恆勤集團有限公司

HangKan Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8331)

Interim Report 2019

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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.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

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

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

AUTHORISED REPRESENTATIVES

Mr. SU Chun Xiang
Mr. KAM Tik Lun

COMPANY SECRETARY

Mr. KAM Tik Lun

COMPLIANCE OFFICER

Mr. SU Chun Xiang

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

AUDITORS

Elite Partners CPA Limited
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Cayman Islands

HONG KONG OFFICE AND PRINCIPAL PLACE OF BUSINESS

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COMPANY'S WEBSITE

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COMPANY'S STOCK CODE

8331.HK

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
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Hong Kong

LEGAL ADVISER

(As to Cayman Islands Law)
Conyers Dill & Pearman

PRINCIPAL BANKERS

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The gradual recovery of the general economy and further advancement of the supply-side reform policy resulted in improvement in profitability in the iron and steel industry. However, as discussed in the paragraph headed "Management Discussion and Analysis – Outlook" of the Company's annual report for the year ended 31 December 2018 (the "2018 Annual Report") and the business review for the 2019 first quarterly report for the three months ended 31 March 2019 of the Company, the iron and steel industry still faced uncertainties such as international trade conflicts. In spite of the difficult situation, the Group strives to enlarge customer base and enhance customers' satisfaction through improved quality management, which resulted in an increase in sales of pelletising clay for the six months ended 30 June 2019 ("Reporting Period") as compared to the corresponding period in 2018.

Although investment in infrastructure construction increased, oil and gas prices continue to fluctuate. The investment sentiment of oil and gas transportation pipelines construction projects, which was directly linked to the Group's drilling mud business, is 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.

Business Strategies Review with Progress of Implementation

The Group aims to strengthen its market position in the People's Republic of China (the "PRC"). In order to achieve this objective, the Group intends to pursue the following strategies. The following table sets out the Group's business strategies as disclosed in the 2018 Annual Report with the actual progress of implementation as at 30 June 2019.

Business Strategy	Implementation Plan	Progress of Implementation as of 30 June 2019
Broaden customer base and develop product recognition	(i) Collaborating with external institutions in the PRC for the development of new technologies and new bentonite products to cater for high-valued downstream markets other than iron ore pelletising and civil engineering; (ii) attending and participating in industry forums and events to network with other industry professionals and potential customers; and (iii) expanding sales and marketing team to further enhance sales and marketing activities.	(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) 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 customers and two pelletising clay customers starting their purchase with the Group in 2018; and (iii) The Group was in the process of recruiting more experienced personnel for sales and marketing.
Development of new production technology and new products	Signing collaboration agreements with two universities and one research institute.	Completed techno-economic viability study of two new products: (a) polyaniline/montmorillonitenano-composite conductive coating materials; and (b) titanium dioxide/montmorillonitenano-composite materials and photocatalytic.

Business Strategy	Implementation Plan	Progress of Implementation as of 30 June 2019
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 pelletising clay production line; Completed the construction of new storage facilities for pelletising clay; Completed the expansion of storage facilities for dried bentonite ore to be processed into drilling mud; Replaced the old forklift truck; Replaced a transformer in the processing plant; Completed the modification of existing rotary drum dryer; Purchased one new flour mill; Completed the modification of existing transformer room; and Purchased one electric motor and one electric belt scale.

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 "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										
	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 ending 31 December 2017**	**For the six months ended 30 June 2018**	**For the six months ending 31 December 2018**	**For the six months ending 30 June 2019**	**Total net proceeds**	**Approximate percentage of net proceeds**	**Actual use of net proceeds up to the date of this report**
	(HK$ million)	*(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	0.5 *(Note)*
Total	–	0.4	4.6	–	7.7	–	–	–	12.7	100.0	0.5

Note:

China's economy has been in the L-type bottom stage and in the key stage since 2016 which old growth model has weakened and the new growth model has yet to be established. The Company has decided to postpone the (i) modification and/or improvement of its existing Raymond mill; and (ii) enhancement of electricity power capacity of its processing plant which was originally scheduled since the second half of 2016 until a sustainable positive industry signal is envisaged. As the demand for the company products are strong, the Company has re-commenced the plant and equipment improvement plan in the first half of 2019.

