恆勤集團有限公司
HangKan Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8331)

ANNUAL 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. CHOW Chi Hang Tony
Mr. ZHANG Kun (appointed on 8 April 2020)

AUTHORISED REPRESENTATIVES

Mr. SU Chun Xiang
Ms. CHIK Wai Chun (appointed on 31 August 2019)

COMPANY SECRETARY

Ms. CHIK Wai Chun (appointed on 31 August 2019)

COMPLIANCE OFFICER

Mr. SU Chun Xiang

AUDIT COMMITTEE

Mr. LEE Ming Tung *(Chairman)* (appointed on 24 June 2019)
Mr. CHOW Chi Hang Tony
Mr. ZHANG Kun (appointed on 8 April 2020)

NOMINATION COMMITTEE

Mr. CHOW Chi Hang Tony *(Chairman)*
Mr. LEE Ming Tung (appointed on 24 June 2019)
Mr. ZHANG Kun (appointed on 8 April 2020)

REMUNERATION COMMITTEE

Mr. LEE Ming Tung *(Chairman)* (appointed on 24 June 2019)
Mr. CHOW Chi Hang Tony
Mr. ZHANG Kun (appointed on 8 April 2020)

AUDITORS

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

REGISTERED OFFICE

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Cayman Islands

HONG KONG OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 1103A, 11th Floor
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Hong Kong

COMPANY'S WEBSITE

http://www.ourhkg.com

COMPANY'S STOCK CODE

8331.HK

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LEGAL ADVISERS

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

PRINCIPAL BANKERS

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

Management Discussion and Analysis

BUSINESS REVIEW

The gradual recovery of the general economy and further advancement of the supply-side reform policy resulted in improvement in profitability in the iron and steel industry. However, as discussed in the business review for the 2019 third quarterly report for the nine months ended 30 September 2019 (the "2019 Third Quarterly Report") of the Company, the iron and steel industry was still over casted by overcapacity. Measures adopted to address overcapacity and rising costs continued to exert adverse impact on sales of pelletising clay of the Group for the year ended 31 December 2019 (the "Year"). In spite of the difficult situation, the Group has strived to enhance major customers' satisfaction through improved quality management, resulting in an increase in sales of drilling mud and pelletising clay in 2019 as compared to the corresponding period in 2018. It was also set out in the business review for the 2019 Third Quarterly Report of the Company that investment prospects of the energy industry continued to be uncertain. Although investment in infrastructure construction has increased, prices for the oil and gas market continued to fluctuate. The investment sentiment of oil and gas transportation pipelines construction projects, which was directly linked to the Group's drilling mud business, was still weak.

Key Performance

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

		2019	2018	Variance
Revenue	*CNY'000*	**58,099**	51,204	13.5%
Profit (loss) attributable to shareholders	*CNY'000*	**7,408**	(57,585)	(112.9)%
Basic earnings (loss) per share	*CNY*	**1.10 cents**	(10.05) cents	(110.9)%
Return on equity	*%*	**9.2**	(79.1)	(111.6)%
Net assets per share	*CNY*	**0.12**	0.11	9.1%
Trade receivables collection period	*Days*	**41**	35	17.1%

Management Discussion and Analysis

Business Strategies Review with Progress of Implementation

The Group aims to strengthen its market position in the People's Republic of China (the "PRC"). In order to achieve this objective, the Group intends to pursue the following strategies. The following table sets out the Group's business strategies as disclosed in the 2018 Annual Report with the actual progress of implementation as at 31 December 2019.

Business Strategy	Implementation Plan	Progress of Implementation as of 31 December 2019
Broaden customer base and develop product recognition	(i) Collaborating with external institutions in the PRC for the development of new technologies and new bentonite products to cater for high-valued downstream markets other than iron ore pelletising and civil engineering;	(i) The Group has completed techno-economic viability study of two new bentonite products as mentioned below. The external institutions are currently conducting laboratory-scale testing of the two products. In addition, the internal research and development team was working on the multifunctional pelletising clay; and it was also working with the external institutions on the techno-economic viability of several other new bentonite products and processing technologies;
	(ii) attending and participating in industry forums and events to network with other industry professionals and potential customers; and	(ii) The management team had attended and participated in an industry seminar and established contacts with several industry experts and potential customers to explore cooperation opportunities and there were one new drilling mud customer and three new pelletising clay customers starting their purchases with the Group in 2019; and
	(iii) expanding sales and marketing team to further enhance sales and marketing activities.	(iii) The Group was in the process of recruiting more experienced personnel for sales and marketing.
Development of new production technology and new products	Signing collaboration agreements with two universities and one research institute.	Completed techno-economic viability study of two new products: (a) polyaniline/montmorillonite nano-composite conductive coating materials and (b) titanium dioxide/montmorillonite nano-composite materials and photocatalytic.

