGEMENT CONTRACTS

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

EMPLOYEES AND EMOLUMENT POLICY

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

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

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

The Company has adopted the Share Option Scheme as an incentive to Directors and eligible employees of the Group, details of the Share Option Scheme are set out in note 28 to the consolidated financial statements and under the heading "Share Option Scheme" of this report.

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

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

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

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

SHARE OPTION SCHEME

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

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

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

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

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

PERMITTED INDEMNITY

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

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

RELATED PARTY TRANSACTIONS

During the year ended 31 December 2018, the related party transactions either did not constitute connected transactions/continuing connected transactions or constituted connected transactions/continuing connected transactions but were exempt from all disclosure and independent Shareholders' approval requirements under the GEM Listing Rules. Details of the related party transactions are set out in note 32 to the consolidated financial statements of this annual report.

PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

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

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

AUDIT COMMITTEE

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

AUDITORS

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

On behalf of the Board

HangKan Group Limited
SU Chun Xiang
Executive Director

Hong Kong, 7 March 2019

Corporate Governance Report

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

CORPORATE GOVERNANCE PRACTICES

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

Chairman and Chief Executive Officer

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

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

Responsibilities of directors

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

Code of Conduct Regarding Securities Transactions by Directors

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

BOARD OF DIRECTORS

Composition

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

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

Independent non-executive Directors

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

Directors' Re-election

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

Responsibilities of the Board and Management

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

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

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

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

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

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

Corporate Governance Report

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

Name of Directors	Board Meeting	Remuneration Committee Meeting	Audit Committee Meeting	Nomination Committee Meeting	General Meeting
	Number of meetings attended/held				
Executive Directors					
Mr. DENG Li (resigned on 9 February 2018)	0/0	–	–	–	1/1
Mr. ZHANG Yongmin (resigned on 9 February 2018)	0/0	–	–	–	0/1
Mr. TSAI Nam Lun (resigned on 9 February 2018)	0/0	–	–	–	0/1
Mr. SU Chun Xiang (appointed on 9 January 2018)	5/5	–	–	–	1/2
Independent non-executive Directors					
Ms. CHAN Shuk Kwan, Winnie (resigned on 9 January 2018)	0/0	–	–	–	–
Ms. YIN Yi (resigned on 9 January 2018)	0/0	–	–	–	–
Ms. CHEUK Tat Yee (resigned on 12 February 2018)	0/0	–	–	–	0/1
Mr. KO Yat Fei (appointed on 9 January 2018)	5/5	1/1	4/4	1/1	2/2
Mr. CHOW Chi Hang Tony (appointed on 9 January 2018)	5/5	1/1	4/4	1/1	2/2
Ms. SHAO Yu (appointed on 9 January 2018)	5/5	1/1	4/4	1/1	1/2
Total Number of Meetings Held	5	1	4	1	2

BOARD DIVERSITY POLICY

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

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

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

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

Directors' Induction and Continuous Professional Development

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

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

Corporate Governance Report

Responsibilities of Directors

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

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

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

Corporate Governance Functions

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

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

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

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

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

– review the compliance with the CG Code; and

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

BOARD COMMITTEES

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

Audit Committee

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

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

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

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

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

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

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

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

– reviewed the external auditors' findings.

Corporate Governance Report

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

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

Nomination Committee

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

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

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

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

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

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

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

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

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

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

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

Remuneration Committee

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

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

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

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

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

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

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Chapter 18 to the GEM Listing Rules are set out in notes 13 and 14 to the consolidated financial statements of this annual report.

COMPLIANCE COMMITTEE

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

AUDITORS' REMUNERATION

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

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

AUDITORS

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

Process and Main Features of Risk Management and Internal Control

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

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

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

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

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

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

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

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

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

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

Review of Effectiveness of the Risk Management and Internal Control Systems

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

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

Inside information

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

COMPANY SECRETARY

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

CONSTITUTIONAL DOCUMENTS

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

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

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

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

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

(b) Communication with Shareholders and investors

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

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

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

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

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

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

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

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

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

DIRECTORS' RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS

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

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

Environmental, Social and Governance Report

ABOUT US

HangKan Group Limited (the "Company", together with its subsidiaries, the "HangKan", "Group" or "We") is mainly engaged in bentonite mining, production and sales of drilling mud and pelletizing clay. Our main products are metallurgical pellet soil, mud bentonite, bentonite for dry mortar. We were recognized as a High and New Technology Enterprise ("HNTE") in China. We rely on our strong resource advantages and good quality, striving to become the bentonite processing base with largest range of bentonite products and largest product application field in China.

Corporate Mission

To Strengthen and Repay the Country with Industries

Having inherited the common dream of a few generations of modern entrepreneurs and being deeply influenced by traditional nationalistic values, HangKan entrusted its own development and future into recent socio-economic changes in modern China. Its noble mission of strengthening and repaying the country with industries is the main cause for its stable growth all these years. It will continue to lead the Group towards an even brighter future.

Core Value

The Group's core values of integrity, responsibility, excellence, value-added and all-win partnership can be interpreted as a conclusion of its success. It also reflects the corporate moral qualities which are insisted by our founder. It is a system that imposes restrictions, requirements and incentives to both its member companies and its employees.

Corporate Culture

"Mountains" and "Water" are the cultural representations of HangKan. They symbolize HangKan's corporate spirit and cultural characters.

Mountains

Solemn and respectful	Emphasis on responsibilities and trust
Strong and persistent	Persistence in upholding its principles and striving toward its goal
Extensive and far reaching	Aspiration to soar high and its great breadth of mind
Prosperous and luxuriant	Wide variety and extensive diversity

Water

Quietly nourishing others	Modesty, low profile and benefaction to others
Constant dripping wears away a stone	Perseverance, diligence and practicality
Limitless and accommodating	Gathering of vast resources and riding of national and global trends
Pure and clear	Transparency of its operations and the straightforwardness of its structure and standards

Environmental, Social and Governance Report

ABOUT THIS REPORT

This is the environmental, social and governance (the "ESG") report for HangKan. This report is designed to allow the shareholders, investors (including potential investors) of the Company and the public to have a more comprehensive and profound understanding of the work done on the ESG issues of the Group for its financial year ended 31 December 2018 ("the Year). This report elaborates the philosophy and practice in respect of social responsibility and the achievements it has made in economic, environment and social aspects. The Group primarily adopts the principles and basis of Environmental, Social and Governance Reporting Guide (the "ESG Guide") set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its standards, with an aim to establish a sound environmental, social and governance structure. For information on the Group's corporate governance, please refer to the "Corporate Governance Report".

The Board's Commitment and ESG Approach

The board of the Company is responsible for monitoring and managing ESG-related risks and the effectiveness of the ESG management system. During the Year, the Company has complied with the "comply and explain" provisions set out in the ESG Guide.

The ESG team, comprising the senior management, the operating staffs and the external professional consultant, was set up by the Company to monitor and manage the ESG affairs, with the cooperation of each department of the Group.

The board of directors of the Company believes that a sound environmental, social and governance structure is vital for continued sustainability and development of the Group's activities. The Group is willing to take more responsibilities for the society but with a view to balancing the shareholders' interests and the society's benefits.

We will continue to strengthen its efforts in information collection for better performance in the ESG areas and broader disclosure of related information in sustainable development. We welcome any comments and suggestions on this report as well as the Group's performance in sustainability development.

Data of the report

Out data came from the internal systems of the Group and manual collection.

STAKEHOLDERS COMMUNICATION AND ENGAGEMENT

For the Group, the stakeholders refer to groups and individuals who have significant impact on the Group's business, or those who are affected by the Group's business. The participation of stakeholders is an important part of the business management of the Group for it to examine potential risks and business opportunities. Communicating with stakeholders enables the Group to understand their views, and it brings business practices of the Group closer to their needs and expectations, so as to properly manage the views of different stakeholders.

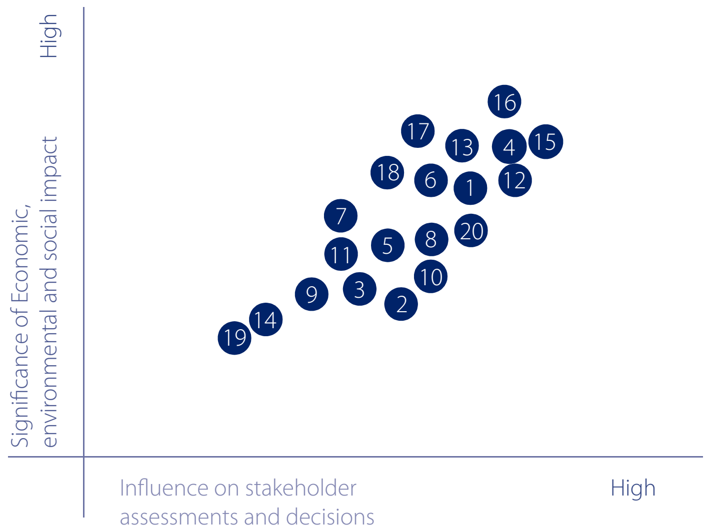
The Group constantly communicates with key stakeholders within and outside the Group through various channels. This ensures that they are given an opportunity to understand the development and operating directions of the Group, as well as the opportunities for the Group to listen to their opinions in order to prioritize different issues, and to develop corresponding policies.

Environmental, Social and Governance Report

Our key stakeholders include natural environment, employees, regulators and governments, customers, partners and suppliers, society and community, shareholders and investors, etc. In accordance with the assessment result regarding significance to the influence from and on the Group, we made a list of key stakeholders and determined the degree and range for their participation in corporate governance, management and decision-making.

Key stakeholders	Expectations	Communication methods
Natural environment	Fulfilment of emission standards Energy conservation and emission reduction Efficient use of water resources	Communication with local environmental protection department Communication with local community
Employees	Occupational health Competitive salary system Career development Employee caring	Labor contracts Trade union/workers congress Team-building activities Employee communication channels
Regulators/governments	Compliance with laws and regulations Internal inspection Employees' health and workplace safety Environmental protection	Compliance reports Inspection reports Meetings/seminars Project cooperation Proper submission of documents Reclamation plan
Customers	Customers' requests and expectations Quality service Technology upgrading Sound quality assurance system	Daily operation/interaction Customer satisfaction surveys Regular follow-ups Product promotion campaigns Key account meetings
Partners and suppliers	Supplier entry management Supplier assessment Supplier rights protection Supplier cooperation	High-level meetings Bidding and seminars Supplier entry and assessment On-the-spot inspection
Society and community	Improvement of community environment Support for community welfare Job opportunities	Mutual communication with the community Involvement of community in our management
Shareholders and investors	Investment returns Operation in compliance Production safety	Shareholders' meetings Press releases and announcements Company reports Information on the company website Investor meetings

Material Sustainability Issues



1	Employee Communication	11	Diversity and equal opportunity
2	Human right protection	12	Occupational health and safety
3	Product quality and safety	13	Energy consumption
4	Customer satisfactory	14	Use of renewable material
5	Customer privacy protection	15	Green products
6	Community relations	16	Compliance with environmental laws and regulations
7	Anti-discrimination	17	Expenditure on environmental protections
8	Development and training	18	Anti-corruption
9	Supplier management	19	Cartel and monopoly
10	Talent management	20	Compliance with local laws and regulations

We believe the most pertinent sustainability issues include compliance with environmental laws and regulations, community relationship, anti-corruption, green products, energy consumption and occupational health and safety. Additional material sustainability issues include development and training, talent management and Employee, etc.

ENVIRONMENT

Environmental Management System

We aim to develop green production, sustainable business, resources intensification, green mining methods, restoration for ecology of pit and comply with Environmental Protection Law of the People's Republic of China.

To achieve the aims, we established a comprehensive environmental management policy to prescribe and explain the general principles, division of responsibilities, environmental working procedures, pollution and wastes management, promotion of environmentally friendly culture and reward and punishment mechanism.

Environmental, Social and Governance Report

Environmental Leadership Working Group

As stated in our policy, the working group is composed of directors, general managers and supervisors of mining. The working group is responsible for:

- establishing long term plan
- promoting environmental protection culture
- reviewing and approving rules and system
- performing research for significant source of pollution
- assessing the condition of mining environment
- implementing the reward and punishment systems for the work of environment protection
- coordinating production and environment protection in order to support the sustainable development

ISO14001:2015 – Environmental Management System

On 28 April 2018, we were granted a certificate of ISO14001:2015 regarding the Environmental Management System in production of bentonite products. ISO14001:2015 specifies the requirements for an environmental management system that an organization may use to enhance its environmental performance and manage its environmental responsibilities in a systematic manner that contributes to the environmental pillar of sustainability.