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 30 June 2019) *(Note 2)*	Dry	Wet
Proved reserve *(metric tonnes)*	1,354,000	1,662,000
Probable reserve *(metric tonnes)*	4,724,000	5,910,000
Total *(metric tonnes)*	6,078,000	7,572,000
Average quality of bentonite		
Active montmorillonite	47.0%	
Colloid index	61.1 ml/15g	
Swelling capacity	8.7 ml/g	
Capital expenditure for the six months ended 30 June 2019	CNY Nil	
Output for the six months ended 30 June 2019 *(metric tonnes)*	68,000	

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 30 June 2019 has been substantiated by the Group's internal expert by adjusting those reserves extracted by the Group's mining activities from July 2015 to June 2019 from the proved reserve as of 1 July 2015. All assumptions and technical parameters set out in the independent technical report contained in the Prospectus have not been materially changed and continued to apply to the reserve data as of 30 June 2019.

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

Compliance

As at 30 June 2019, as stated in "Business – Legal proceedings and regulatory compliance – Regulatory non-compliance" of the Prospectus, in relation to the incidents of non-compliance with the applicable laws and regulations including those relating to environmental protection, land rehabilitation, safety, etc., the Group had already taken remedial actions and implemented relevant internal control measures. All these aspects have been in compliance with applicable laws and regulations as at the date of this report. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations, in particular, those which have significant impact on the Group. The compliance committee of the Company is not aware of the occurrence of any other material non-compliance incidents during the Reporting Period.

Risk Management and Internal Control

The Board has overall responsibility for the effective risk management and internal control systems of the Group and is committed to the maintenance of good corporate governance, practices and procedures of the Group. The Board believes that all the major risk factors relevant to the Group have already been listed in "Risk factors" of the Prospectus. As at 30 June 2019 and the date of this report, save as disclosed otherwise, the business environment and regulatory environment in which the Group operates have not witnessed any material change, and internal operations and management and financial operations have been running smoothly, and thereby no other major risk factors need to be disclosed separately. In accordance with the revised Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 15 to the GEM Listing Rules, the Group continuously improves the risk management and internal control systems and updates a number of policies. The Board believes that these measures will strengthen the risk management and internal control systems of the Group.

FINANCIAL REVIEW

Revenue

Breakdown of the Group's Revenue by Products

	Six months ended 30 June			
	2019		2018	
	CNY'000	***%***	*CNY'000*	*%*
	(unaudited)		(unaudited)	
Drilling mud	**10,338**	**33.5**	6,500	30.6
Pelletising clay	**20,535**	**66.5**	14,715	69.4
Total revenue	**30,873**	**100.0**	21,215	100.0

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

	Six months ended 30 June			
	2019		2018	
	Sales volume ***(tonnes)***	**Average selling price** ***(CNY/tonne)***	Sales volume *(tonnes)*	Average selling price *(CNY/tonne)*
Drilling mud	**23,344**	**442.9**	16,038	405.3
Pelletising clay	**46,268**	**443.8**	39,984	368.0

The revenue increased by approximately 45.8% from approximately CNY21.2 million for the six months ended 30 June 2018 to approximately CNY30.9 million for the six months ended 30 June 2019. 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 demand for both drilling mud and pelletising clay continuously increased in 2019. Since the Group focused on quality management and marketing efforts to maintained good relationship with key customers, the sales volume recorded an impressive boost by approximately 25.0% from approximately 56,000 tonnes for the six months ended 30 June 2018 to approximately 70,000 tonnes for the Reporting Period.

