



恆勤集團有限公司
HangKan Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8331)

First Quarterly Report 2019

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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

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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.

FIRST QUARTERLY RESULTS

The board of Directors (the "Board") of the Company is pleased to announce the unaudited condensed consolidated results of the Group for the three months ended 31 March 2019 (the "Reporting Period"), together with the comparative unaudited figures for the correspondence period in 2018 as follows:

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

For the three months ended 31 March 2019

	Notes	Three months ended	
		31 March 2019 CNY'000	2018 CNY'000
Revenue	3	15,086	8,892
Cost of sales		(8,203)	(5,385)
Gross profit		6,883	3,507
Other income		377	150
Selling and distribution expenses		(2,188)	(1,197)
Administrative and other expenses		(4,024)	(2,852)
Finance costs		(104)	(121)
Profit (loss) before tax		944	(513)
Income tax expense	4	(286)	(85)
Profit (loss) and total comprehensive income (expense) for the period attributable to the owners of the Company	5	<u>658</u>	<u>(598)</u>
Earnings (loss) per share (CNY):			
Basic and diluted	5	<u>0.10 cents</u>	<u>(0.11) cents</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2019

	Share capital	Share premium	Other reserve	Share option reserve	Statutory reserve	Safety fund and production maintenance fund	Accumulated loss	Total
	CNY'000	CNY'000	CNY'000	CNY'000	CNY'000	CNY'000	CNY'000	CNY'000
At 1 January 2018 (audited)	4,698	107,932	23,351	37,833	3,556	970	(67,157)	111,183
Loss and total comprehensive expenses for the period	-	-	-	-	-	-	(598)	(598)
Lapsed of share options	-	-	-	(37,833)	-	-	37,833	-
Appropriation and utilisation of safety fund and production maintenance fund, net	-	-	-	-	28	38	(66)	-
At 31 March 2018 (unaudited)	4,698	107,932	23,351	-	3,584	1,008	(29,988)	110,585
At 1 January 2019 (audited)	5,688	126,103	23,351	-	4,103	1,178	(87,664)	72,759
Profit and total comprehensive income for the period	-	-	-	-	-	-	658	658
Appropriation and utilisation of safety fund and production maintenance fund, net	-	-	-	-	90	(43)	(47)	-
At 31 March 2019 (unaudited)	5,688	126,103	23,351	-	4,193	1,135	(87,053)	73,417

Notes:

(i) Other reserve

It represents (a) the capital contribution from the then controlling shareholder, Mr. Li Feile 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 period to fund statutory reserve. The statutory reserve is not distributable as cash dividends and must be made before distribution of dividend to equity owners.

(iii) Safety fund and production maintenance fund

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 PRC.

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

The unaudited condensed consolidated financial statements for the three months ended 31 March 2019 of the Group are presented in Chinese Yuan ("CNY"), which is also the functional currency of the Company. CNY is the currency of the primary economic environment in which the principal subsidiary of the Company operates (the functional currency of the principal subsidiary).

2. SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial statements for the three months ended 31 March 2019 are consistent with those used in the annual accounts for the year ended 31 December 2018. The Group has adopted new or revised standards, amendments to standards and interpretations of IFRSs which are effective for accounting periods commencing on or after 1 January 2019. The adoption of such new or revised standards, amendments to standards and interpretations does not have material impact on the consolidated accounts and does not result in substantial changes to the Group's accounting policies.

3. REVENUE

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

	Three months ended 31 March	
	2019	2018
	CNY'000	CNY'000
Drilling mud	4,795	2,220
Pelletising clay	10,291	6,672
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	15,086	8,892
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The Group operates in one business unit based on its products, and has one reportable and operating segment: bentonite mining, production and sales of drilling mud and pelletising clay. The Directors monitor the revenue of its business unit as a whole based on the monthly sales and delivery reports for the purpose of making decisions about resource allocation and performance assessment.