	Requirement of ISO14001:2015
Commitment and Policy	An organization should develop a policy and ensure the commitment of environmental management to the environmental management system
Planning	An organization should plan to achieve its environmental policy
Implementation	In order to be effectively implemented, an organization should provide the capabilities and safeguards needed to achieve its environmental policies, goals and targets
Measurement and Evaluation	An organization should measure, monitor and evaluate its environmental performance
Review and Improvement	An organization should aim to improve overall environmental performance, review and continually improve its environmental management system

Pollution and Waste Management

Objectives

Response to revolution of national environmental system
Reach the legal discharge standard
Set a plan to reduce the pollution and waste quantity

The concerned department is liable to manage the pollution and promote the environmental awareness. They are responsible to build, enhance, maintain and repair the environmental protection device ("EPD"). The Production Technology Department is responsible for supervising and assessing the implementation and compliance of guidelines and systems.

Main processes of pollution and waste handling

Record the classification and quantity of pollution and waste
Prevent the discharge of motor oil, and oil tank
Prevent the discharge of solid waste and dangerous item
Collect the waste which cannot be discharged, to re-use and recycle
Collect, process and recycle the liquid waste and pollution

Air Pollution Control

Major exhaust emissions are come from coal burning. Flue Gas Desulphurization Plants ("FGDP") were installed in our boilers, which drastically reduce Sulphur Dioxide and dust emission, in order to comply with requirement of "Emission standard of air pollutants for coal-burning oil-burning gas-fired boiler GB13271-2001". The FGDP are maintained and managed by our operators.

The main sources of dust emission of Huanghu Bentonite Mine are mainly from open-pit mining, loading and unloading, flour mill, drying and movement of vehicles and mobile equipment. No obvious fugitive dust emissions were observed during the site visit to our Huanghu Bentonite Mine and our processing plant. We have a water truck for conducting water sprinkling to prevent fugitive dust emission at our Huanghu Bentonite Mine site. The Group's raw material storage facility uses a top-level meter to increase the degree of automation, which avoided excessive spillage and therefore wastage of raw materials. The Group also replaced the machines used in input of raw materials with belt conveyors which contributed to reductions in dust emission at the processing plant.

Emission Data

For the year ended 31 December 2018, the air emission data is as follow:

Emission	Quantity
Nitrogen Oxide (NOx)	1,072,777 grams
Sulphur Oxide (SOx)	620 grams
Particulate Matter (PM)	68,378 grams

During the year, the Group produced 1,072,777g of nitrogen oxide, 620g of Sulphur oxide and 68g particulate matter. These air emissions were mainly produced from the Group vehicles, which were private cars.

Environmental, Social and Governance Report

Greenhouse gas ("GHG") including carbon dioxide, nitrous oxide and methane were mainly produced from the group station, vehicles, consumed papers, purchased electricity and travelling of staffs.

Scope of Greenhouse Gas Emissions	Emission Sources	Total GHG (CO_2 and CO_2 equivalent) emissions (tonnes)	Intensity per production (tonnes)
Scope 1			
Direct Emission	Combustion of fuel in stationary sources	886.29	0.00852
	Combustion of fuel in mobile sources	0.10	0.000001
	Removals from sources	(45.95)	(0.0004419)
Scope 2			
Indirect emission	Purchased electricity	4,854.26	0.04668
Scope 3			
Other indirect emission	Paper waste disposed at landfills	1.28	0.012275
	Travelling	1.34	0.012839
Total (tonnes)		5,697.32	0.05478

Noise Pollution Control

In selecting the equipment suppliers, noise minimization is a necessary consideration. In all steps of engineering project, the precaution of noise pollution procedures and facility are well-established.

Our noise control devices, installed in our boiler, fan and other mechanical devices, provide sound insulation and reduce synchronization effect. Other protection equipment such as earplug and earmuffs are also provided to workers. Also, internal guidelines and operation manual are provided to all workers.

We have complied with the "Emission Standard for Industrial Enterprises Noise at Boundary GB12348-2008" and "Noise limits for Construction Site GB12523-90").

Solid Waste Management

Our major solid wastes were come from office domestic garbage, waste soil, cinder and mine construction waste. Mine office is responsible to process the solid waste. Production Technology Department is responsible for monitoring, counting, assessing and governing the solid wastes handling.

We have complied with the "Standards for pollution control on the storage and disposal site for general industrial solid wastes GB18599-2001".

Non-hazardous waste

For the year ended 31 December 2018, the non-hazardous wastes in our production were approximately 18,302.93 tonnes. Part of the non-hazardous wastes such as waste soil and rock were used to fill the abandoned mine pit and tunnel.

Hazardous waste

We have a maintenance workshop for mining machinery at the processing plant and waste oil is collected in discarded oil drums, which is reused as a lubricant. Our processing operations also uses processing reagents such as sodium carbonate, which are stored in warehouses with no secondary containment. Our independent technical consultant was of the opinion that the hazardous materials management risk was low and can generally be managed if environmental standards and regulatory requirements in the China are followed.

For the year ended 31 December 2018, there was no hazardous waste produced.

Wastewater Discharge Management ("WDM")

We strictly execute China standard "Integrated Wastewater Discharge Standard GB8978-1996" in our WDM. The water used in production is recorded and monitored by the mine office. In handling the domestic wastewater, which came from our office and staff dorm, precipitation treatment is performed before discharge. We collect rainwater and used in planting and road sprinkling water. Wastewater from cleaning is collected and to be further process before discharge.

Packaging Materials

Total plastic used for packaging in 2018 was approximately 37.74 tonnes, and the intensity was 0.000363 kg per ton of bentonite produced.

Accident handling Plan

For the abnormal pollution discharge, Production Technology Department is responsible for investigation, then report to the management. For the significant accident, a significant environmental budget plan can be switched on.

Environmental Assessment

Environmental assessment is part of annual assessment of each department and employees. The results and significant issues are reported to relevant department and seek further improvement.

Reward and Punishment Mechanism

Employees who perform well in compliance of internal guidance and environmental protection procedures, will be rewarded according our policy. At the other hand, employees violating "The Environmental Protection Law of the PRC" are subject to our punishment mechanism.

Efficient Use of Resources

To achieve energy conservation and enhance energy efficiency, we formulated a series of method by reference to the "Law of the People's Republic of China on Conserving Energy" and "Decision of the PRC State Council to strengthen energy conservation".

To achieve medium and long-term environmental goals and ensure continuous development, we strengthen the aspect for management, awareness of energy conservation for all employees, acceleration of scientific and technology, improvement of energy efficiency and evaluation mechanisms.

The Group has set up an "Energy Saving and Waste Reduction Team" which is led by the general manager and the head of mining operation to deliver the resources management policy and communicate with the employees to raise their awareness on resources conservation.

Environmental, Social and Governance Report

The principles of resources management policy are:

- conservancy of resources
- optimization of structure and balanced energy mix
- emission reduction with cost benefit
- technology development and replacement of plant and machine with high energy consumption

To Develop a responsible resources management, "Energy Conservation Working Group", composed of general manager and team leader of mine operation, was organized to:

- formulate policy to comply with law and regulation
- manage and cooperate operation
- organize training for employees

Petrol

A total of 38,490 litres of diesel, with an intensity of 0.3701 per tonne of production, was used for private cars for transportation.

Electricity

The Group actively promotes a reduction in energy consumption by:

- switching off idle lightings and electrical appliances
- using variable-frequency equipment in the mine or production areas
- installing energy saving equipment in the power supply system of the mine
- adopting the use of LED lighting system
- maintaining the temperature of the air-conditioner at a suitable level, cleaning the air-conditioner and ventilation equipment regularly to conserve power
- making use of natural sunlight to air dry about 69% of our extracted bentonite ore while the rest uses rotary drum drying

Signs are placed in the Group's office area to remind our staff to save energy continuously. Also, energy-efficient lighting system is installed in office area and electronic lighting sensors are installed in most of the meeting rooms. Contributed by the lighting systems, temperature control and reminding notice, the wasted power is maintained at minimal level.

For equipment purchasing, employees are encouraged to take energy efficiency into consideration when purchasing office equipment such as considering the energy cost of the equipment and its useful life.

The electricity consumption by the Group was 6,033,129kWh with an energy intensity of 58 kWh per tonne of production.

Office paper

A total of approximately 0.27 tonnes of paper with an intensity of 0.0000026 tonnes per tonne of production has been used for daily office operations. Paper recycling practice is engaged and promoted regularly to raise employees' awareness on conserving paper.

Water

Most of the water devices were installed automatic sensor to improve the water efficiency. We educate employees on the importance of water conservation and reduce unnecessary water waste. When any leaks occur on any equipment, we perform maintenance procedures immediately to avoid waste.

Our offices operate in leased office premises for which both the water supply and discharge are solely controlled by the building management. Part of consumed water, which did not enter the sewage system, were used for planting the tree. therefore, the provision of water withdrawal and discharge data or sub-meter for individual occupants are not feasible.

ENVIRONMENTAL PROTECTION PLAN

Reclamation Plan

Natural resources of land are the basis for human survival and the source of human production. In order to protect the land, we expect to invest RMB45 million in the reclamation plan. The objectives of reclamation plan are:

– to effectively curb surface of land damage and soil erosion, rehabilitate the damaged land, restore the ecological environment of the mining area; and

– to implement the principle of "Rehabilitation by Destroyer" announced by the State Council of PRC and the PRC regulation "Regulation on Land Reclamation".

Through the implementation of the plan, it is able to strike a balance of development of mine production and protection of natural resources and improvement of the ecological environment of the mining area.

	Principles of reclamation plan
Source control, combination of prevention and reclamation	Evaluation and forecasting of the area of the utilized and damaged land are included in preparation of reclamation plan. Preventive and control measures were taken during production and construction activities to minimize unnecessary damage to the land.
Synchronization of mining and reclamation	The future purpose of land utilization is determined in planning therefore the reclamation construction can be performed with mining activities at the same time. The fundraising for reclamation is prepared efficiently.
Act according to local conditions, priority of agriculture	The production and construction of the mine will have certain impact on the ecological environment and land use conditions of the mine site and surrounding areas. The land reclamation plan should be combined with the actual situation of the locality. The direction of reclamation should be agriculture, Animal husbandry, and fishery. If conditions permit, it should be reclaimed as agricultural land. The legitimate rights and interest of the local community is safeguarded.

During the Year, the Group had performed the following major reclamation works:

Procedures	**Details**
Drainage ditch and Sedimentation tank	The drainage ditch was constructed to collect the rain water in order to prevent the surface runoff. Sedimentation tank was constructed to collect the suspended solids in order to reduce the water pollution.
Covering soil and vegetation reconstruction	14,034 m^2 of mining area were covered soil and planted 1,268 trees and grass. 402 m^2 around the office were covered soil and planted 44 trees and grass. Damaged mining area of 1,260 m^2 were covered soil and planted 686 trees and grass.
Monitoring system	Total 15 monitoring points were setup to monitor drainage diversion, mountain slope stability and the survival rate of newly planted tree and grass.

Climate Change Risk and Natural Disaster Emergency Plan

The global climate is changing, in ways that affect the operations of businesses and increase the relevant risk. To improve the emergency capacity in response to natural disasters, a designated command system was formed to lead, direct and coordinate the emergency rescue procedures.

Function	Designated person	Responsibilities
Chief commander	General Manager ("GM")	GM is responsible for making final decision and the result the rescue actions.
Vice commander	Head of Administration ("HA")	HA is responsible for: i.) realize the situation ii.) release rescue order iii.) collect weather forecast and communicate to each department iv.) prepare relevant training v.) organize security guard and external rescuer to execute rescue plan vi.) communicate with external parties and press release
Support team	Finance, Purchase and Information Technology Department ("ITD")	ITD is responsible to ensure availability of the internal communication channel. Other departments are responsible for preparing medicine, medical device and temporary medical location.
Rescue team	Production Department ("PD") and Security Department ("SD")	PD and SD are responsible for arrange the evacuation and rescues of employees and company resources.

Specific contingency plans were developed for natural disasters. The plan covers the heighted risk area and work place, prevention procedure and field rescue.