Management Discussion and Analysis

Business Strategy	Implementation Plan	Progress of Implementation as of 31 December 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; Purchased one electric motor and one electric belt scale; Purchased and completed the construction of two new storage tanks; and Purchased one flour mill and fittings of the machine.

Management Discussion and Analysis

Mine Property Summary

The Group holds the mining rights to Huanghu Bentonite Mine. The following table sets out certain information of the mine and details of the mining licence.

Location	Huanghu Bentonite Mine Fanchang county, Wuhu city, Anhui province	
Equity Interest held by the Group	100%	
Date of initial commercial production	Commercial production of pelletising clay in 2004 and drilling mud in 2010	
Permitted mining right area	2.1311 km^2	
Mining method	Open-pit	
Mining depth/elevation limit	From 57 mASL to −23 mASL	
Permitted annual production capacity	230,000 m^3 (equivalent to approximately 400,000 tonnes)	
Validity period of current licence	9 March 2019 to 9 March 2022	
Reserve data (as of 1 July 2015) (Note 1)	Dry	Wet
Proved reserve (metric tonnes)	1,720,000	2,151,000
Probable reserve (metric tonnes)	4,724,000	5,910,000
Total (metric tonnes)	6,444,000	8,061,000
Reserve data (as of 31 December 2019) (Note 2)	Dry	Wet
Proved reserve (metric tonnes)	1,271,000	1,552,000
Probable reserve (metric tonnes)	4,724,000	5,910,000
Total (metric tonnes)	5,995,000	7,462,000
Average quality of bentonite		
Active montmorillonite	47.0%	
Colloid index	61.1 ml/15g	
Swelling capacity	8.7 ml/g	
Capital expenditure for the Year	CNY Nil	
Output for the Year (metric tonnes)	149,000	

Notes:

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

(2) The reserve data as of 31 December 2019 has been substantiated by the Group's internal expert by adjusting those reserves extracted by the Group's mining activities from July 2015 to December 2019 from the proved reserve as of 1 July 2015. All assumptions and technical parameters set out in the independent technical report contained in the Prospectus have not been materially changed and continued to apply to the reserve data as of 31 December 2019.

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

Employees and Remuneration Policy

On 31 December 2019, the Group had a total of 93 full-time employees (2018: 93) for its main business. For the year ended 31 December 2019, the Group incurred staff costs, including Directors' remuneration, of approximately CNY10.2 million (2018: CNY9.4 million).

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

The Company has adopted a share option scheme pursuant to which selected participants may be granted options to subscribe for shares as incentives or rewards for their services rendered to the Group and any entity in which any member of the Group holds an equity interest.

As of 31 December 2019 and the date of this annual report, the Group has maintained good working relationships with its employees. The management team and employees have remained stable.

Community Relationship

For the year ended 31 December 2019, the Group did not run into any disputes or conflicts with its surrounding communities.

Environmental Policy and Measure

The Group is well aware of the importance of maintaining a good ecological environment and embraces the idea of environmental protection. Apart from ensuring on-going compliance with the relevant environmental protection laws and regulations in the PRC, in order to further reduce the environmental impacts of the operations, the Group has implemented several measures to effectively reduce the need for coal energy and electricity thus contributing to a significant decrease in carbon emissions and harmful gas emissions, to prevent fugitive dust emission at the mining site, to reduce impact on nearby brooks and to manage waste rock dump. For details of the Group's performance on environmental, social and governance ("ESG") aspects and compliance with relevant laws and regulations that have a significant impact on the Group, please refer to the section under heading "Environmental, Social and Governance Report" for the year 2019 of this annual report.