Cost of Sales

Breakdown of the Group's Cost of Sales

Cost Items	Six months ended 30 June 2019 CNY'000 (unaudited)	2019 %	2018 CNY'000 (unaudited)	2018 %
Extraction costs	**381**	**2.4**	384	2.8
Processing costs				
– Air-drying costs	**783**	**4.9**	970	7.0
– Consumables, materials and supplies	**6,029**	**37.9**	3,310	24.0
– Depreciation and amortisation	**642**	**4.0**	790	5.7
– Staff costs	**2,536**	**15.9**	2,775	20.1
– Transportation costs	**1,900**	**11.9**	2,154	15.6
– Utility costs	**2,034**	**12.8**	2,282	16.6
– Others	**1,091**	**6.9**	737	5.4
Sales tax and surcharges	**522**	**3.3**	390	2.8
Total cost	**15,918**	**100.0**	13,792	100.0

Breakdown of the Group's Cost of Sales by Products

	Six months ended 30 June 2019 CNY/tonne	2019 CNY'000 (unaudited)	2019 %	2018 CNY/tonne	2018 CNY'000 (unaudited)	2018 %
Drilling mud	**221.9**	**5,179**	**32.5**	273.9	4,393	31.9
Pelletising clay	**232.1**	**10,739**	**67.5**	235.1	9,399	68.1
		15,918	**100.0**		13,792	100.0

The total cost of sales increased by approximately 15.2% from approximately CNY13.8 million for the six months ended 30 June 2018 to approximately CNY15.9 million for the Reporting Period. The increase in total cost of sales was mainly caused by the significant increase in sales volume of drilling mud and pelletising clay, which was partly offset by the decrease in unit processing cost of both drilling mud and pelletising clay. 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 and depreciation.

Cost of sales for drilling mud increased by approximately 18.2% from approximately CNY4.4 million for the six months ended 30 June 2018 to approximately CNY5.2 million for the Reporting Period. The increase in cost of sales for drilling mud was mainly due to the increase in sales volume by approximately 45.6%. The offset factor was the decrease in unit processing cost from CNY273.9 per tonne for the six months ended 30 June 2018 to approximately CNY221.9 per tonne for the Reporting Period, which was contributed by: (i) the economies of scale as discussed above; and (ii) the decrease in cost of consumables and materials such as sodium carbonate.

Cost of sales for pelletising clay increased by approximately 13.8% from approximately CNY9.4 million for the six months ended 30 June 2018 to approximately CNY10.7 million for the Reporting Period. The increase in cost of sales for pelletising clay was mainly due to the increase in sales volume by approximately 15.7%, which was partially offset by a slight decrease in unit processing cost of pelletising clay.

Gross Profit and Gross Profit Margin

The overall gross profit increased by approximately 102.7% from approximately CNY7.4 million for the six months ended 30 June 2018 to approximately CNY15.0 million for the Reporting Period, while the overall gross profit margin increased from approximately 35.0% for the six months ended 30 June 2018 to approximately 48.4% for the Reporting Period. The increase in the overall gross profit was mainly due to the increase in sales volume and average selling price of both drilling mud and pelletising clay. The increase in overall gross profit margin was contributed by the combined effect of increase in selling price and decrease in unit processing cost of both drilling mud and pelletising clay.

Gross profit for the sale of drilling mud significantly increased by approximately 147.6% from approximately CNY2.1 million for the six months ended 30 June 2018 to approximately CNY5.2 million for the Reporting Period, while the gross profit margin for the sale of drilling mud increased from approximately 32.4% for the six months ended 30 June 2018 to approximately 49.9% for the Reporting Period. The increase in gross profit for the sale of drilling mud was mainly due to the increase of sales volume by approximately 45.6%. The increase in gross profit margin was attributed to: (i) increase in selling price of drilling mud by approximately 9.3% from approximately CNY405.3 per tonne for the six months ended 30 June 2018 to approximately CNY442.9 per tonne for the Reporting Period; and (ii) decrease in unit cost of drilling mud by approximately 19.0% from approximately CNY273.9 per tonne for the six months ended 30 June 2018 to approximately CNY221.9 per tonne for the Reporting Period. The reasons for the decrease in unit cost of drilling mud had been discussed above.