4. INCOME TAX EXPENSE

	Three months ended 31 March	
	2019	2018
	CNY'000	CNY'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	159	90
Deferred taxation:		
Current period	127	(5)
	<hr/>	<hr/>
	286	85
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Notes:

- (a) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("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 periods 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 subsidiary established in the PRC other than Feishang Material is 25% for both periods.
- (d) Feishang Material was recognised as a High Technology Enterprise and subject to PRC income tax at 15% in accordance with the EIT Law effective for both periods.

5. EARNINGS (LOSS) PER SHARE

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

	Three months ended 31 March	
	2019	2018
	CNY'000	CNY'000
Earnings (loss)		
Earnings (loss) for the purpose of basic and diluted earnings (loss) per share	658	(598)
	2019	2018
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings (loss) per share ('000 shares)	670,572	558,810
Basic and diluted earnings (loss) per share (CNY)	0.10 cents	(0.11) cents

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

6. DIVIDEND

No dividend was paid, declared or proposed by the Group during the Reporting Period (three months ended 31 March 2018: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The gradual recovery of the general economy and further advancement of the supply-side reform policy resulted in improvement in profitability in the iron and steel industry. However, as discussed in the paragraph headed “Management Discussion and Analysis – Outlook”, the iron and steel industry still faced uncertainties such as international trade conflicts. In spite of the difficult situation, the Group strived to enlarge customer base and enhance major customers’ satisfaction through improved quality management, which resulted in an increase in sales of pelletising clay in the first quarter of 2019 as compared to the corresponding period in 2018.

Although investment in infrastructure construction increased, oil and gas prices continued to fluctuate. The investment sentiment of oil and gas transportation pipelines construction projects, which were directly linked to the Group’s drilling mud business, still faced uncertainty. Nevertheless, the Group adhered to serving customers with integrity and quality service to build long-term customer relationships. Meanwhile, the Group continuously focused on capacity upgrading, efficiency improvement and cost control, which resulted in enhanced revenue and profitability of the Group’s drilling mud business.

FINANCIAL REVIEW

Revenue

The revenue increased by approximately 69.7% from approximately CNY8.9 million for the three months ended 31 March 2018 to approximately CNY15.1 million for the Reporting Period. 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, and the Group’s continuous effort on market and quality management, the sales volume recorded an impressive boost by approximately 41.8%.

Gross Profit and Gross Margin

The overall gross profit increase by approximately 96.3% from approximately CNY3.5 million for the three months ended 31 March 2018 to approximately CNY6.9 million for the Reporting Period, while the overall gross profit margin increased from approximately 39.4% for the three months ended 31 March 2018 to approximately 45.6% for the Reporting Period. 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; (ii) the decrease in unit processing cost of drilling mud because of economies of scale, and (iii) the increase in the proportion of sales amount of drilling mud with relatively higher gross profit margin.

Other Income

Other income increase by approximately CNY227,000 from approximately CNY150,000 for the three months ended 31 March 2018 to approximately CNY377,000 for the Reporting Period. The increase was mainly attributed to an increase in bank interest income and the guarantee fee from the Back-to-back Guarantee Agreement.

Selling and Distribution Expenses

The selling and distribution expenses increased by approximately 82.8% from approximately CNY1.2 million for the three months ended 31 March 2018 to approximately CNY2.2 million for the Reporting Period. 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.

Administrative and Other Expenses

The administrative and other expenses increased by approximately 41.1% from approximately CNY2.9 million for the three months ended 31 March 2018 to approximately CNY4.0 million for the Reporting Period. The increased was mainly due to the increase in professional fees, the payment of insurance premium, and staff cost during the period.

Finance Costs

The finance costs decreased by approximately 14.0% from approximately CNY121,000 for the three months ended 31 March 2018 to approximately CNY104,000 for the Reporting Period. This was due to the decreased in interest expense of other short terms loan during the period.

Income Tax Expense

The Group had an income tax expense of approximately CNY286,000 for Reporting Period as compared to approximately CNY85,000 for the three months ended 31 March 2018. The increase was mainly due to a rise in the profit before tax in Feishang Material.

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

Due to the combined effect of the aforesaid factors, the profit and total comprehensive income attributable to the owners of the Company for the Reporting Period was approximately CNY0.7 million, an increase of approximately CNY1.3 million from the loss and total comprehensive expense of approximately CNY0.6 million for the three months ended 31 March 2018.