Management Discussion and Analysis

FINANCIAL REVIEW

Items of the Consolidated Statement of Profit or Loss

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

Revenue

Breakdown of the Group's Revenue by Products

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

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

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

Management Discussion and Analysis

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

Cost of Sales

Breakdown of the Group's Cost of Sales

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

Breakdown of the Group's Cost of Sales by Products

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

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

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

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

Gross Profit and Gross Margin

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

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

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

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

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

Other Income

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

Selling and Distribution Expenses

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

Administrative and Other Expenses

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

Finance Costs

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

Income Tax Expense

The Group had an income tax expense of approximately CNY1.2 million in 2019 as compared to approximately CNY1.1 million in 2018. The increase was mainly due to a rise in the profit before tax in Wuhu Feishang Non-metallic Material Company Limited, the indirect wholly-owned subsidiary of the Company.

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

The profit and total comprehensive income for the Year was approximately CNY7.4 million in 2019, an increase of approximately CNY65 million from the loss of approximately CNY57.6 million in 2018. During the reporting period, the Group has recorded a substantial increase in revenue. However, the loss for the year ended 31 December 2018 is mainly due to the primarily attributable to the impairment loss of approximately CNY57.4 million to be made on the prepayments made by the former Board on behalf of the Company to certain suppliers, which has no adverse impact on the business and operation of the Group. The Board considers that overall operational and financial position of the Group as whole still remain good.

FINANCIAL RESOURCES REVIEW

Liquidity, Financial Resources and Capital Structure

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

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

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

Gearing Ratio

As at 31 December 2019, the gearing ratio was nil (2018: nil) as the Group was not in need of any material debt financing during the Year.

Currency Exposure and Management

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

Contingent Liabilities

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

Management Discussion and Analysis

OUTLOOK

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

Within the bentonite industry, uncertainties due to COVID-19 will cause market competition to further intensify, and prices face downward pressure. Meanwhile, it is expected that there will be no fundamental change in the general situation of oversupply in the iron and steel industry and the problem of overcapacity has yet to be addressed. In addition, affected by the new series of real estate market regulation and control policies, it is expected that the iron and steel industry will be confronted with major challenges, imposing great pressure on the demand for pelletising clay. Although the Group strives to maintain sales volume of pelletising clay by means of, among others, improved product quality and "selling more with lower margin" strategy, the Group may not be able to maintain the current level of gross profit margin in the coming months. The Group intends to continue expanding its customer base and market share by boosting product awareness of pelletising clay, refining its production technology and developing new products with a view to enhance the Group's overall competitiveness to cope with the unfavorable business environment.

By dint of the weak investment sentiment in infrastructure construction in the energy industry coupled with impacts from COVID-19 and the new series of real estate market control policies, the sales of the Group's drilling mud will be adversely affected seriously. The Group aims to maintain the sales volume of drilling mud by improving product quality and adhering to the "selling more with lower margin" strategy, and yet the Group may not be able to maintain the current level of gross profit margin in the forthcoming months due to the increasing pressure on the selling price.

CAPITAL COMMITMENTS

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

EVENTS AFTER THE REPORTING PERIOD

Saved as disclosed in note 39 to the consolidated financial statements, there have been no other material events occurring after the reporting period and up to the date of this annual report.

Management Discussion and Analysis

FUND RAISING ACTIVITIES

Use of Listing Proceeds

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

Set out below is the revised timeline, as disclosed in the Company's announcement dated 21 March 2016, from the Listing Date to 31 December 2017 for the Group to deploy the net proceeds raised from the Placing taking into account the actual placing price of HK$0.32 per share in accordance with the implementation of future plans, and the actual use of net proceeds up to the date of this annual report:

	Revised timeline as disclosed in the Company's announcement dated 21 March 2016								
	From Listing Date up to 31 December 2015 (HK$ million)	**For the six months ending 30 June 2016** (HK$ million)	**For the six months ending 31 December 2016** (HK$ million)	**For the six months ending 30 June 2017** (HK$ million)	**For the six months ending 31 December 2017** (HK$ million)	**Total net proceeds** (HK$ million)	**Approximate percentage of proceeds** %	**Actual use of net proceeds up to the date of this annual report** (HK$ million)	
Development of production technology for new products	–	–	–	–	7.7	7.7	60.6	–	(Note 1)
Improvement of plant and equipment	–	0.4	4.6	–	–	5.0	39.4	3.6	(Note 2)
Total	–	0.4	4.6	–	7.7	12.7	100.0	3.6	

Notes:

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

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

Use of Proceeds from Placing

On 16 November 2018, a total of 111,762,000 new shares (the "Placing Shares") of nominal value of HK0.01 each in the share capital of the Company were successfully completed. The net proceeds from the Placing, after deducting the commissions and other fees and expenses in relation to the placing, amounted to approximately HK$21.4 million (equivalent to approximately CNY18.1 million). Details of the Placing of Shares was set out in the Company's announcements dated 22 October 2018, 9 November 2018 and 16 November 2018.