Type of natural disaster	Prevention
Rainstorm	– preparation of rescue tool – periodic check for the safeguard of hazardous chemicals – ensuring drainage facility and factory facility can sustain the rainstorm – preventing rainwater infusion
Typhoon	– strengthening peripherals in the risky season – collecting and communicating the weather information to responsible department – eliminating the dead and broken tree – entry restriction on all construction during the typhoon – periodic check for the firmness of all building
Lightning Strike	– periodic check for the lightning protection facility – building the lightning protection facility – periodic backup of system data – allocating support team to maintain the system during risky season
Earthquake	– providing training and promote relevant knowledge – preventing fake earthquake message – periodic performing earthquake drill – preparing sufficient rescue material

EMPLOYEES

Staffs are important means to run a business, and at the same time, nurturing them are a goal of business operation. HangKan believes that based on the principles of value-added and all-win partnership, staffs should be encouraged to grow with the Group. To attain the goal of nurturing its staff, the Group should foster a harmonious corporate culture and a safe working environment to ensure that all employees receive the respect and protection which they deserve.

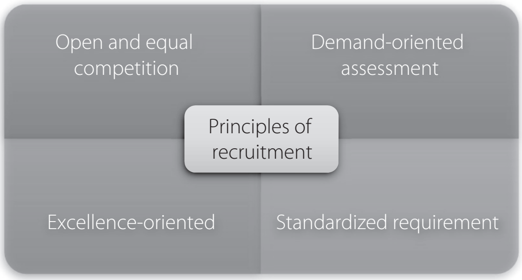
Communications and Mutual Respect

HangKan respects every single employee, regardless his or her position. We believe that respecting staffs is an essential quality of a modern enterprise. To build a harmonious and satisfying work environment, mutual respect and efficient communications are crucial. HangKan's efforts to care about and understand its staff made HangKan a cozy home for everyone.

Recruitment Principles

We are proud to be an equal opportunity employer. We are committed to providing our employees with a safe, healthy and fulfilling work environment with competitive remuneration and benefits, fair management and ongoing opportunities for training and development.

The main focus of our human resources strategy is to support employee development, to enable people to reach their full potential and to retain employees who are dedicated, strongly motivated, highly competent and have the capabilities to help us achieve our ambitions.



Prohibiting Child and Forced Labour

The Group's employment policy in regard to prohibiting child and forced labour is implemented to respond the local employment laws and regulations. The recruitment process of the Group is strictly abided by the guidelines of the Human Resource Department. There was no child nor forced labor in the Company's operation during the year.

Comprehensive Incentive System

HangKan values its staff and understands their needs. Based on the principles of efficient management, the Group rewards the staff according to their efforts and contributions to the company. Since its staff are allowed to share the benefits stemming from the growth of the company, they are encouraged to step up their own competitiveness.

The remunerations package is combined of various factors such as job responsibilities, performance, attitude, skills and company's revenue.

In addition, we provide the follow incentives to employees:

- incentive for the length of services to value the employees' historical contributions and giving extra care
- bonus related to profit, revenue, other contributions
- allowances for transportation, meal, housing, night shift and overtime

Nurturing Talents from Within

HangKan cannot guarantee to be its staff's home in their career life forever, but it strives to improve their professional quality, enhance their work experiences, provide in-house training and create promotion opportunities for them. To filful its need for professionals, the Group mainly train their staff to assume the needed duties, and only introduce professionals from outside when necessary. This aims to nurture professionals and talents at different levels and for different business sectors from within.

Training and Development

The Group attaches high importance to attraction and retention of talents. We, based on our business development principles and needs, invite professionals and those with management expertise to optimize our structure of human resources. We believe it is vital to nurture talented staff. As such, we encourage our employees to join internal or external training programs while subsidies are also available, in order to improve their quality, qualifications, skills, professional know-how and work efficiency for long-term growth.

Step by Step Training

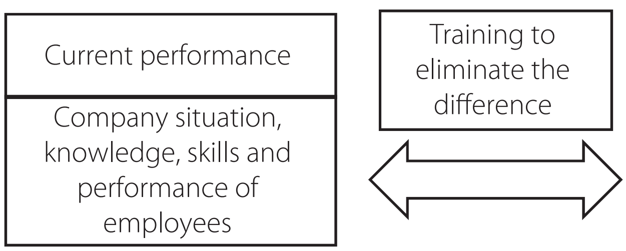
Human Resources Department is responsible for planning, arranging and recording the training and assessment of the employees. A special reward is given to trainer to promote a culture of sharing of knowledge between employees. The trainings are divided into different steps and provided to employees at appropriate stages.

Orientation training

Comprehensive orientation training includes company and industry history, introduction of organization, rules and guidelines, job details and job skills. The orientation training is split into three stages which are headquarter training, branch training and field training.

On-job Training System

The objective of the systems is to assist the Group to meet the target performance and develop the potential of employees.



In identifying the demand of training, an analysis performed for the following three aspects:

Aspects	**Details**
Company demand	Identifying the strengths and weaknesses Identifying the future manpower requirement
Team demand	Performing questionnaire, meeting and manpower planning
Personal demand	Assessment on the work performance and job analysis

Education Subsidies

Each department can recommend employees to apply education subsidies. The qualified employees can exempt from work and study full-time university education.

Resignation Procedures

For the process in resignation, a detailed communication will be performed to retain well-performed employees and identify the cause of resignation. We will collect the comments and evaluation from resigned employees in order to identify potential improvement for the Group.

Anti-discrimination and Anti-harassment

We comply with all relevant employment and equal opportunities legislation wherever it works and seeks to employ or engage a workforce which reflects the diverse community at large. We comply with equal opportunities legislation and seeks to promote fair employment policies, within the framework of local culture and laws. We seek at all times to engage the best candidate for the job – consideration of gender, marital status, sexual orientation, religious belief, colour, race, nationality or ethnic or national origin, has no place in this decision.

All levels of management are responsible for applying these policies and avoiding any form of discrimination.

All remuneration, benefits, career opportunities, and retirement arrangements must comply with this policy. Staff will be selected and treated on the basis of their abilities according to the requirements of the job, and have equal opportunity to show their ability and to progress within the organization. We aim to promote on merit and ensure that all staff are afforded equal opportunity when consideration is given to learning and development programs. We are committed to maintenance of a neutral working environment, in which no current or prospective staff feels under treat because of their origins, beliefs, gender or marital status.

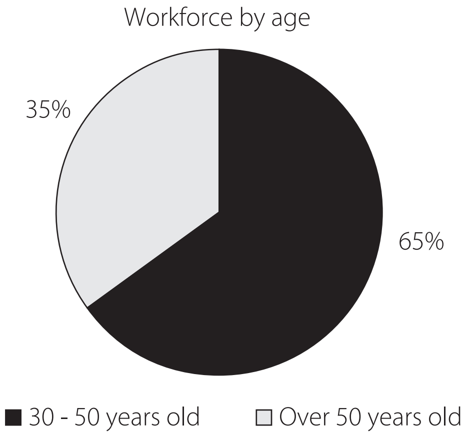
Any acts of unlawful discrimination will be viewed as gross misconduct. All advertisements and advertising material must be reviewed to ensure they do not imply any intention to discrimination.

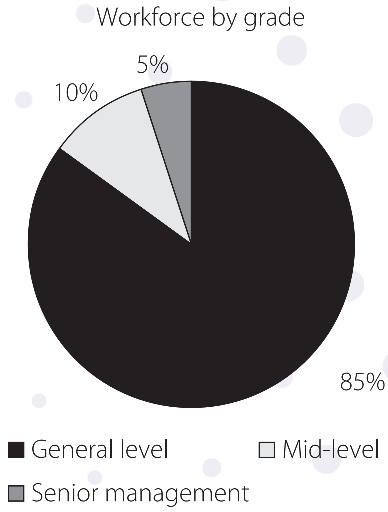
Environmental, Social and Governance Report

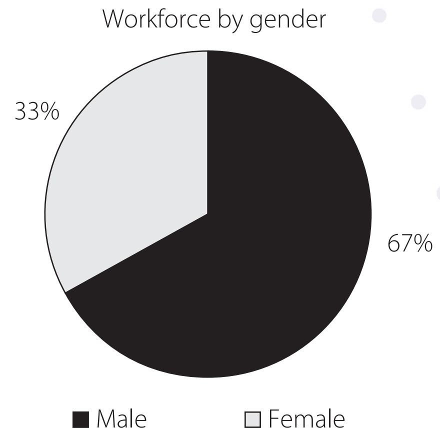
Employment Profile

The analysis of human resources of the Group during the year is as follow:

Proportion of Workforce

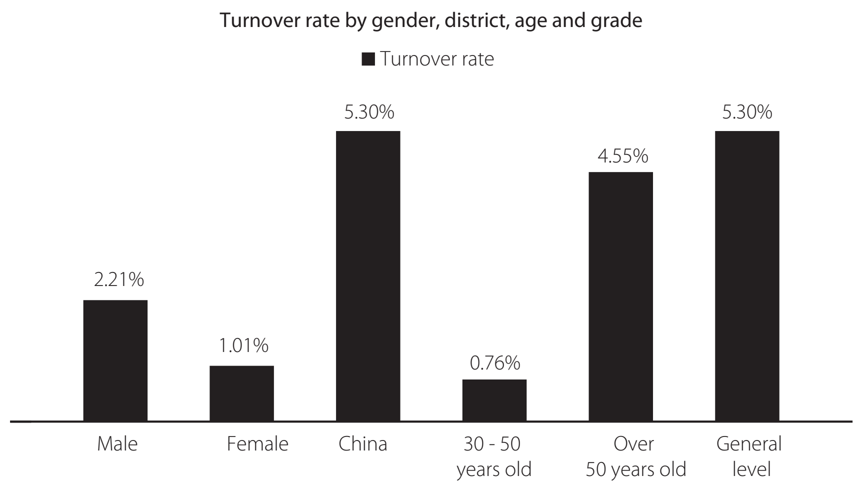




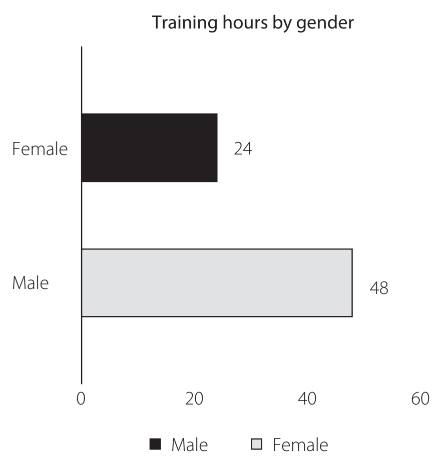


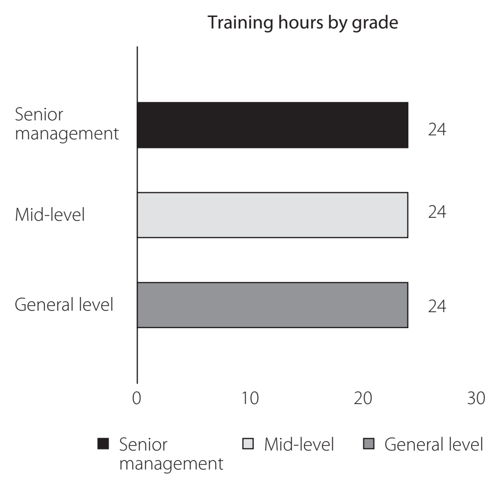
As of 31 December 2018, the Group had a total of 95 employees. All the employees were in China. The proportion of male to female is 67:33. 33 employees aged 30 to 50 years old and 62 number of employees aged over 50 years old. 81 employees were general staff, 9 employees were in mid-level and 5 employees were senior management.