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 March 2019, the Group did not have any significant contingent liabilities.

OUTLOOK

After several years of supply-side structural reform in the iron and steel industry, the operational efficiency of iron and steel enterprises enhanced gradually, and production capacity started to release since the first half of 2018. The newly released production capacity will gradually increase demand for upstream products such as pelletising clay. However, due to the intensified international trade conflicts and higher tariffs imposed by foreign authorities, the growth of the iron and steel industry may be adversely affected for a considerable length of time in the future. With regards to the drilling mud business, although the investment environment in infrastructure construction is optimistic, oil and gas prices continue to fluctuate. As a result, revenue and profitability of the main products of the Group are expected to have further growth. On the other hand, uncertainties from the international trade and investment environment may bring about fluctuations in the nearly future. The Group intends to continue to expand its customer base and market share by boosting product awareness of both pelletising clay and drilling mud, refining its production technology and developing new products, with a view to enhance the Group's overall competitiveness to cope with the unfavourable business environment.

CAPITAL COMMITMENTS

As at 31 March 2019, the Group did not have significant capital commitments.

DIVIDEND

In order to retain resources for the Group's business development, the Board does not recommend the payment of a dividend for the Reporting Period (three months ended 31 March 2018: Nil).

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

As at 31 March 2019, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered into the register required to be kept by the Company under section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Rules 5.48 to 5.67 of the GEM Listing Rules.

SHARE OPTION SCHEME

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

As at 31 March 2019, no options had been granted, exercised or cancelled pursuant to the Share Option Scheme.

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

As at 31 March 2019, so far as was known to the Directors, the following persons/entities (other than the Directors or chief executives of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the 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	Percentage of the issued shares	
				Notes	(%)
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 (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 SFO 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, 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 as at 31 March 2019.

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the “CG Code”) as contained in Appendix 15 to the GEM Listing Rules as its own code of corporate governance. Throughout the Reporting Period, the Company has complied with the code provisions as set out in the CG Code, save and except for code provision A.2.1, as set out below.

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.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the Reporting Period, none of the Directors and controlling shareholders of the Company or their respective close associates (as defined in the GEM Listing Rules) had any interest in a business that competes or may compete with the business of the Group and any other conflicts of interests which such person had or may have with the Group.

PRE-EMPTIVE RIGHTS

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

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

There was no purchase, sale or redemption of the shares by the Company or any of its subsidiaries throughout the Reporting Period.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

There was no significant investment, material acquisition and disposal during the Reporting Period.

OTHER INFORMATION

Reference was made to the Company's annual report for the year ended 31 December 2018, regarding the failure of the suppliers namely Lituo Enterprise (HK) Limited, Trade Rosy Global Limited and Kai Muk Company (the "Suppliers") to refund the trade deposits to the Company in the total amount of approximately CNY57.8 million. The Company has

- i) 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;

- ii) instructed a legal representative to issue demand letter to Trade Rosy Global Limited requesting the refund of deposits amounted HK\$14,500,000 on 1 November 2018. Trade Rosy Global Limited has, up to the date of this report, failed and/or refused to pay the deposit or any part thereof; and
- iii) 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 and a reply to the defence was filed and served by the Company on 29 November 2018. The parties are in trial preparation stages in which witness statements are exchanged and interlocutory applications are to be made if necessary.

Despite the fact that the Company has obtained positive legal opinions on the merits of the legal actions against the Suppliers, the Board is concerned about the recoverability of the refund of the prepayments. The Board, after prudent consideration, has made full provision for impairment for the possible unrecoverable prepayments to those Suppliers during the year ended 31 December 2018.

The Company will make further announcement(s) to inform its Shareholders and potential investors of development of the above cases as and when appropriate.

EVENTS AFTER THE REPORTING PERIOD

There have been no other material events occurring after the Reporting Period and up to the date of this report.

AUDIT COMMITTEE

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

PUBLIC FLOAT

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

BOARD OF DIRECTORS

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

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

Hong Kong, 9 May 2019