The Group had used the net proceeds for the Year and the expected timeline for the utilization of the remaining net proceeds is set out below:

	Original allocation of net proceeds			Utilization up to 31 December 2018		Utilization up to 31 December 2019		Expected amounts to be utilized for the year ended 31 December 2020	
	HK$ (million)	CNY Equivalent (million)	% of net proceeds	HK$ (million)	CNY Equivalent (million)	HK$ (million)	CNY Equivalent (million)	HK$ (million)	CNY Equivalent (million)
Repayment of short-term debt and other payables of the Group	8.3	7.0	38.8%	6.1	5.2	6.1	5.4	2.2	1.6
Settlement of professional and audit fees	6.6	5.6	30.8%	2.2	1.9	3.6	3.2	3.0	2.4
General working capital of the Group (note)	6.5	5.5	30.4%	0.4	0.3	4.5	3.9	2.0	1.6
Total	21.4	18.1	100%	8.7	7.4	14.2	12.5	7.2	5.6

Note:

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

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

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

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

OTHER INFORMATION

(a) Prepayment to suppliers

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

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

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

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

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

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

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

(b) Back-to-back Guarantee Agreement

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

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

(c) Concerns Raised by the Company's Auditors

As disclosed on page 71 of this annual report, the auditor of the Company expressed a qualified opinion in relation to (i) the opening balances of the corresponding figures in the consolidated financial statements for the year ended 31 December 2019; and (ii) the related disclosures thereof in the consolidated financial statements of the Group for the year ended 31 December 2019 ("Audit Qualification").

The Audit Qualification is a consequential result arising from the qualified opinion expressed by the auditor of the Company, containing the qualification in respect of (i) the de-consolidated subsidiaries; and (ii) the gain on disposal of de-consolidated subsidiaries contained in the consolidated financial statements for the year ended 31 December 2018, the details of which have been set out in the auditor's report for 2018 Financial Statements dated 7 March 2019.

The Board and the Audit committee's view

The Board and the audit committee of the Company (the "Audit Committee") agree with the auditor's view in respect of the Audit Qualification. The Audit Committee has reviewed the management's position on the major judgement areas. There is no disagreement by the Audit Committee with the management's position on the qualified opinions issued by the Company's auditor. The Audit Committee had further discussed with the auditor the impact of the Audit Qualification in subsequent financial year and agree that the Audit Qualification will be removed for the year ending 31 December 2020 as the possible effects of the item do not affect the results of the Group for the year ended 31 December 2019 and will not recur.

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. SU Chun Xiang, aged 32, was appointed as an executive Director on 9 January 2018, the authorised representative and the compliance officer of the Company on 9 February 2018. Mr. Su obtained a degree of Master of Engineering in Software Engineering from Xiamen University (廈門大學) in the People's Republic of China (the "PRC") in 2012. Mr. Su has extensive experience in finance and investment fund management. He was the founder and the general manager of the risk control department of 昆明貴金屬交易所 (Kunming Precious Metal Exchange*) in the PRC and was the marketing director of the trading department of the COFCO Futures Co., Ltd. (中糧期貨有限公司) in the PRC. Mr. Su is currently the chairman of the board of an assets management company located in Beijing, the PRC, responsible for the overall investment management thereof. Mr. Su has also obtained the qualifications of 基金從業人員 (Fund Practitioner*) and 期貨從業人員 (Futures Practitioner*) respectively in the PRC.

Mr. PANG Ho Yin, aged 45, was appointed as an executive Director on 15 May 2019. Mr. Pang obtained a bachelor degree of Business Management in the University of Sunderland in Hong Kong. Mr. Pang is currently the general manager of an insurance broker company, responsible for the overall operational and business management of the company. He has over 20 years of experience in insurance and wealth management industry. Mr. Pang also has extensive experience particularly in insurance field and has held positions as senior managers in Manulife (International) Limited and New York Life Insurance Worldwide Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LEE Ming Tung, aged 58, was appointed as an independent non-executive Director, the chairman of each of the audit committee and remuneration committee and the member of the nomination committee of the Company on 24 June 2019. Mr. Lee obtained a Bachelor of Science degree in Accounting from Brigham Young University in the U.S.A., a Master of Accountancy degree from Virginia Polytechnic Institute and State University in the U.S.A., a Master of Financial Engineering degree from City University of Hong Kong and a Postgraduate Diploma in Corporate Administration from The Hong Kong Polytechnic University.