Turnover Rate

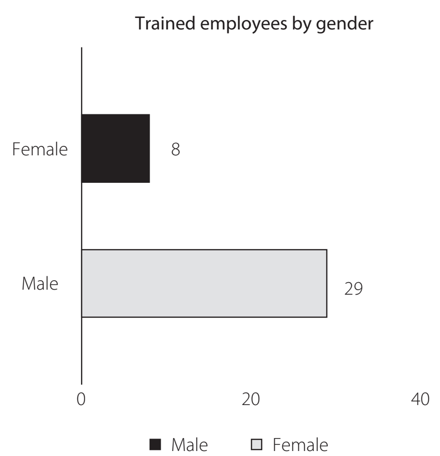


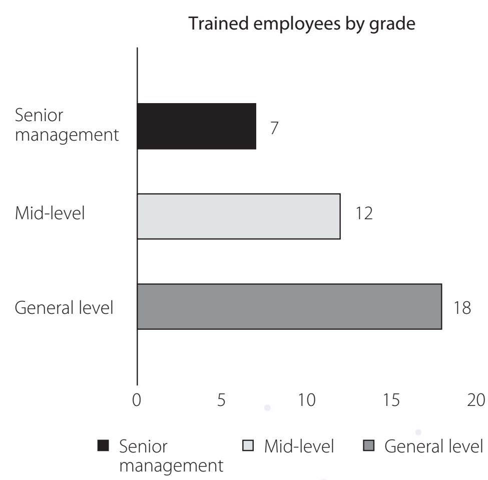
Training hours





Number of Trained Employees





Environmental, Social and Governance Report

Concerns About Occupational Safety

Among all HangKan's businesses, the tradition energy related business have less favorable production environment. The work requires harder labor, and is more dangerous. As HangKan has a great sense of responsibility and a natural tendency to care about its staff, it invests of a large sum of money to formulate and implement thorough safety control measures as well as to build a safe production environment for its staff.

Production Safety

Safety of our employees is always our Group's central concern and is the core of our mission. One of our approaches is to create a strong culture of safety, by implementing high safety standards and by providing appropriate training and education to our employees. We care about our employees and their families, and therefore strive to protect them and by providing a safe and healthy working environment.

We have our owned safety production and operational manual which specify certain procedures such as our safety production procedures in respect of different posts and departments, our accident prevention procedures and accident reporting procedures. The roles and responsibilities of each of the supervising staff and workers are clearly defined and each supervising staff is accountable for their respective areas of responsibility. Our mine manager supervises the implementation of regular on-site examination and continuously monitors the safety policies. Regular safety drills are carried out to ensure the awareness of safety production measures in case of emergency handling.

The key points of our policies are:

- to provide our employees with appropriate protective gears
- to reduce work-related injury and illness
- to ensure information regarding occupational health and safety are made readily available to employees in appropriate language(s)
- to ensure that employees are aware, through newsletters, training or other effective and frequent means of communication, of our obligations with regards to site safety and their own obligations of ensuring the safety of themselves and other employees

Safety Training

New hires are subject to production safety education and training. They cannot enter to factory before the completing examination. The training methods include lesson, case study and practice. All employees are subject to annual production safety training.

Special workers, including electrician, welder, forklift driver, mine manager and securities officer, are required to pass the national legal examination.

Safety Check System

The Safety Department conducted a total safety check and review in monthly basis. The checking team is composed of senior management, department head and factory manager. The securities risk identify in the safety check was communicated to each department. The relevant department prepared a plan by proposal to Safety Department and for their verification.

Safety check is performed daily, seasonal and before and after the holiday. The department or employees violating the safety guidelines are subject to punishment and re-education.

Safety Incident Emergency Management

The Group has established a safety incident emergency procedure which:

- any accident should be reported to mine manager and management
- if the accident is related to law and regulation, it should be reported to local government
- the rescue should be executed immediately
- the accident scene should be properly protected for following investigation
- the cause of accident must be identified
- the accident responsible person must be punished
- the education about the accident must be provided to employees Corresponding procedures must be adopted to prevent the same accident

Safety License

On 22 May 2018, we have been granted a valid Work Safety Standardization Certification（安全生產標准化）issued by State Administration of Work Safety（國家安全生產監督管理總局監制）.

SUSTAINABLE SUPPLY CHAIN MANAGEMENT

All companies in which HangKan Group Limited have a controlling interest, its affiliates and subsidiaries (the "Group") should commit to sustainable purchasing and give preference to sustainable products. The commitment should include identifying, selecting and purchasing products (i.e. goods and services) with significantly less adverse environmental and social impacts than alternative competing products.

Th Group Purchasing Manager will establish administrative procedures relating to this Policy and will be designated the responsible party to communicate and implement the policy and admin procedures, including explaining to all affiliates, subsidiaries and external parties the reason for the implementation.

Environmental, Social and Governance Report

The following factors should be considered, where appropriate, during procurement:

- minimal use of virgin material in the product
- replacement of disposables with reusables or recyclables
- minimal environmental impact from the entire product or service life cycle
- minimal packaging or elimination of packaging
- reduced energy/water consumption
- toxicity reduction or elimination
- durability and maintenance requirements (avoid single-use disposable items)
- waste disposal considerations (high recyclability)

Preference should be given to suppliers which have:

- policy stating their sustainability values and commitments
- sustainability certificates or awards
- sustainability management systems or quality management systems that incorporate environmental and social considerations
- full compliance with the Supplier Code of Conduct and all applicable environmental and social regulations and legislation

As a Group we strive to be good stewards of the natural resources and biodiversity under our influence. We prefer to work with suppliers and contractors including financial institutions, consultants and professional advisors who promote sustainable development through their own business activities. When procuring products and services, due consideration shall be taken into account to optimise the benefits in terms of the environment, social impact and cost, both from the point of view of the general public good and from enlightened self-interest.

Sustainable procurement helps achieving actual environmental and social benefits, promoting public awareness on sustainability issues and encourages manufacturers to introduce environmentally and socially responsible products.

CUSTOMER

We believe that the reliability and quality of our products are crucial to the success of our Group. As such, we have established and maintained stringent quality control standards and testing and inspection procedures at each critical step in the production of our drilling mud and pelletizing clay. These standards and procedures are documented in our quality control manual. In addition, we provide training to our employees to ensure effective application of our quality control procedures. We are dedicated to consistently producing high-quality products to meet the requirements of our customers.

Environmental, Social and Governance Report

As regards to trading business, we have established a sales management system to monitor the sales process. By identifying customers' requirements on our products, we negotiate with them on prices, quantity, quality and delivery schedule prior to entering into sales contracts. Subsequently, we will follow up the delivery process to ensure that our products fulfill the terms under the sales contracts. We will collect customers' feedback through various communication channels before, during and after the delivery processes. Customers' feedback is used as the benchmark to evaluate our quality assurance system and we will take rectification measures when needed.

As for advertising and marketing policies, we are committed to a responsible approach to communication. It is our Group's policy to adhere to internal verification process for information used in advertising and promotion and ensure that our advertising and promotional materials are backed by past performance and relevant data based on customer feedback or laboratory results.

Data Privacy Policy

perform detailed background check by obtaining certificate, business license, tax registration and written report. The sales contracts and information were safe kept.

Data and information provided by all customers, suppliers and other parties are keep confidential in the Group. The responsibility for saving confidential information continues even the termination of the commission contract. In order to fulfill our obligations regarding confidentiality, we require employees, supervisors or directors to sign a confidentiality agreement to confirm their consent to be bound by this rule.

Our business and communication records are restricted to be disclosed and used without the approval of the management. Employees and directors are not allowed to use the company email system, computer system and internet for personal purpose.

Without the consent of the board of directors, all employees, supervisors or directors must not use the company's assets, data or their position to obtain personal benefits.

Product Quality Control

We have been accredited with ISO9001:2008 certification, an international certification for quality management systems, for the production of bentonite product, including our drilling mud and pelletizing clay.

All of our sold products are subject to sample testing by our laboratory and approval from the customers.

For the compliant and product quality issues, our Sales Department is responsible to communicate with customer and record the details. Employees are sent to assist customer, If necessary. The returned products are assayed by our laboratory in order to verify the product quality. The procedures of the sales return are governed by the sales contract and negotiation with customers.

CODE OF CONDUCT AND GUIDELINES

Insider Trading

Employees are prohibited from using or transmitting to anyone the confidential data which they hold for stock trading purposes or for purposes other than processing the company's business. All company data not disclosed to the public is considered confidential. Using undisclosed data to obtain personal benefits or to disseminate such data to others affects their investment decisions, not only unethical, but also illegal.

Fair Competition

We seek to compete with competitors fairly and honestly. Without the consent of the patent owner, we prohibit to steal or obtain the patent data, inside information and trade secrets from former or current employees of competitors.

Every employee should respect the interests of the company's customers, suppliers, competitors and employees and trade with them fairly. All employees must not infringe upon the interests of others by manipulating, concealing, abusing privileged data, issuing misleading information or intend to deliberate unfair transactions.

Bribing the Government

We restrict all the members and employees directly or indirectly to provide any benefits, commitment or other reward to the government officials in order to obtain interest and business relationship. This behavior is subject to criminal offense and violation of Group's guidelines.

Report of Illegal or Unethical Behavior

We encourage employees to report violations or unethical behaviors to their supervisors, managers or senior management. The anonymous reporter is protected by the Group's policy. Employees should cooperate with internal investigations. Non-cooperative employees will be terminated the employment relationship.

Management Effort for Anti-fraud

The anti-fraud work of the management includes:

- promoting integrity and anti-fraud corporate culture
- assessing fraud risks and establishing specific control procedures and mechanisms to reduce opportunities of fraud
- providing appropriate training and communication about the compliance of law and regulation and ethics
- offering an open channel to employees for whistleblowing
- involving the Board of Directors and Audit Committee to monitor the whistleblowing

Annual Anti-fraud Meeting

The Group hold an anti-fraud meeting annually. At the meeting, the heads of departments report to the management about the status of anti-fraud progress and obtain opinions and instructions from management. The internal audit function prepares an evaluation report about the anti-fraud work progress and investigation results and listen to relevant opinions and instructions from management.

COMMUNITY INVESTMENT

Corporate Social Committee ("CSR Committee")

As HangKan Group is an energetic company interacts with the community and shoulder its own corporate social responsibility. To effectively communicate with community and other stakeholders, we have established a CSR Committee which composed of executive director and independent non-executive director. The CSR Committee aim to assist the Board in overseeing corporate social responsibility policies and issues with a focus on environmental protection and Social participation and taking into account workplace quality, occupational health and safety, and operational practices.

Community Participation

To enhance community participation, evaluation from local citizen is the one of the important factors to determine the success of our reclamation plan. In order to timely adjust and revise our reclamation plan, we regularly invited stakeholders and public to hold a communication.

which will make the development of the mine reclamation project more democratic and publicized. We will let the relevant units and the general public who have direct or indirect relationship with the project also participate in the land reclamation impact assessment. And let they put forward their own attitude towards the construction project. Therefore, we will invite different parts of the public and stakeholders to publish their experiences for the progress of the land reclamation project, as well as the impact of the project on the surrounding environment and express our own views so that we can correct and promote the implementation of the land reclamation project timely.

Employees' Participation in Society

We understand that employees' participation is the significant part of our social responsibilities. In July 2018, we organized a team, composed of our management and employees, to visit and express sympathy to soldiers and college students about their employment difficulties and living conditions. To make our humble effort, we have provided basic subsidy and daily necessities, such as rice, oil, etc., to them.

Sponsorship to Community Contribution

We sponsored the local village for its construction of photovoltaic power generation. The construction can provide clean electricity power to the community.