Gross profit for the sale of pelletising clay significantly increased by approximately 84.9% from approximately CNY5.3 million for the six months ended 30 June 2018 to approximately CNY9.8 million for the Reporting Period, while the gross profit margin for the sale of pelletising clay increased from approximately 36.1% for the six months ended 30 June 2018 to approximately 47.7% for the Reporting Period. The increase in gross profit and gross profit margin for the sale of pelletising clay was contributed by an increase in the sales volume of pelletising clay by approximately 15.7% and the increase in the average selling price by approximately 20.6% from approximately CNY 368.0 per tonne for the six months ended 30 June 2018 to approximately CNY 443.8 or the Reporting Period.

Other Income

Other income increase by approximately CNY742,000 from approximately CNY368,000 for the six months ended 30 June 2018 to approximately CNY1.1 million for the Reporting Period. The increase was mainly attributed to the increase in bank interest income and the provision of guarantee income.

Selling and Distribution Expenses

The selling and distribution expenses increased by approximately 53.8% from approximately CNY2.6 million for the six months ended 30 June 2018 to approximately CNY4.0 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 20.6% from approximately CNY6.8 million for the six months ended 30 June 2018 to approximately CNY8.2 million for the Reporting Period. The increase was mainly due to the increase of the staff costs, the raise in headcount and bonus of administrative departments.

Finance Costs

The finance costs decreased by approximately 54.6% from approximately CNY454,000 for the six months ended 30 June 2018 to approximately CNY206,000 for the Reporting Period. This was due to the decrease in interest expense of the short terms loan during the Reporting Period.

Income Tax Expense

The Group had an income tax expense of approximately CNY1.0 million for the Reporting Period as compared to approximately CNY204,000 for the six months ended 30 June 2018. The increase was mainly due to a rise in the profit before tax from Wuhu Feishang Non-metallic Material Company Limited, the indirect wholly-owned subsidiary of the Company.

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

Due to the combined effect of the aforesaid factors, the profit and total comprehensive income attributable to the owners of the Company for the Reporting Period was approximately CNY2.6 million, an increase of approximately CNY4 million from the loss and total comprehensive expense of approximately CNY1.3 million for the six months ended 30 June 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 30 June 2019, the Group did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2019, the Group employed 100 full time employees (as at 30 June 2018: 108) for its principal activities. Employees' costs (including Directors' emoluments) amounted to CNY5.8 million for the Reporting Period (six months ended 30 June 2018: CNY3.2 million). The Group recognises the importance of retaining high calibre and competent staff and continues to provide remuneration packages to employees with reference to the performance of the Group, the performance of individuals and prevailing market rates. 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 share option scheme adopted by the Company.

FUND RAISING ACTIVITIES

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$21.4 million (equivalent to approximately CNY18.5 million). For the period ended 30 June 2019, the Group had used the net proceeds as follows:

	Original allocation of net proceeds			**Utilization up to 30 June 2019**		**Remaining balance of unused net proceeds as at 30 June 2019**	
	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	7.2	38.8%	6.1	5.3	2.2	1.9
Settlement of professional and audit fees	6.6	5.7	30.8%	2.9	2.5	3.7	3.2
General working capital of the Group	6.5	5.6	30.4%	2.1	1.8	4.4	3.8
Total	21.4	18.5	100.0%	11.1	9.6	10.3	8.9

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	600.0	519.1
Consultation and service	769.3	665.6
Rental costs	361.2	312.5
Staff cost (including the Director's emoluments)	346.0	299.4
Total	2,076.5	1,796.6

As shows above, the remaining balance of unused net proceeds as at 30 June 2019 of approximately HK$10.3 million.

EVENT AFTER THE REPORTING PERIOD

Reference was made to the announcement dated 29 July 2019 in relation to the renewal of financial guarantee services. A Renewal Agreement to renew the Back-to-back Guarantee Agreement was entered by Wuhu Feishang Non-metal Material Co., Limited*（蕪湖飛尚非金屬材料有限公司）, a wholly-owned subsidiary of the Company established in the PRC (the "Wuhu Subsidiary"), pursuant to which the Wuhu Subsidiary has agreed to provide financial guarantee to the Borrower by means of pledging its deposit in the sum of CNY20 million for procuring the Borrower to obtain the loan of CNY19 million provided by the lending bank. The Guarantee shall be for a term of one year. In return, the Wuhu Subsidiary shall receive a guarantee fee of 6% of the amount of deposit pledged by the Wuhu Subsidiary. The Board considers that the Group has surplus cash in CNY in excess of the working capital needs for its business operation in the PRC. The provision of Guarantee in favour of the Borrower will better utilize the Group's surplus cash with reasonable return.