Mr. Lee is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom, a fellow member of The Taxation Institute of Hong Kong, a Certified Tax Adviser of Hong Kong, a Certified Management Accountant of Australia and a member of Institute of Public Accountant of Australia. He has over 20 years' experience in the field of accounting and finance. Mr. Lee is currently an executive director and chief financial officer of CST Group Limited (stock code: 0985), a company whose shares are listed on the main board of the Stock Exchange.

Mr. CHOW Chi Hang Tony, aged 28, was appointed as an independent non-executive Director on 9 January 2018. He is the chairman of nomination committee and the member of each of the audit committee and remuneration committee of the Company. Mr. Chow obtained a degree of Bachelor of Laws and a Postgraduate Certificate in Laws from The Chinese University of Hong Kong in 2014 and 2015 respectively. Mr. Chow is currently a practicing Barrister-At-Law in Hong Kong practicing in both civil and criminal litigation.

Mr. ZHANG Kun, aged 33, was appointed as an independent non-executive Director on 8 April 2020. He is the member of audit committee, nomination committee and remuneration committee of the Company. Mr. Zhang holds a Bachelor Degree in Business Administration from Kemi-Tornio University of Applied Sciences, Finland, and Master Degree in Business Management and Master Degree of Science in Audit and Management Control from Edhec Business School, France. Mr. Zhang is well versed in banking and financial services factors. He had held various positions in banks in the PRC, including as a project manager in investment banking, and was an operation director of an asset management company in Shenzhen. Mr. Zhang has been a supervisor of Shenzhen Credit-reed Investment Management Company Limited (深圳瑞信德投資管理有限公司) since July 2017. Mr. Zhang was a non-executive director of China Investment Development Limited (中國投資開發有限公司) (stock code: 204), a company whose shares are listed on the main board of the Stock Exchange, from March 2018 to January 2019.

* For identification purpose only

Report of the Directors

The Directors are pleased to present the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in notes 1 and 38 respectively to the consolidated financial statements of this annual report.

BUSINESS REVIEW

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

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2019 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 76 to 78.

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

DISTRIBUTABLE RESERVES

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

The Company's reserves available for distribution to Shareholders at 31 December 2019 amounted to CNY45,043,000 (2018: CNY50,183,000).

FINANCIAL SUMMARY

A summary of the published results, assets and liabilities of the Group for the last five financial years is set out on page 140 of this annual report.

DIVIDEND POLICY

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 29 to the consolidated financial statements of this annual report.

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

As at 31 December 2019, so far as was known to the Directors, the following persons/entities (other than the Directors or chief executives of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"), or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

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

Notes:

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

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

Save as disclosed above, as at 31 December 2019, no other interests or short positions in the Shares or underlying Shares of the Company were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS

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

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 (appointed on 9 January 2018) (retired on 24 June 2019)
Mr. CHOW Chi Hang Tony
Ms. SHAO Yu (resigned on 8 April 2020)
Mr. ZHANG Kun (appointed on 8 April 2020)

In accordance with Article 83(3) of the Articles of Association, any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Mr. LEE Ming Tung and Mr. ZHANG Kun, who were appointed by the Board on 24 June 2019 and 8 April 2020 respectively, shall hold office of Director until the forthcoming annual general meeting (the "AGM"). Mr. LEE Ming Tung and Mr. ZHANG Kun, being eligible, will offer themselves for re-election as a Director at the AGM.

In accordance with Articles 84(1) of the Articles of Association, the Directors shall hold office subject to retirement by rotation at the annual general meetings of the Company at least once every three years. Mr. CHOW Chi Hang Tony shall retire from office of Director by rotation at the AGM. Mr. CHOW Chi Hang Tony, being eligible, will offer himself for re-election as a Director at the AGM.

INDEPENDENCE CONFIRMATION

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

DIRECTORS' SERVICE CONTRACT

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

MANAGEMENT CONTRACTS

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

EMPLOYEES AND EMOLUMENT POLICY

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

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

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

The Company has adopted the Share Option Scheme as an incentive to Directors and eligible employees of the Group, details of the Share Option Scheme are set out in note 30 to the consolidated financial statements and under the heading "Share Option Scheme" of this annual report.