A. Environmental		HangKan's actions
Aspect: A1: Emissions	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Environmental Management System and Environmental Leadership Working Group – P.45 Accident handling Plan – P.48 Environmental Assessment – P.48 Reward and Punishment Mechanism – P.48
KPI A1.1	The types of emissions and respective emissions data.	Emission Data – P.46
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Emission Data – P.46
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Hazardous Waste – P.48
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Non-Hazardous Waste – P.47
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Pollution and Waste Management – P.46 Air Pollution Control – P.46 Noise Pollution Control – P.47
KPI A1.6	Description of how hazardous and nonhazardous wastes are handled, reduction initiatives and results achieved	Hazardous Waste – P.48 Solid Waste Management – P.47

Environmental, Social and Governance Report

A. Environmental		HangKan's actions
Aspect A2: Use of Resources	General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials.	Efficient Use of Resources – P.48
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Petrol, Electricity, Office paper – P.49-50
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Water – P.50
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Efficient Use of Resources, Petrol, Electricity, Office paper, Water – P.49-50
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Water – P.50 Wastewater Discharge Management ("WDM") – P.48
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Packaging Material – P.48
Aspect A3: The Environment and Natural Resources	General Disclosure Policies on minimising the issuer's significant impact on the environment and natural resources.	Reclamation Plan – P.50 Climate Change Risk and Natural Disaster Emergency Plan – P.52
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Reclamation Plan – P.50 Climate Change Risk and Natural Disaster Emergency Plan – P.52

B. Social		HangKan's actions
Employment and Labour Practices		
Aspect B1: Employment	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Communications and Mutual Respect – P.53 Recruitment Principles – P.54 A Comprehensive Incentive System – P.54 Resignation Procedures – P.56 Anti-discrimination and Anti-harassment – P.56
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Employment Profile – P.57
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Turnover Rate – P.58
Aspect B2: Health and Safety	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Concerns About Occupational Safety – P.59 Production Safety – P.59 Safety Training, Safety Check System, Safety Incident Emergency Procedures, Safety License – P.59-60
KPI B2.1	Number and rate of work-related fatalities.	N/A
KPI B2.2	Lost days due to work injury.	N/A
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	N/A

B. Social		HangKan's actions
Aspect B3: Development and Training	General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Nurturing Talents from Within – P.55 Training and Development – P.55 Step by Step Training – P.55 Orientation training – P.55 On-job Training System – P.55 Education Subsidies – P.56
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Training hours, Number of Trained Employees – P.58
KPI B3.2	The average training hours completed per employee by gender and employee category.	N/A
Aspect B4: Labour Standards	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Prohibiting Child and Forced Labour – P.54
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	N/A
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	N/A
Aspect B5: Supply Chain Management	General Disclosure Policies on managing environmental and social risks of the supply chain.	Sustainable Supply Chain Management – P.60-61
KPI B5.1	Number of suppliers by geographical region.	N/A
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Sustainable Supply Chain Management – P.60-61

B. Social		HangKan's actions
Aspect B6: Product Responsibility	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Customer – P.61 Product Quality Control – P.62
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	N/A
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	N/A
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	N/A
KPI B6.4	Description of quality assurance process and recall procedures.	N/A
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Data Privacy Policy – P.62
Aspect B7: Anti-corruption	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Code of Conduct and Guidelines – P.62
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	N/A
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	N/A

Environmental, Social and Governance Report

Community		HangKan's actions
Aspect B8: Community Investment	General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment – P.64
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Community Investment – P.64
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	Community Investment – P.64

Independent Auditor's Report

elite partners
CERTIFIED PUBLIC ACCOUNTANTS

TO THE MEMBERS OF HANGKAN GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

QUALIFIED OPINION

We have audited the consolidated financial statements of HangKan Group Limited (formerly known as "Feishang Non-metal Materials Technology Limited") (the "Company") and its subsidiaries (the "Group") set out on pages 76 to 143, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR QUALIFIED OPINION

Opening balances and corresponding figures

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

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

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in our audit
Impairment assessment of property, plant and equipment, prepaid lease payments and intangible assets	
We identified the impairment assessment of property, plant and equipment, prepaid lease payments and intangible assets as a key audit matter due to the significant judgement involved by the management in the impairment assessment. As at 31 December 2018, the Group has property, plant and equipment, prepaid lease payments and intangible assets of approximately CNY11,323,000, CNY2,509,000 and CNY5,056,000 respectively. Management performed impairment assessment and concluded that there is no impairment loss of on property, plant and equipment, prepaid lease payments and intangible assets would be recognised in profit or loss. This conclusion was based on value-in-use calculation that required significant management judgement with respect to the discount rate and the underlying cashflows, in particular future revenue growth.	Our procedures in relation to the management's impairment assessment of property, plant and equipment, prepaid lease payments and intangible assets included: • Assessing the methodologies used and the appropriateness of the key assumptions adopted in the value-in-use calculation; • Challenging the management on the reasonableness of key assumptions based on our knowledge of the business and industry; and • Checking, on sampling basis, the accounting and relevance of the input data used.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent Auditor's Report

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement director on the audit resulting in this independent auditor's report is Mr. Siu Edmund with practising certificate number P05333.

Elite Partners CPA Limited
Certified Public Accountants
Hong Kong 7 March 2019

Siu Edmund
Practising Certificiate number: P05333

10/F, 8 Observatory Road,
Tsim Sha Tsui, Kowloon
Hong Kong

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 CNY'000	2017 CNY'000
Revenue	7	**51,204**	28,796
Cost of sales		**(29,257)**	(18,456)
Gross profit		**21,947**	10,340
Other income	9	**1,474**	693
Selling and distribution expenses		**(6,740)**	(3,148)
Administrative and other expenses		**(72,723)**	(73,536)
Finance costs	10	**(1,283)**	(376)
Gain (Loss) on disposal/deconsolidation of subsidiaries		**874**	(5,616)
Loss before tax		**(56,451)**	(71,643)
Income tax expense	11	**(1,134)**	(437)
Loss and total comprehensive expense for the year	12	**(57,585)**	(72,080)
Attributable to:			
Owners of the Company		**(57,585)**	(71,874)
Non-controlling interests		**–**	(206)
		(57,585)	(72,080)
Loss per share (CNY):			
Basic	16	**(10.05) cents**	(14.21) cents
Diluted	16	**(10.05) cents**	(14.21) cents

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 CNY'000	2017 CNY'000
Non-current assets			
Property, plant and equipment	17	**11,323**	12,187
Prepaid lease payments	18	**2,509**	2,586
Intangible asset	19	**5,056**	5,142
Restricted bank balances	23	**8,965**	8,043
Deferred tax assets	20	**306**	497
		28,159	28,455
Current assets			
Inventories	21	**2,166**	2,421
Trade, bills and other receivables	22	**15,989**	69,042
Prepaid lease payments	18	**77**	77
Pledged bank deposits	23	**20,000**	–
Bank balances and cash	23	**29,993**	32,206
		68,225	103,746
Current liabilities			
Trade and other payables	24	**14,504**	12,944
Income tax payables		**916**	169
		15,420	13,113
Net current assets		**52,805**	90,633
		80,964	119,088

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 CNY'000	2017 CNY'000
Capital and reserves			
Share capital	27	**5,688**	4,698
Reserves		**67,071**	106,485
		72,759	111,183
Non-controlling interests		**–**	–
Total equity		**72,759**	111,183
Non-current liabilities			
Asset retirement obligations	25	**7,725**	7,330
Deferred income	26	**480**	575
		8,205	7,905
		80,964	119,088

The consolidated financial statements on pages 76 to 143 were approved and authorised for issue by the board of directors on 7 March 2019 and are signed on its behalf by:

SU Chun Xiang
Director

KO Yat Fei
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	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 27)*	990	19,677	–	–	–	–	–	20,667
Transaction costs attribute to the issue of new shares *(Note 27)*	–	(1,506)	–	–	–	–	–	(1,506)
At 31 December 2018	5,688	126,103	–	23,351	4,103	1,178	(87,664)	72,759

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	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)	Retained earnings (Accumulated loss) CNY'000	Total CNY'000	Non-controlling interests CNY'000	Total CNY'000
At 1 January 2017	4,188	25,954	–	23,351	3,401	808	5,034	62,736	–	62,736
Loss and total comprehensive expense for the year	–	–	–	–	–	–	(71,874)	(71,874)	(206)	(72,080)
Appropriation to statutory reserve	–	–	–	–	155	–	(155)	–	–	–
Appropriation and utilisation of safety fund and production maintenance fund, net	–	–	–	–	–	162	(162)	–	–	–
Establishment of subsidiaries	–	–	–	–	–	–	–	–	9,800	9,800
Deconsolidation of subsidiaries	–	–	–	–	–	–	–	–	(9,594)	(9,594)
Recognition of equity-settled share based payments *(Note 28)*	–	–	46,064	–	–	–	–	46,064	–	46,064
Placing of new shares *(Note 27)*	347	49,945	–	–	–	–	–	50,292	–	50,292
Subscription of new shares *(Note 27)*	87	12,486	–	–	–	–	–	12,573	–	12,573
Transaction costs attribute to the issue of new shares *(Note 27)*	–	(1,137)	–	–	–	–	–	(1,137)	–	(1,137)
Issue of shares upon exercise of share options *(Note 27)*	76	20,684	(8,231)	–	–	–	–	12,529	–	12,529
At 31 December 2017	4,698	107,932	37,833	23,351	3,556	970	(67,157)	111,183	–	111,183

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.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 CNY'000	2017 CNY'000
OPERATING ACTIVITIES		
Loss before tax	**(56,451)**	(71,643)
Adjustments for:		
Depreciation of property, plant and equipment	**1,170**	1,157
Amortisation of intangible asset	**86**	67
Amortisation of prepaid lease payments	**77**	77
Government grants	**(312)**	(93)
Net loss on disposal/written off of property, plant and equipment	**362**	5
Finance costs	**1,283**	376
Bank interest income	**(595)**	(503)
Release of government grant for property, plant and equipment	**(95)**	(95)
Prepayments written off	**57,430**	–
Equity-settled share-based payments	**–**	46,064
(Gain)/Loss on disposal/deconsolidation of subsidiaries	**(874)**	5,616
Operating cash flows before movements in working capital	**2,081**	(18,972)
Decrease/(Increase) in inventories	**255**	(909)
Increase in trade, bills and other receivables	**(4,377)**	(68,218)
Increase in trade and other payables	**1,560**	11,168
Cash used in operations	**(481)**	(76,931)
Income tax paid	**(196)**	(484)
NET CASH USED IN OPERATING ACTIVITIES	**(677)**	(77,415)
INVESTING ACTIVITIES		
Decrease/(Increase) in bank deposits with a maturity of more than three months	**15,239**	(945)
Placement of restricted bank balances	**(922)**	(1,893)
Deposit made on acquisition of property, plant and equipment	**–**	(5,000)
Purchases of property, plant and equipment	**(668)**	(2,695)
Proceeds from disposal of property, plant and equipment	**–**	2
Bank interest income received	**595**	503
Placement of pledged bank deposit	**(20,000)**	–
Net cash inflows/(outflows) on disposal/deconsolidation of subsidiaries	**874**	(87)
NET CASH USED IN INVESTING ACTIVITIES	**(4,882)**	(10,115)

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 CNY'000	2017 CNY'000
FINANCING ACTIVITIES			
Government grant received		**312**	93
Proceeds from placing of shares		**20,667**	62,865
Share issue expenses		**(1,506)**	(1,137)
New short-term loan raised		**4,223**	–
Repayment of short-term loan		**(4,223)**	–
Interest paid		**(888)**	–
Exercise of share options		**–**	12,529
Capital contribution from non-controlling interests		**–**	9,800
NET CASH GENERATED FROM FINANCING ACTIVITIES		**18,585**	84,150
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**13,026**	(3,380)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**16,261**	19,641
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	23	**29,287**	16,261

1. CORPORATE INFORMATION AND BASIS OF PREPARATION

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

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

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

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

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

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

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

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

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

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

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

2.1 *IFRS 15 Revenue from Contracts with Customers*

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

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

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

Information about the Group's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in notes 3 and 7 respectively.

Summary of effects arising from initial application of IFRS 15

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

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

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

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

2.1 IFRS 15 Revenue from Contracts with Customers (Continued)

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

Note:

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

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

2.2 IFRS 9 Financial Instruments

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

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

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

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

Summary of effects arising from initial application of IFRS 9

Classification and measurement of financial assets

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

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

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

2.2 *IFRS 9 Financial Instruments* *(Continued)*

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

Impairment under ECL model

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

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

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

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

New and amendments to IFRSs in issue but not yet effective

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

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[2]
IFRIC-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3	Definition of a Business[3]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1 and IAS 8	Definition of Materials[2]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle[1]

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

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

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

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

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

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

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

IFRS 16 Leases

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

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

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

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

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

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

IFRS 16 Leases *(Continued)*

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

As at 31 December 2018, the Group has non-cancellable operating lease commitments of CNY658,000 as disclosed in note 31. In addition, the Group currently considers refundable rental deposits paid of CNY164,000 as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Property, plant and equipment

Property, plant and equipment including buildings and freehold land held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Dismantlement asset are depreciated on a units-of-production basis over the total proved and probable reserves while all other assets, other than construction in progress, are depreciated using the straight line method so as to write down the cost less any estimated residual value of these assets over their expected useful lives. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of tangible and intangible assets is estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash generating unit) for which the estimates of future cash flows have not been adjusted.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses on tangible and intangible assets *(Continued)*

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable) or, its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term bank deposits with a maturity of twelve months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash at bank and on hand, and short-term bank deposits with a maturity of three months or less.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Work in progress

Production costs are capitalised and included in work in progress of the inventory based on the current mining and processing cost incurred including the cost of materials and supplies; direct labour; mine-site overhead expenses; stripping costs; and allocated indirect costs, including depreciation and amortisation of mining right.