As save as above, there is no material event undertaken by the Company or the Group subsequent to 30 June 2019 and up to the date of this report.

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.

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. LEE Ming Tung (chairman of Audit Committee) (appointed on 24 June 2019), Mr. KO Yat Fei (chairman of the Audit Committee) (retired on 24 June 2019), Mr. CHOW Chi Hang Tony and Ms. SHAO Yu. The Audit Committee meets regularly with the Company's senior management and the Company's auditors to consider the Company's financial reporting process, the effectiveness of internal controls, the audit process and risk management.

The unaudited 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.

APPRECIATION

The Board would like to take this opportunity to express its appreciation to the staff and management team of the Group for their hard work and dedication during the Reporting Period. The Board would also like to express its sincere gratitude to all the shareholders of the Company for their continuous support.

By Order of the Board

HangKan Group Limited
SU Chun Xiang
Executive Director

Hong Kong, 6 August 2019

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

As at 30 June 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 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	Percentage of the issued Shares *(%)*
Mr. Zhang Qiang	Long position	Beneficial owner	275,000,000	41.01
Mr. Wang Jie (Note 1)	Long position	Interest of spouse	275,000,000	41.01
P.B. Captal 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 (Note 2)	Long position	Investment Manager	111,762,000	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, as at 30 June 2019, no other interests or short positions in the shares or underlying shares of the Company were recorded in the register required to be kept by the Company under Section 336 of the SFO.

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

As at 30 June 2019, none of the Directors and 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 and 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 30 June 2019, no options had been granted, exercised or cancelled pursuant to the Share Option Scheme.

CORPORATE GOVERNANCE CODE

Throughout the Reporting Period, the Company has complied with the code provisions as set out in the CG Code contained in Appendix 15 of the GEM Listing Rules, 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 officer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer 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' INTERESTS 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 the Cayman Islands.

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

There was no purchase, sale or redemption of 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.

DISCLOSURE OF CHANGE OF DIRECTORS' INFORMATION

The Directors are not aware of any other change in the Directors' information required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules.

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.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the Reporting Period (six months ended 30 June 2018: Nil).

OTHER INFORMATION

Reference was made to the Company's 2018 Annual Report, 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. The parties have exchanged their respective witness statements and a case management summons hearing is scheduled to be heard in August 2019.

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 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.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		Three months ended 30 June		Six months ended 30 June	
		2019	2018	**2019**	2018
	Notes	***CNY'000***	*CNY'000*	***CNY'000***	*CNY'000*
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Revenue	*3*	**15,787**	12,323	**30,873**	21,215
Cost of sales		**(7,715)**	(8,407)	**(15,918)**	(13,792)
Gross profit		**8,072**	3,916	**14,955**	7,423
Other income	*5*	**733**	218	**1,110**	368
Gain on disposal of de-consolidated subsidiaries		**–**	874	**–**	874
Selling and distribution expenses		**(1,782)**	(1,358)	**(3,970)**	(2,555)
Administrative and other expenses		**(4,202)**	(3,928)	**(8,226)**	(6,780)
Finance costs	*6*	**(102)**	(333)	**(206)**	(454)
Profit (loss) before tax		**2,719**	(611)	**3,663**	(1,124)
Income tax expense	*7*	**(733)**	(119)	**(1,019)**	(204)
Profit (loss) and total comprehensive income (expense) for the period attributable to the owners of the Company	*8*	**1,986**	(730)	**2,644**	(1,328)
Earnings (loss) per share *(CNY)*:					
Basic and diluted	*10*	**0.29 cents**	(0.13) cents	**0.39 cents**	(0.24) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	**At 30 June 2019** **CNY'000** **(Unaudited)**	At 31 December 2018 CNY'000 (Audited)
Non-current assets			
Property, plant and equipment	*11*	**11,222**	11,323
Prepaid lease payments		**2,470**	2,509
Intangible asset	*12*	**5,001**	5,056
Restricted bank balances		**9,875**	8,965
Deferred tax assets		**172**	306
		28,740	28,159
Current assets			
Inventories		**2,600**	2,166
Trade, bills and other receivables	*13*	**16,978**	15,989
Prepaid lease payments		**77**	77
Pledged bank deposits	*14*	**20,000**	20,000
Bank balances and cash	*14*	**34,567**	29,993
		74,222	68,225
Current liabilities			
Trade and other payables	*15*	**18,071**	14,504
Income tax payables		**1,124**	916
		19,195	15,420
Net current assets		**55,027**	52,805
		83,767	80,964