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

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

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

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

SHARE OPTION SCHEME

A share option scheme was adopted by the Company on 12 December 2015 (the "Share Option Scheme"), under which the Board may, at its discretion, offer any Eligible Participant (as hereinafter defined) options to subscribe for the Shares subject to the terms and conditions stipulated therein. The Share Option Scheme is valid and effective for a period of 10 years from the Listing Date (the "Scheme Period"). The purpose of the Share Option Scheme is to recognise and acknowledge the contributions of Eligible Participants to the Group by granting options to them as incentives or rewards. An Eligible Participant may include any (a) executive, employee, director, consultant, adviser and/or agent of any member of the Group; and (b) any other person who has contributed to the success of the listing of the Company on GEM, in each case, as determined by the Board. Details of the Share Option Scheme are set out in note 30 to the consolidated financial statement of this annual report.

As at 31 December 2019, no options had been granted pursuant to the Share Option Scheme.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2019 and up to the date of this annual report, none of the Directors and controlling shareholders of the Company or their respective close associates (as defined in the GEM Listing Rules) has any interest in a business that competes or may compete with the business of the Group and any other conflicts of interests which such person had or may have with the Group.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

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

PERMITTED INDEMNITY

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

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

RELATED PARTY TRANSACTIONS

During the year ended 31 December 2019, the related party transactions either did not constitute connected transactions/continuing connected transactions or constituted connected transactions/continuing connected transactions but were exempt from all disclosure and independent Shareholders' approval requirements under the GEM Listing Rules. Details of the related party transactions are set out in note 34 to the consolidated financial statements of this annual report.

PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

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

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

AUDIT COMMITTEE

The Company has the audit committee which was established in accordance with the requirements of the GEM Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee of the Company (the "Audit Committee") comprises three independent non-executive Directors, namely, Mr. LEE Ming Tung (chairman of the Audit Committee) (appointed on 24 June 2019), Mr. KO Yat Fei (the chairman of the Audit Committee) (retired on 24 June 2019), Mr. CHOW Chi Hang Tony, Ms. SHAO Yu (resigned on 8 April 2020) and Mr. ZHANG Kun (appointed on 8 April 2020). The Audit Committee meets regularly with the Company's senior management and the Company's auditors to consider the Company's financial reporting process, the effectiveness of internal controls, the audit process and risk management. The audited consolidated financial statements of the Group for the year ended 31 December 2019 have been reviewed by the Audit Committee.

AUDITORS

The consolidated financial statements of the Company for the year ended 31 December 2019 have been audited by Elite Partners CPA Limited ("Elite Partners") who will retire at the forthcoming AGM and being eligible, offers itself for re-appointment. A resolution to re-appoint Elite Partners as the auditor of the Company and to authorise the Directors to fix its remuneration will be proposed to the Shareholders for approval at the forthcoming AGM.

On behalf of the Board

HangKan Group Limited
SU Chun Xiang
Executive Director

Hong Kong, 22 April 2020

Corporate Governance Report

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

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as contained in Appendix 15 to the GEM Listing Rules as its own code of corporate governance and the Company has complied with the code provisions as set out in the CG Code save and except for code provisions A.2.1 and A.6.7 throughout the year ended 31 December 2019.

Chairman and Chief Executive Officer

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

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

Responsibilities of Directors

Pursuant to Code Provision A.6.7 of the CG Code, independent non-executive directors and non-executive directors, as equal board members, should attend general meeting of the Company. During the financial year, Mr. KO Yat Fei was unable to attend the annual general meeting of the Company held on 24 June 2019 as he had other business engagement.

Code of Conduct Regarding Securities Transactions by Directors

The Company has adopted Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by Directors in respect of the shares of the Company (the "Code of Conduct"). The Company has made specific enquiry to all Directors, and all Directors have confirmed that they have fully complied with the required standard of dealings set out in the Code of Conduct throughout the year ended 31 December 2019. The Company also has written guidelines regarding securities transactions on terms no less exacting than the required standard set out in the Required Standard of Dealings for senior management and any individuals who may have access to inside information in relation to the securities of the Company.