Prepaid lease payments

Payment for obtaining land use rights is considered as operating lease payment. Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is charged to the consolidated statement of profit or loss and other comprehensive income over the period of the rights using the straight-line method.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value excepts for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/ initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2) (Continued)

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) *Amortised cost and interest income*

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade and other receivables, and financial guarantee contracts. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (Continued)

Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (Continued)

(i) Significant increase in credit risk *(Continued)*

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (Continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For ECL on financial guarantee contracts or on loan commitments for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (Continued)

(v) Measurement and recognition of ECL *(Continued)*

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on past due analysis:

- Nature of financial instruments (i.e. the Group's trade and other receivables are each assessed as a separate group;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with IFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

Except for investments in debt instruments/receivables that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserve without reducing the carrying amount of these debt instruments/receivables.

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)

The Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade, bills and other receivables, restricted bank balances, pledged bank deposit, and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets (before application of IFRS 9 on 1 January 2018)

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the respective credit periods granted to individual customers, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (before application of IFRS 9 on 1 January 2018) (Continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at amortised cost

Financial liabilities including trade and other payable are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at their fair values. It is subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9 (since 1 January 2018)/IAS 37 Provisions, Contingent Liabilities and Contingent Assets (before application of IFRS 9 on 1 January 2018); and

- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Revenue recognition (Prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of business, net of sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

- the amount of revenue can be measured reliably;

- it is probable that the economic benefits associated with the transaction will flow to the Group; and

- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 2)

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straightline basis.

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs and termination benefits

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another IFRS requires or permits their inclusion in the cost of an asset.

Share-based payments

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve).

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to retained earnings. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will transfer to retained earnings.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

Share options granted to suppliers/consultants

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognised as expenses (unless the goods or services qualify for recognition as assets).

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Assets retirement obligations

Dismantlement liability is recognised when the Group has a present legal or constructive obligation as a result of the past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related property, plant and equipment. The amount recognised is the estimated cost of dismantlement, discounted to its present value using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Changes in the estimated timing of dismantlement or dismantlement cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the dismantlement provision is included as a finance cost.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment is less than the original estimated useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining period. As at 31 December 2018, the carrying amounts of property, plant and equipment were approximately CNY11,323,000 (2017: CNY12,187,000).

Units-of-production depreciation for dismantlement asset and amortisation for intangible asset

The Group determines the depreciation of dismantlement asset and amortisation of intangible asset by the actual units of production over the estimated reserves of the mines. Further details about the reserve estimates are included below.

Reserve estimates

Proved and probable bentonite reserve estimates are estimates of the amount of bentonite that can be economically and legally extracted from the Group's mining properties. In determining the estimates, recent production and technical information of each mine will be considered.

Fluctuations in factors including the price of bentonite, production costs and transportation costs of bentonite, a variation on recovery rates or unforeseen geological or geotechnical perils may render it necessary to revise the estimates of bentonite reserves.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Reserve estimates *(Continued)*

Because the economic assumptions used to estimate reserves changes from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- Asset carrying values may be affected due to change in estimated future cash flows.

- Depreciation, depletion and amortisation charged to the consolidated statement of profit or loss and other comprehensive income may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change.

- Asset retirement obligations may change where changes in estimated reserves affect expectations about the timing or cost of these activities.

- The carrying value of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

As at 31 December 2018, the carrying amounts of dismantlement asset were approximately CNY3,303,000 (2017: CNY3,359,000) while the carrying amounts of intangible asset were approximately CNY5,056,000 (2017: CNY5,142,000).

Impairment of property, plant and equipment

The Group performs assessments on whether items of property, plant and equipment have suffered any impairment whenever events or changes in circumstances indicated that the carrying amounts of the assets may not be recoverable, in accordance with the stated accounting policy. Where there is an indicator of impairment, an estimation of the recoverable amount is required. Such estimations is based on certain assumptions which are subject to uncertainty and might differ from the actual result.

As at 31 December 2018, the carrying amounts of property, plant and equipment were approximately CNY11,323,000 (2017: CNY12,187,000), no impairment loss was recognised for the years ended 31 December 2018 and 2017.

Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on past experience as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in note 22.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Allowance for inventories

The management of the Group reviews the ageing of the inventories at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer saleable in the market. The identification of obsolete inventories requires the use of estimation of the net realisable value of items of inventory and judgements on the conditions and usefulness of items of inventories. Where the expected net realisable value is lower than the cost of certain items, a write-down of inventories may arise. As at 31 December 2018, the carrying amounts of inventories were approximately CNY2,166,000 (2017: CNY2,421,000), no allowance for inventories was recognised for the years ended 31 December 2018 and 2017.

Asset retirement obligations

The ultimate asset retirement obligations are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect the future financial results. As at 31 December 2018, the carrying amounts of asset retirement obligations were approximately CNY7,725,000 (2017: CNY7,330,000).

Income taxes

As at 31 December 2018, the Group has recognised deferred tax assets of approximately CNY306,000 (2017: CNY497,000). The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company regularly review and manage the Group's capital structure. As part of this review, the directors of the Company consider the cost of capital and risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues or issue of new debts or the repayment of existing debts.

6. FINANCIAL INSTRUMENTS

a) Categories of financial instruments

	2018 CNY'000	2017 CNY'000
Financial assets		
Financial assets at amortised cost	**74,857**	–
Loans and receivables (including cash and cash equivalents)	**–**	50,983
Financial liabilities		
Financial liabilities at amortised cost	**12,885**	12,585

b) Financial risk management objectives and policies

The Group's major financial instruments include trade, bills and other receivables, restricted bank balances, pledged bank deposit, bank balances and cash and trade and other payables.

Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The Group operates in the PRC with transactions denominated in CNY. Other than certain other receivables, bank balances and other payables which are denominated in Hong Kong dollars ("HK$"), currencies other than the functional currency of the relevant group entities, most of the Group's financial instruments are denominated in CNY.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's monetary assets and liabilities denominated in HK$ at the end of the reporting period are as follows:

	2018 CNY'000	2017 CNY'000
Assets	**15,406**	3,624
Liabilities	**(7,645)**	(8,976)
	7,761	(5,352)

6. FINANCIAL INSTRUMENTS *(Continued)*

b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis

The Group's currency risk is mainly exposed to HK$.

The following table details the Group' sensitivity to a 5% (2017: 5%) increase and decrease in CNY against HK$ for the year ended 31 December 2018. 5% (2017: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2017: 5%) change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than CNY.

A positive (2017: negative) number below indicates an decrease (2017: decrease) in loss after tax (2017: loss after tax) for the year where CNY strengthen 5% (2017: 5%) against HK$. For a 5% (2017: 5%) weakening of CNY against HK$, there would be an equal and opposite impact on the loss after tax (2017: loss after tax) for the year and the balance below would be negative (2017: positive).

	2018 **CNY'000**	2017 CNY'000
Post-tax profit or loss	**308**	(200)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposit. The Group is also exposed to cash flow interest rate risk in relation to the fluctuation of the prevailing market interest rate on restricted bank balances, bank balances and bank deposits. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated. Due to their short-term maturities, the exposure of the interest rate risk is minimal and no sensitivity to interest rate risk is presented.

6. FINANCIAL INSTRUMENTS *(Continued)*

b) Financial risk management objectives and policies *(Continued)*

Credit risk

As at 31 December 2018, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group's maximum exposure to credit risk which will cause a financial loss to the Group arising from the amount of financial guarantees provided by the Group is disclosed in note 30, net of total carrying amounts of CNY. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets and financial guarantee contracts, except that the credit risks associated with trade receivables of CNY736,000 is mitigated because they are secured over properties.

Trade receivables arising from contracts with customers

The Group offers revolving credit to two customers (2017: one customer). This revolving credit provides for a predetermined credit limit that may be outstanding at any one time based on, among others, their background, credit history, length of business relationship and historical transaction amounts. The Group generally evaluates the credit limits granted to the customers annually upon renewal of the relevant sales agreements and upon special request from the customers.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. The assessed credit losses for trade receivables are insignificant. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Restricted bank balances/Pledged bank deposits/Bank balances

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by authorised credit-rating agencies.

Financial guarantee contract

For financial guarantee contracts, the maximum amount that the Group has guaranteed under the respective contracts was CNY20,000,000 as at 31 December 2018. At the end of the reporting period, the directors of the Company have performed impairment assessment, and concluded that there has been no significant increase in credit risk since initial recognition of the financial guarantee contracts. Accordingly, the loss allowance for financial guarantee contracts issued by the Group is measured at an amount equal to 12m ECL. An amount of CNY641,000 has been estimated as a loss allowance as at 31 December 2018 in accordance with IFRS 9, however, no loss allowance was recognised in the profit or loss because the premium received less cumulative amount recognised in profit or loss was higher than expected amount of loss allowance. Details of the financial guarantee contracts are set out in note 30.

The Group's concentration of credit risk by geographical location is in the PRC, which accounted for all of the trade receivables as at 31 December 2018 and 2017.

The Group has concentration of credit risk as 47% (2017: 49%) and 99% (2017: 96%) of the total trade receivables was due from the Group's largest trade receivable and the five largest trade receivables respectively as at 31 December 2018.

6. FINANCIAL INSTRUMENTS *(Continued)*

b) Financial risk management objectives and policies *(Continued)*

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows and the earliest date that the Group can be required to pay, are within one year or on demand (2017: within one year or on demand).

c) Fair value measurements recognised in the consolidated statement of financial position

The directors of the Company consider that the carrying amounts of the non-current financial assets approximate its fair value as the impact of discounting is immaterial.

The directors of the Company consider that the carrying amounts of other current financial assets and financial liabilities recorded at amortised cost approximate their fair values.

7. REVENUE

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

Disaggregation of revenue from contracts with customers

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

8. SEGMENT INFORMATION

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

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

Information about geographical areas

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

Information about major customers

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

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

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

8. SEGMENT INFORMATION *(Continued)*

Information from major products

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

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

9. OTHER INCOME

	2018 **CNY'000**	2017 CNY'000
Bank interest income	**595**	503
Government grants (Note (a))	**312**	93
Release of government grant for property, plant and equipment (Note 27)	**95**	95
Guarantee service fee income (Note (b))	**472**	–
Others	**–**	2
	1,474	693

Notes:

(a) Government grants of CNY312,000 (2017: CNY93,000) received from local government authority was related to product innovation contributed by the Group to the industry, which were recognised as other income for the year as the Group fulfilled the relevant granting criteria.

(b) Guarantee service fee income represents income arising from provision of financial guarantee to an independent third party. The detail of financial guarantee has been set out in note 30.

10. FINANCE COSTS

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

11. INCOME TAX EXPENSE

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

Notes:

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

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

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

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

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

11. INCOME TAX EXPENSE *(Continued)*

The income tax expense for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2018 **CNY'000**	2017 CNY'000
Loss before tax	**(56,451)**	(71,643)
Tax at the tax rate of 25%	**(14,113)**	(17,911)
Preferential income tax rates applicable to a subsidiary	**(759)**	(260)
Tax effect of expenses not deductible for tax purpose	**16,248**	18,624
Tax effect of income not taxable for tax purpose	**(219)**	(3)
Over-provision in previous year	**(23)**	(13)
Income tax expense	**1,134**	437

Details of the deferred tax are set out in note 20.