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

As at 30 June 2019

	Notes	At 30 June 2019 CNY'000 (Unaudited)	At 31 December 2018 CNY'000 (Audited)
Capital and reserves			
Share capital	16	**5,688**	5,688
Reserves		**69,715**	67,071
		75,403	72,759
Non-current liabilities			
Asset retirement obligations		**7,931**	7,725
Deferred income		**433**	480
		8,364	8,205
		83,767	80,964

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Share capital CNY'000	Share premium CNY'000	Other reserve CNY'000 (Note i)	Share option reserve CNY'000	Statutory reserve CNY'000 (Note ii)	Safety fund and production maintenance fund CNY'000 (Note iii)	Accumulated loss CNY'000	Total 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 expense for the period	–	–	–	–	–	–	(1,328)	(1,328)
Lapsed of share options	–	–	–	(37,833)	–	–	37,833	–
Appropriation and utilisation of safety fund and production maintenance fund, net	–	–	–	–	142	45	(187)	–
At 30 June 2018 (Unaudited)	4,698	107,932	23,351	–	3,698	1,015	(30,839)	109,855
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	–	–	–	–	–	–	2,644	2,644
Appropriation and utilisation of safety fund and production maintenance fund, net	–	–	–	–	354	56	(410)	–
At 30 June 2019 (Unaudited)	5,688	126,103	23,351	–	4,457	1,234	(85,430)	75,403

Notes:

(I) OTHER RESERVE

It represents (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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
	Note	***CNY'000***	*CNY'000*
		(Unaudited)	(Unaudited)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**5,549**	3,903
NET CASH USED IN INVESTING ACTIVITIES		**(981)**	(4,568)
NET CASH GENERATED FROM FINANCING ACTIVITIES		**–**	2,533
NET INCREASE IN CASH AND CASH EQUIVALENTS		**4,568**	1,868
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**29,287**	16,261
CASH AND CASH EQUIVALENTS AT 30 JUNE	*14*	**33,855**	18,129

1. GENERAL INFORMATION AND BASIS OF PREPARATION

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

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

The condensed consolidated interim financial statements 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. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements of the Group for the Reporting Period have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB"). In addition, the condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure provisions of Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

The condensed consolidated interim financial statements have been prepared on the historical cost basis.

The accounting policies and methods of computation used in the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018.

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statement.

IFRS 16	Leases
IFRIC-Int 23	Uncertainty over Income Tax Treatments
Annual Improvements 2015–2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures

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

2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases

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

2.1.1 Key changes in accounting policies resulting from application of IFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of rental office that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straightline basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 *Financial Instruments* ("IFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

There was no material impact of transition to IFRS 16 on retained earnings at 1 January 2019.