BOARD OF DIRECTORS

Composition

As at the date of this annual report, the Board comprises five Directors, consisting of two executive Directors, namely Mr. SU Chun Xiang and Mr. PANG Ho Yin, and three independent non-executive Directors, namely Mr. LEE Ming Tung, Mr. CHOW Chi Hang Tony and Mr. ZHANG Kun. The biographical details of each Director are disclosed on page 19 of this annual report.

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

Independent non-executive Directors

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

Nomination Policy of Directors

The Company has adopted a nomination policy of Directors (the "Nomination Policy") which sets out the criteria and process in the nomination and appointment of Directors of the Company in order to nominate suitable candidates to the Board.

Pursuant to the Nomination Policy, the Company considers a number of criteria in evaluating and selecting candidates for directorships, including but not limited to (i) character and integrity; (ii) qualifications including professional qualifications; (iii) willingness to devote adequate time to discharge duties as a Board member and other directorships and significant commitments; (iv) requirement for the Board to have independent non-executive Directors in accordance with the Listing Rules and whether the candidates would be considered independent with reference to the independence guidelines set out in the Listing Rules; (v) board diversity policy of the Company and any measurable objectives adopted by the Board for achieving diversity on the Board knowledge and experience that are relevant to the Company's business and corporate strategy; and (vi) other perspectives appropriate to the Company's business.

The nomination committee (the "Nomination Committee") and/or the Board may select candidates for directorship from various channels, including but not limited to internal promotion, re-designation, referral by other member of the management and external recruitment agents. The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new Director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship. The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable. For any person that is nominated by a shareholder for election as a Director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship. Where appropriate, the Nomination Committee and/or the Board should make recommendation to shareholders in respect of the proposed election of Director at the general meeting.

The Nomination Committee will review the Nomination Policy annually to ensure its continued effectiveness.

Directors' Appointment and Re-election

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

The Nomination Committee shall review the overall contribution and service to the Company of the retiring Director including his attendance of Board meetings and, where applicable, general meetings of the Company, and the level of participation and performance on the Board. The Nomination Committee shall also review and determine whether the retiring Director continues to meet the criteria as set out in the Nomination Policy. The Nomination Committee and/or the Board shall then make recommendation to Shareholders in respect of the proposed re-election of Director at the general meeting of the Company.

Responsibilities of the Board and Management

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

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

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

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

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

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

During the year ended 31 December 2019, the attendance record of each Director is set out below:

	Number of meetings attended/held				
Name of Directors	**Board Meeting**	**Remuneration Committee Meeting**	**Audit Committee Meeting**	**Nomination Committee Meeting**	**General Meeting**
Executive Directors					
Mr. SU Chun Xiang	4/4	–	–	–	1/1
Mr. PANG Ho Yin (appointed on 15 May 2019)	2/2	–	–	–	1/1
Independent non-executive Directors					
Mr. LEE Ming Tung (appointed on 24 June 2019)	2/2	0/0	2/2	0/0	0/0
Mr. KO Yat Fei (retired on 24 June 2019)	2/2	1/1	2/2	1/1	0/1
Mr. CHOW Chi Hang Tony	4/4	1/1	4/4	1/1	1/1
Ms. SHAO Yu	4/4	1/1	4/4	1/1	1/1
Total Number of Meetings Held	4	1	4	1	1

BOARD DIVERSITY POLICY

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

During the year ended 31 December 2019 and as at the date of this annual report, the Board comprises five Directors, one of which is female. The following tables further illustrate the diversity of the Board members as of the date of this annual report:

	Age Group				
Name of Directors	**25-29**	**30-34**	**35-39**	**40-44**	**45 above**
Mr. SU Chun Xiang		✓			
Mr. PANG Ho Yin					✓
Mr. LEE Ming Tung					✓
Mr. CHOW Chi Hang Tony	✓				
Ms. SHAO Yu				✓	

	Professional Experience			
Name of Directors	**Finance and investment fund management**	**Accounting and finance**	**Law**	**Marketing and general corporate management**
Mr. SU Chun Xiang	✓			
Mr. PANG Ho Yin				
Mr. LEE Ming Tung		✓		
Mr. CHOW Chi Hang Tony			✓	
Ms. SHAO Yu				✓

Directors' Induction and Continuous Professional Development

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

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

Corporate Governance Report

Responsibilities of Directors

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

– attending regular Board meetings and focusing on business strategy, operational issues and financial performance;

– active participation in the respective board of directors of the subsidiaries of the Company;

– approval of annual budgets covering strategy, financial and business performance, key risks and opportunities;

– monitoring the quality, timeliness, relevance and reliability of internal and external reporting;

– monitoring and managing potential conflicts of interest of senior management, the Board and Shareholders of the Company;

– consideration of misuse of corporate assets and abuse of related party transactions; and

– ensuring processes are in place to maintain the overall integrity of the Company, including financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all laws and ethics.