12. LOSS FOR THE YEAR

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

Notes:

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

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

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each director and the chief executive were as follows:

Emoluments paid or receivable in respect of a persons' services as a director, whether of the Company or its subsidiaries undertaking:	Fees	Salaries, allowances and other benefits	Contributions to retirement benefits scheme	Total
	CNY'000	CNY'000	CNY'000	CNY'000
Year ended 31 December 2018				
Executive directors				
Mr. Deng Li (note i)	–	11	–	11
Mr. Zhang Yongmin (note ii)	–	11	–	11
Mr. Tsai Nam Lun (note iii)	–	11	–	11
Mr. Su Chun Xiang (note iv)	–	99	–	99
Independent non-executive directors				
Ms. Cheuk Tat Yee (note xi)	13	–	–	13
Mr. Ko Yat Fei (note xii)	99	–	–	99
Mr. Chow Chi Hang, Tony (note xii)	99	–	–	99
Ms. Shao Yu (note xii)	99	–	–	99
Total	310	132	–	442

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

Emoluments paid or receivable in respect of a persons' services as a director, whether of the Company or its subsidiaries undertaking:	Fees	Salaries, allowances and other benefits	Contributions to retirement benefits scheme	Share option expenses	Total
	CNY'000	CNY'000	CNY'000	CNY'000	CNY'000
Year ended 31 December 2017					
Executive directors					
Mr. Deng Li (note i)	–	108	–	4,064	4,172
Mr. Zhang Yongmin (note ii)	–	81	–	4,064	4,145
Mr. Tsai Nam Lun (note iii)	–	9	–	4,064	4,073
Mr. Su Chun Xiang (note iv)	–	–	–	–	–
Mr. Xu Chengyin (notes v, vi)	–	30	3	–	33
Mr. Zhang Pingwu (notes v, vi)	–	30	12	–	42
Mr. Chen Gongbao (notes v, vii)	–	115	8	–	123
Independent non-executive directors					
Mr. Chan Chiu Hung, Alex (note viii)	100	–	–	–	100
Mr. Zheng Shuilin (note ix)	97	–	–	–	97
Mr. Duan Xuechen (note ix)	97	–	–	–	97
Ms. Chan Shuk Kwan, Winnie (note x)	8	–	–	–	8
Ms. Yin Yi (note x)	8	–	–	–	8
Ms. Cheuk Tat Yee (note xi)	8	–	–	–	8
Mr. Ko Yat Fei (note xii)	–	–	–	–	–
Mr. Chow Chi Hang, Tony (note xii)	–	–	–	–	–
Ms. Shao Yu (note xii)	–	–	–	–	–
Total	318	373	23	12,192	12,906

Notes:

(i) Appointed on 13 March 2017 and resigned on 9 February 2018

(ii) Appointed on 23 March 2017 and resigned on 9 February 2018

(iii) Appointed on 5 December 2017 and resigned on 9 February 2018

(iv) Appointed on 9 January 2018

(v) The remuneration represents remuneration received from the Group by the respective directors in their capacity as an employee of the subsidiaries.

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

Notes: (Continued)

(vi) Retired on 30 June 2017, the emoluments disclosed above include those for services rendered by himself as the chief executive.

(vii) Resigned on 7 July 2017

(viii) Resigned on 18 December 2017

(ix) Resigned on 6 December 2017

(x) Appointed on 5 December 2017 and resigned on 9 January 2018

(xi) Appointed on 5 December 2017 and resigned on 12 February 2018

(xii) Appointed on 9 January 2018

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2017: five) were the directors of the Company whose emoluments are set out in Note 13 above. The emoluments of the remaining 2 (2017: nil) highest paid individuals for the year ended 31 December 2018 were as follows:

	2018 **CNY'000**	2017 CNY'000
Salaries, allowances, and other benefits	**148**	–
Contributions to retirement benefits scheme	**49**	–
	197	–

14. EMPLOYEES' EMOLUMENTS *(Continued)*

Their emoluments were within the following bands:

	2018 Number of individuals	2017 Number of individuals
Nil to HK$1,000,000	**2**	–

No emoluments were paid by the Group to the five highest paid individuals as an incentive payment for joining the Group or as compensation for loss of office for the years ended 31 December 2018 and 2017.

15. DIVIDEND

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

16. LOSS PER SHARE

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

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

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

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

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement CNY'000	Buildings CNY'000	Machinery and equipment CNY'000	Dismantlement asset CNY'000	Motor vehicles CNY'000	Total CNY'000
COST						
At 1 January 2017	–	10,629	14,597	3,706	662	29,594
Additions	2,037	275	383	–	–	2,695
Transfer	–	–	(97)	–	(161)	(258)
Disposal/written off	(2,037)	–	(352)	–	–	(2,389)
At 31 December 2017	–	10,904	14,531	3,706	501	29,642
Additions	–	81	587	–	–	668
Disposal/written off	–	–	(4,836)	–	–	(4,836)
At 31 December 2018	–	10,985	10,282	3,706	501	25,474
ACCUMULATED DEPRECIATION						
At 1 January 2017	–	4,304	11,583	303	370	16,560
Charge for the year	–	490	552	44	71	1,157
Eliminated on disposal/written off	–	–	(90)	–	(161)	(251)
Deconsolidation of subsidiaries	–	–	(11)	–	–	(11)
At 31 December 2017	–	4,794	12,034	347	280	17,455
Charge for the year	–	502	551	56	61	1,170
Eliminated on disposal/written off	–	–	(4,474)	–	–	(4,474)
At 31 December 2018	–	5,296	8,111	403	341	14,151
CARRYING VALUES						
At 31 December 2018	–	5,689	2,171	3,303	160	11,323
At 31 December 2017	–	6,110	2,497	3,359	221	12,187

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment other than the dismantlement asset, are depreciated on a straight-line method over their estimated useful lives as follows:

Buildings	20 years
Machinery and equipment	10 years
Motor vehicles	5 years

The dismantlement asset is depreciated on a units-of-production basis over the total proved and probable reserves in the mine.

18. PREPAID LEASE PAYMENTS

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

	2018 **CNY'000**	2017 CNY'000
Current assets	**77**	77
Non-current assets	**2,509**	2,586
	2,586	2,663

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

19. INTANGIBLE ASSET

	Mining right CNY'000
COST	
At 1 January 2017, at 31 December 2017 and 31 December 2018	5,666
AMORTISATION	
At 1 January 2017	457
Charge for the year	67
At 31 December 2017	524
Charge for the year	86
At 31 December 2018	610
CARRYING VALUES	
At 31 December 2018	5,056
At 31 December 2017	5,142

The mining right represents a mining license acquired for exploration and mining of a bentonite mine in the PRC. The mining right is amortised on a units-of-production basis over the total proved and probable reserves in the mine.

20. DEFERRED TAXATION

The following is the analysis of the deferred tax assets, after set off certain deferred tax assets against deferred tax liabilities of the same taxable entity, for financial reporting purposes:

	2018 **CNY'000**	2017 CNY'000
Deferred tax assets	**306**	497

20. DEFERRED TAXATION *(Continued)*

The following are the deferred tax assets (liabilities) recognised by the Group and movements thereon during the year:

	Temporary difference on allowance, accrued liabilities and deferred income	Temporary difference on asset retirement obligations	Accelerated tax depreciation	Total
	CNY'000	CNY'000	CNY'000	CNY'000
At 1 January 2017	475	1,043	(906)	612
Credit (charge) to profit or loss	(136)	56	(35)	(115)
At 31 December 2017	339	1,099	(941)	497
Credit (charge) to profit or loss	(220)	60	(31)	(191)
At 31 December 2018	119	1,159	(972)	306

21. INVENTORIES

	2018	2017
	CNY'000	CNY'000
Materials and supplies	**1,419**	1,491
Work-in-progress	**411**	771
Finished goods	**336**	159
	2,166	2,421

22. TRADE, BILLS AND OTHER RECEIVABLES

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

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

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

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

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

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

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

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

As at 31 December 2018 and 2017, all of the bills receivables were aged within 180 days.

The movement in the allowance for impairment of trade receivables is set out below:

	2018 **CNY'000**	2017 CNY'000
At the beginning of the year	**–**	–
Reversal on impairment of trade receivables	**–**	–
At the end of the year	**–**	–

The Group's neither past due nor impaired trade receivables mainly represented sales made to creditworthy customers for whom there was no recent history of default.

The ageing analysis of trade receivables which are past due but not impaired is as follows:

	2018 **CNY'000**	2017 CNY'000
Past due but not impaired:		
Within 30 days	**853**	966
31 to 60 days	**–**	77
61 to 90 days	**–**	–
More than 90 days	**–**	3
Total	**853**	1,046

Included in the Group's trade receivables are debtors with aggregate carrying amount of approximately CNY853,000 (2017: CNY1,046,000) as at 31 December 2018 which were past due as at the end of the reporting period for which the Group has not provided for impairment loss as these balances were either subsequently settled or there has not been a significant change in credit quality and the amounts are still considered recoverable. The average age of these receivables as at 31 December 2018 was 34 days (2017: 12 days).

23. RESTRICTED BANK BALANCES, PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Restricted bank balances

Restricted bank balances represent restricted cash set aside by the Group in banks placed for the settlement of asset retirement obligations for future environmental rehabilitation. The restricted bank balances carried at prevailing market rates ranging from 0.10% to 2.10% per annum (2017: 0.10% to 2.10% per annum) during the year ended 31 December 2018.

Pledged bank deposits

Pledged fixed deposits represented deposit pledged to banks to secure general banking facilities granted to an independent third party. As at 31 December 2018, the bank deposit of CNY20,000,000 (2017: nil) has been pledged to secure short-term bank borrowing of the independent third party and was therefore classified as current asset. The pledged fixed deposits carry interest rates at 1.95% (2017: nil) per annum and will be released upon the expiry of the relevant banking facilities.

Bank balances and cash

Bank balances and cash include the following for the purposes of the consolidated statement of cash flows:

	2018 **CNY'000**	2017 CNY'000
Cash at bank and in hand	**26,301**	10,994
Short-term bank deposits	**3,692**	21,212
Bank balances and cash shown in the consolidated statement of financial position	**29,993**	32,206
Less: Bank deposits with a maturity of more than three months	**(706)**	(15,945)
Cash and cash equivalents shown in the consolidated statement of cash flows (Note)	**29,287**	16,261

Bank balances and bank deposits carried at prevailing market rates ranging from 0.10% to 1.89% per annum during the year ended 31 December 2018 (2017: 0.10% to 2.10% per annum).

24. TRADE AND OTHER PAYABLES

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

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

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

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

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

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

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

25. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations primarily relate to the restoration costs for the closure of mining site, which included dismantling mining-related structures and the reclamation of land upon exhaustion of bentonite reserves.

The following is the asset retirement obligations recognised by the Group and movement is set out as below:

	2018 **CNY'000**	2017 CNY'000
At the beginning of the year	**7,330**	6,954
Unwinding of discount (Note 10)	**395**	376
At the end of the year	**7,725**	7,330

The asset retirement obligation is calculated at the net present value of estimated future net cash flows of the restoration costs, amounting to approximately CNY15,305,000, discounted at 5.40% per annum at 31 December 2018 (2017: 5.40% per annum).

26. DEFERRED INCOME

	2018 **CNY'000**	2017 CNY'000
Analysed as:		
Current liabilities (included in other payables)	**95**	95
Non-current liabilities	**480**	575
	575	670

Note:

During the year ended 31 December 2013, the Group received government grants of CNY800,000, which were designated for the purchase of plant and machinery. Such government grants are presented as deferred income and are released to income over the useful lives of the related plant and machinery. During the year ended 31 December 2018, government grants released to the consolidated statement of profit or loss and other comprehensive income amounted to CNY80,000 (2017: CNY80,000).

During the year ended 31 December 2016, the Group received government grants of CNY300,000, which was designated for buildings improvement work. Such government grants are presented as deferred income and are released to income over the useful lives of building. During the year ended 31 December 2018, government grants released to the consolidated statement of profit or loss and other comprehensive income amounted to CNY15,000 (2017: CNY15,000).

27. SHARE CAPITAL

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

Notes:

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

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

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

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

28. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company

The Company's share option scheme (the "Scheme"), was adopted pursuant to written resolution of the Company passed on 12 December 2015 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 28 December 2025. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

Options granted must be taken up on the date of grant, upon payment of HK$1.00. Options may be exercised at any time from the date of grant of the share option to the tenth anniversary of the date of grant. The exercise price is determined by the board of directors of the Company, and will not be less than the highest of (i) the nominal value of the Company's share; (ii) the closing price of the Company's shares on the date of grant; and (iii) the average closing price of the shares for the five business days immediately preceding the date of grant.

As at 31 December 2017, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 41,190,000 (2018: no share options have been granted and outstanding), representing 7.37% (2018: nil) of the share of the Company in issue at that date.