3. 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

	Three months ended 30 June		**Six months ended 30 June**	
	2019	2018	**2019**	2018
	CNY'000	*CNY'000*	***CNY'000***	*CNY'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Drilling mud	**5,543**	4,280	**10,338**	6,500
Pelletising clay	**10,244**	8,043	**20,535**	14,715
	15,787	12,323	**30,873**	21,215

4. SEGMENT INFORMATION

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

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

5. OTHER INCOME

	Three months ended 30 June		**Six months ended 30 June**	
	2019	2018	**2019**	2018
	CNY'000	*CNY'000*	***CNY'000***	*CNY'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Bank interest income	**245**	133	**408**	283
Release of government grant for property, plant and equipment	**25**	27	**48**	48
Exchange gain, net	**104**	–	**2**	16
Guarantee service fee *(Note)*	**283**	–	**566**	–
Others	**76**	58	**86**	21
	733	218	**1,110**	368

Note:

Guarantee service fee of CNY566,000 (six months ended 30 June 2018: nil) received from the provision of financial guarantee to an independent third party.

6. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	**2019**	2018
	CNY'000	*CNY'000*	***CNY'000***	*CNY'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Interest expenses on short term loan *(Note)*	**–**	237	**–**	259
Unwinding of discount on provision for dismantlement	**102**	96	**206**	195
	102	333	**206**	454

Note:

No interest expense paid during the Reporting Period (six months ended 30 June 2018: CNY259,000) due to the short-term loan was full repaid in 2018.

7. INCOME TAX EXPENSE

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	**2019**	2018
	CNY'000	*CNY'000*	***CNY'000***	*CNY'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Current tax:				
PRC Enterprise Income Tax ("EIT")	**726**	201	**885**	251
Deferred taxation:				
Current period	**7**	(82)	**134**	(47)
	733	119	**1,019**	204

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

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

8. PROFIT (LOSS) FOR THE PERIOD

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	**2019**	2018
	CNY'000	*CNY'000*	***CNY'000***	*CNY'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Profit (loss) for the period has been arrived at after charging:				
Amortisation of intangible asset	**35**	18	**55**	35
Amortisation of prepaid lease payments	**20**	20	**39**	39
Amount of inventories recognised as an expenses	**7,424**	7,799	**15,396**	13,402
Exchange loss/(gain), net	**(141)**	317	**29**	(34)
Depreciation of property, plant and equipment	**290**	287	**574**	620
Loss on disposal/written off of property, plant and equipment (included in administrative and other expenses), net	**–**	4	**–**	4

9. DIVIDEND

No dividend was paid, declared or proposed during the Reporting Period, nor has any dividend been proposed since the end of the Reporting Period (six months ended 30 June 2018: nil).

10. EARNINGS (LOSS) PER SHARE

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

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	**2019**	2018
	CNY'000	*CNY'000*	***CNY'000***	*CNY'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Earnings (loss)				
Earnings (loss) for the purpose of basic and diluted earnings (loss) per share	**1,986**	(730)	**2,644**	(1,328)

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	**2019**	2018
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
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	**670,572**	558,810
Basic and diluted earnings (loss) per share *(CNY)*	**0.29 cents**	(0.13) cents	**0.39 cents**	(0.24) cents

Note:

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

11. PROPERTY, PLANT AND EQUIPMENT

During the Reporting Period, the Group spent approximately CNY473,000 (six months ended 30 June 2018: approximately CNY562,000) on acquisition of property, plant and equipment.

During the Reporting Period, the Group has certain property, plant and equipment with an aggregate carrying values of nil (six months ended 30 June 2018: CNY4,000) for no cash proceeds (six months ended 30 June 2018: nil), resulting in a loss on disposal of nil (six months ended 30 June 2018: loss of approximately CNY4,000).

12. INTANGIBLE ASSET

During the six months end 30 June 2019, the Group did not spend any expenditure (2018: nil) in relation to the mining site.

13. TRADE, BILLS AND OTHER RECEIVABLES

	At 30 June 2019 *CNY'000* **(Unaudited)**	At 31 December 2018 *CNY'000* (Audited)
Trade receivables – goods	**7,840**	6,344
Bills receivables	**6,643**	8,936
Prepayments	**1,553**	90
Other receivables	**942**	619
	16,978	15,989

As at 30 June 2019 and 31 December 2018, trade receivables from contracts with customers amounted to CNY7,840,000 and CNY6,344,000 respectively.