Details of the share options granted during the year ended 31 December 2017 are as follows:

Date of grant	Vesting period	Exercise period	Exercise price	Closing price of the share immediately before the date of grant
6 December 2017	N/A	10 year from the date of grant	HK$1.64	HK$1.64

28. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Equity-settled share option scheme of the Company *(Continued)*

The following table discloses movements of the Company's share options held by the directors of the Company employees of the Company and other individuals during the year:

				Number of share options				
	Date of grant	Exercise price per option	Exercise period	Balance as at 1 January 2018	Granted during the year	Exercised during the year	Expired/ lapsed/ cancelled during the year	Balance as at 31 December 2018
		HK$						
Directors and chief executives								
DENG Li (Note 1)	6 December 2017	1.64	10 years from the date of grant	3,200,000	–	–	(3,200,000)	–
ZHANG Yongmin (Note 2)	6 December 2017	1.64	10 years from the date of grant	4,950,000	–	–	(4,950,000)	–
TSAI Nam Lun (Note 3)	6 December 2017	1.64	10 years from the date of grant	4,950,000	–	–	(4,950,000)	–
Individuals in aggregate		1.64	10 years from the date of grant	28,090,000	–	–	(28,090,000)	–
				41,190,000	–	–	(41,190,000)	–
Exercisable at the end of the year								–
				HK$	HK$	HK$	HK$	HK$
Weighted average exercise price				1.64	–	–	1.64	–

28. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Equity-settled share option scheme of the Company *(Continued)*

	Date of grant	Exercise price per option	Exercise period	Number of share options: Balance as at 1 January 2017	Granted during the year	Exercised during the year	Expired/ lapsed/ cancelled during the year	Balance as at 31 December 2017
		HK$						
Directors and chief executives								
DENG Li (Note 1)	6 December 2017	1.64	10 years from the date of grant	–	5,000,000	(1,800,000)	–	3,200,000
ZHANG Yongmin (Note 2)	6 December 2017	1.64	10 years from the date of grant	–	5,000,000	(50,000)	–	4,950,000
TSAI Nam Lun (Note 3)	6 December 2017	1.64	10 years from the date of grant	–	5,000,000	(50,000)	–	4,950,000
Individuals in aggregate		1.64	10 years from the date of grant	–	35,000,000	(6,910,000)	–	28,090,000
				–	50,000,000	(8,810,000)	–	41,190,000
Exercisable at the end of the year								41,190,000
				HK$	HK$	HK$	HK$	HK$
Weighted average exercise price				–	1.64	1.64	–	1.64

Notes:

1. Mr. DENG Li resigned as executive Director on 9 February 2018.

2. Mr. ZHANG Yongmin resigned as executive Director on 9 February 2018.

3. Mr. TSAI Nam Lun resigned as executive Director on 9 February 2018.

In respect of the share options exercised during the year ended 31 December 2017, the weighted average share price at the dates of exercise is HK$1.64 (2018: nil) and the weighted average share price at the dates immediately before the exercise in HK$1.64 (2018: nil).

During the year ended 31 December 2017, options were granted on 6 December 2017 (2018: nil). The estimated fair value of the options granted on the date is approximately HK$1.06 (equivalent to CNY0.92) (2018: nil).

28. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Equity-settled share option scheme of the Company *(Continued)*

The fair value was calculated using the Binomial model. The inputs into the model were as follows:

	6 December 2017
Weighted average share price	HK$1.64
Exercise price	HK$1.64
Expected volatility	59.12%
Expected life	10 years
Risk-free rate	1.815%
Expected dividend yield	nil

Expected volatility was determined by using the historical volatility of the Company's share price over the previous ten year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expenses of approximately CNY46,064,000 for the year ended 31 December 2017 (2018: nil) in relation to share option granted by the Company.

29. RETIREMENT BENEFITS SCHEME

As stipulated by rules and regulations in the PRC, subsidiaries in the PRC are required to contribute to a state-managed retirement plan for all its employees at a certain percentage of the basic salaries of its employees. The state-managed retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-managed retirement plan, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions.

During the year ended 31 December 2018, the total amount contributed by the Group to this scheme and charged to the consolidated statement of profit or loss and other comprehensive income amounted to approximately CNY1,302,000 (2017: CNY1,029,000).

30. CONTINGENT LIABILITIES

During the year ended 31 December 2018, 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 bank. In return, Feishang Material receive a guarantee fee of 6% of the amount of deposit pledged by Feishang Material. The fair value of the financial guarantee issued at initial recognition was immaterial. Details of the loss allowance for financial guarantee contracts are set out in note 6.

As at 31 December 2017, 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.

31. COMMITMENTS

Operating lease commitment

(i) The Group as lessee

	2018 **CNY'000**	2017 CNY'000
Minimum lease payments paid under operating leases during the year	**269**	184

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 **CNY'000**	2017 CNY'000
Within one year	**356**	–
In the second to fifth years inclusive	**222**	–
	578	–

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are 2 years.

32. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group has entered into the following transactions with related parties.

Compensation to key management personnel

The remuneration of directors of the Company and other members of key management during the year was as follows:

	2018	2017
	CNY'000	CNY'000
Short-term benefits	**442**	691
Post-employment benefits	**–**	23
Share option expense	**–**	12,192
	442	12,906

The remuneration of the directors of the Company and key executives is determined with regards to the performance of individuals.

33. DISPOSAL OF A SUBSIDIARY

De-consolidation of certain subsidiaries of the Group for the year ended 31 December 2017

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"). The De-consolidation had resulted in a loss of approximately CNY5,616,000.

For the preparation of the consolidated financial statements for the year ended 31 December 2017, the Group had consolidated the financial results, assets and liabilities of the De-consolidated Subsidiaries from the date of incorporation of the respective De-consolidated Subsidiaries up to 31 December 2017 based on an unaudited management information received.

* The English name is for identification purpose only.

33. DISPOSAL OF A SUBSIDIARY *(Continued)*

De-consolidation of certain subsidiaries of the Group *(Continued)*

The following is the financial information of the Deconsolidated Subsidiaries:

	CNY'000
Property, plant and equipment	2,378
Deposits paid for acquisition of property, plant and equipment (Note (i))	5,000
Inventories	1,375
Trade, bills and other receivables (Note (ii))	7,793
Bank balances and cash	87
Trade and other payables	(1,386)
Income tax payables	(37)
Net assets of the Deconsolidated Subsidiaries	15,210
Less: Non-controlling interests	(9,594)
Loss on Deconsolidation	(5,616)

Notes:

(i) Deposits paid represented the deposits paid for acquisition of 5-stories commercial property located in Chaoyang City, Jianping County, Liaoning Province, the PRC, with the land use rights relating thereto at a cash consideration of CNY12,020,000. Details of the acquisition are set out in the Company's announcements dated 5 December 2017.

(ii) On 28 November 2017, Lucky Investments, being one of the De-consolidated Subsidiaries, has entered into a raw material purchase contract with a supplier, of which a trade deposit in an amount of HK$7,000,000 (equivalent to CNY5,846,000) has been paid by the Company. To the best of knowledge and belief of the Board, such carrying values of the amounts of CNY5,846,000 due from the investments in the De-consolidated Subsidiaries were not recoverable and, accordingly, an impairment loss of approximately CNY5,846,000 had been recognised in the profit or loss.

Transactions had been carried out by the De-consolidated Subsidiaries since the date of incorporation of the respective De-consolidated Subsidiaries for the year ended 31 December 2017 are as follow:

	CNY'000
Revenue	1,680
Cost of sales	(1,390)
Gross profit	290
Administrative and other expenses	(689)
Loss before tax	(399)
Income tax expenses	(37)
Loss for the year	(436)

33. DISPOSAL OF A SUBSIDIARY *(Continued)*

De-consolidation of certain subsidiaries of the Group *(Continued)*

During the year ended 31 December 2018, the Group disposed the entire share capital of Lucky Capital Group Limited for a consideration of HK$1,000,000. The gain on disposal of a subsidiary was as follows:

	CNY'000
Gain on disposal of a subsidiary:	
Consideration received and receivable	874
Net assets disposed of	–
	874

34. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2018 CNY'000	2017 CNY'000
Non-current asset			
Investment in a subsidiary		**47,192**	47,192
Current assets			
Other receivables and prepayments		**392**	58,221
Amount due from a subsidiary		**4,003**	3,795
Bank balances		**11,934**	181
		16,329	62,197
Current liabilities			
Other payables		**7,650**	8,976
		7,650	8,976
Net current assets		**8,679**	53,221
		55,871	100,413
Capital and reserves			
Share capital		**5,688**	4,698
Reserves	(a)	**50,183**	95,715
		55,871	100,413

The Company's statement of financial position was approved and authorised for issue by the board of directors on 7 March 2019 and are signed on its behalf by:

SU Chun Xiang
Director

KO Yat Fei
Director

34. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

(a) Movements in reserves

	Share premium CNY'000	Share options reserve CNY'000	Other reserve CNY'000 (Note)	Accumulated losses CNY'000	Total CNY'000
At 1 January 2017	25,954	–	44,051	(20,098)	49,907
Loss and total comprehensive expense for the year	–	–	–	(74,003)	(74,003)
Recognition of equity-settled share based payments	–	46,064	–	–	46,064
Placing of new shares	49,945	–	–	–	49,945
Subscription of new shares	12,486	–	–	–	12,486
Transaction costs attribute to the issue of new shares	(1,137)	–	–	–	(1,137)
Issue of share upon exercise of share options	20,684	(8,231)	–	–	12,453
At 31 December 2017	107,932	37,833	44,051	(94,101)	95,715
Loss and total comprehensive expense for the year	–	–	–	(63,703)	(63,703)
Lapsed of share options	–	(37,833)	–	37,833	–
Placing of new shares	19,677	–	–	–	19,677
Transaction costs attribute to the issue of new shares	(1,506)	–	–	–	(1,506)
At 31 December 2018	126,103	–	44,051	(119,971)	50,183

Note: Other reserve represents the difference between the nominal value of the shares issued and the net asset value of the subsidiaries of the Company upon the Reorganisation on 17 September 2015.

35. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries as at 31 December 2018 and 2017 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment/ operation	Issued and fully paid ordinary share capital/registered capital	Percentage of equity interest and voting power attributable to the Company				Principal activities
			Direct		Indirect		
			2018	2017	**2018**	2017	
Feishang International Holdings Limited	BVI	United States Dollar 1	**100%**	100%	**–**	–	Investment holding
蕪湖飛尚非金屬材料有限公司	The PRC	HK$35,000,000	**–**	–	**100%**	100%	Bentonite mining, production and sales of drilling mud and pelletising clay
Shenzhen Zhuorui Business Management Consultant Company Limited* (深圳市卓瑞企業管理咨詢有限公司)	The PRC	CNY1,000,000	**–**	–	**100%**	100%	Provision of business management consultation service for the group companies.

None of the subsidiaries has issued any debt securities sublisting at the end of both years or at any time during both years.

* The English name is for identification purpose only.

Financial Summary

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	CNY'000	CNY'000	CNY'000	CNY'000	CNY'000
Revenue and Profit					
Revenue	**51,204**	28,796	26,311	28,823	30,447
Cost of sales	**(29,257)**	(18,456)	(14,791)	(15,463)	(17,686)
Gross profit	**21,947**	10,340	11,520	13,360	12,761
Other income	**1,474**	693	3,245	1,229	1,100
Selling and distribution expenses	**(6,740)**	(3,148)	(1,413)	(1,314)	(1,057)
Administrative and other expenses	**(72,723)**	(73,536)	(8,932)	(21,956)	(2,911)
Finance costs	**(1,283)**	(376)	(521)	(358)	(317)
Gain (loss) on deconsolidation of subsidiaries	**874**	(5,616)	–	–	–
(Loss) profit before tax	**(56,451)**	(71,643)	3,899	(9,039)	9,576
Income tax expense	**(1,134)**	(437)	(1,099)	(1,835)	(2,551)
(Loss) profit and total comprehensive (expense) income for the year	**(57,585)**	(72,080)	2,800	(10,874)	7,025
(Loss) earnings per share (CNY)					
Basic and diluted	**(10.05) cents**	(14.21) cents	0.56 cents	(2.89) cents	1.87 cents

	As at 31 December				
	2018	2017	2016	2015	2014
	CNY'000	CNY'000	CNY'000	CNY'000	CNY'000
Assets and Liabilities					
Current assets	**68,225**	103,746	46,222	65,788	35,159
Non-current assets	**28,159**	28,455	27,668	23,425	18,895
Current liabilities	**(15,420)**	(13,113)	(3,530)	(22,199)	(4,564)
Non-current liabilities	**(8,205)**	(7,905)	(7,624)	(7,078)	(5,681)
Total equity	**72,759**	111,183	62,736	59,936	43,809