13. TRADE, BILLS AND OTHER RECEIVABLES (Cont'd)

The Group offers revolving credit to two of its customers amounted approximately CNY1,300,000 at at 30 June 2019 (31 December 2018: two customers amounted CNY1,300,000). This revolving credit provides for a predetermined credit limit that may be outstanding at any one time based on their background, credit history, length of business relationship and historical transaction amounts. The Group generally evaluates the credit limits granted to the customer annually upon renewal of the relevant sales agreements and upon special request from the customers. The Group held charges on such customers' buildings as collaterals over the balance of approximately CNY1,293,000 as at 30 June 2019 (31 December 2018: CNY1,300,000). Such collateral is not transferable and rentable and can be realised by the Group at first priority upon the liquidation or deregistration of such customer. For the remaining balances of approximately CNY6,547,000 as at 30 June 2019 (31 December 2018: CNY5,044,000), the Group does not hold any collateral over these amounts.

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

	At 30 June 2019	At 31 December 2018
	CNY'000	*CNY'000*
	(Unaudited)	(Audited)
Within 30 days	**7,504**	5,491
31 to 60 days	**336**	853
Over 60 days	**–**	–
Total	**7,840**	6,344

As at 30 June 2019 and 31 December 2018, all of the bills receivables were aged within 180 days.

14. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Pledged bank deposits

Pledged fixed deposits represented deposit pledged to banks to secure general banking facilities granted to an independent third party. During the Reporting Period, the bank deposit of CNY20,000,000 (31 December 2018: CNY20,000,000) 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% (31 December 2018: 1.95% per annum) 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 condensed consolidated statement of cash flows:

	At 30 June 2019	At 31 December 2018
	CNY'000	*CNY'000*
	(Unaudited)	(Audited)
Cash at bank and in hand	**31,576**	26,301
Short-term bank deposits	**2,991**	3,692
Bank balances and cash shown in the condensed consolidated statement of financial position	**34,567**	29,993
Less: Bank deposits with a maturity of more than three months	**(712)**	(706)
Cash and cash equivalents shown in the condensed consolidated statement of cash flows	**33,855**	29,287

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

15. TRADE AND OTHER PAYABLES

	At 30 June 2019 *CNY'000* **(Unaudited)**	At 31 December 2018 *CNY'000* (Audited)
Trade payables	**4,656**	2,668
Other payables and accruals	**12,277**	10,867
Accrued directors' remunerations	**–**	26
Contract liabilities	**1,138**	943
	18,071	14,504

The following is an ageing analysis of trade payables presented based on invoice date at the end of the Reporting Period.

	At 30 June 2019 *CNY'000* **(Unaudited)**	At 31 December 2018 *CNY'000* (Audited)
Within 30 days	**3,707**	1,950
31 to 60 days	**781**	627
61 to 90 days	**9**	15
91 to 365 days	**114**	31
Over 1 year	**45**	45
Total	**4,656**	2,668

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

16. SHARE CAPITAL

	Number of shares		Share capital
			(Equivalent to)
		HK$	*CNY'000*
Ordinary share of HK$0.01 each			
Authorised			
At 1 January 2018, 31 December 2018 and 30 June 2019	10,000,000,000	100,000,000	
Issued and fully paid			
At 1 January 2018	558,810,000	5,588,000	4,698
Placing of new shares *(Note)*	111,762,000	1,118,000	990
At 31 December 2018 and 30 June 2019	670,572,000	6,706,000	5,688

Note:

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.

17. 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.

No share options have been granted since the adoption of the Scheme and during the Reporting Period (six months ended 30 June 2018: nil).

18. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the condensed consolidated interim 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 period was as follow:

	Three months ended 30 June		**Six months ended 30 June**	
	2019	2018	**2019**	2018
	CNY'000	*CNY'000*	***CNY'000***	*CNY'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Short-term benefits	**115**	130	**219**	164
Post-employment benefits	**–**	–	**–**	–
	115	130	**219**	164

The remuneration of the directors of the Company and key executives is determined with regards to the performance of individuals.