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

Corporate Governance Functions

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

– to develop and review the Company's policies and practices on corporate governance;

– to review and monitor the training and continuous professional development of Directors and senior management;

– to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

– to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors; and

– to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

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

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

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

– review the compliance with the CG Code; and

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

BOARD COMMITTEES

During the year ended 31 December 2019, the Company has comprised three board committees, namely, the Audit Committee, the Nomination Committee and the remuneration committee of the Company (the "Remuneration Committee"), with specific terms of reference relating to authority and duties, to strengthen the Board's functions and enhance its expertise.

Audit Committee

As at the date of this annual report, the Audit Committee comprises three independent non-executive Directors, namely Mr. LEE Ming Tung, Mr. CHOW Chi Hang Tony, Ms. SHAO Yu (resigned on 8 April 2020) and Mr. ZHANG Kun (appointed on 8 April 2020) and is chaired by Mr. LEE Ming Tung.

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

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

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

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

– reviewed the financial statements for the year ended 31 December 2018, three months ended 31 March 2019, six months ended 30 June 2019 and nine months ended 30 September 2019;

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

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

– reviewed the external auditors' findings.

The Audit Committee had also reviewed the Group's audited annual results for the year ended 31 December 2019 and confirmed it complies with the applicable standard, the GEM Listing Rules, and other applicable legal requirements and that adequate disclosures have been made. There is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditors.

During the year ended 31 December 2019, the attendance record of the meetings is set out on page 29.

Nomination Committee

As at the date of this annual report, the Nomination Committee comprises three independent non-executive Directors, namely Mr. CHOW Chi Hang Tony, Mr. LEE Ming Tung, Ms. SHAO Yu (resigned on 8 April 2020) and Mr. ZHANG Kun (appointed on 8 April 2020) and is chaired by Mr. CHOW Chi Hang Tony.

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

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

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

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

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

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

During the year ended 31 December 2019, the attendance record of the meetings is set out on page 29.

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

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

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

Remuneration Committee

As at the date of this annual report, the Remuneration Committee comprises three independent non-executive Directors, namely Mr. LEE Ming Tung, Mr. CHOW Chi Hang Tony and Ms. SHAO Yu (resigned on 8 April 2020) and Mr. ZHANG Kun (appointed on 8 April 2020) and is chaired by Mr. LEE Ming Tung.

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

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

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

During the year ended 31 December 2019, the attendance record of the meetings is set out on page 29.

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

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

COMPLIANCE COMMITTEE

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

AUDITORS' REMUNERATION

For the year ended 31 December 2019, the remuneration of external auditors of the Company, Elite Partners CPA Limited, in respect of audit services and non-audit services is set out below:

Description of services performed	**Fee** (HK$)
Audit Services	580,000
Non-audit services for quarterly reports and interim report	184,000

AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2019 were audited by Elite Partners CPA Limited, who were appointed as the Company's auditor on 23 March 2018 to fill the casual vacancy arising from the resignation of SHINEWING (HK) CPA Limited on 23 March 2018. Save as disclosed above, there has been no other change of auditors for the preceding three years.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

Process and Main Features of Risk Management and Internal Control

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

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

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

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

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

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

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

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

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

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

Review of Effectiveness of the Risk Management and Internal Control Systems

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

The Directors acknowledge their responsibility for reviewing the effectiveness of the Group's internal control and risk management systems and would communicate regularly with the Audit Committee and the professional internal control consultant engaged by the Group. The Board has reviewed through the work of its Audit Committee and the annual internal control review report and the findings performed by professional internal control consultant and was satisfied to the effectiveness of the Group's internal control and risk management systems for the year ended 31 December 2019.

Inside information

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

COMPANY SECRETARY

Following the resignation of Mr. KAM Tik Lun as the Company Secretary, the Company engaged external service provider to provide company secretarial services and has appointed Ms. CHIK Wai Chun ("Ms. Chik") as the Company Secretary on 31 August 2019. Ms. Chik's primary contact person at the Company is Mr. Su Chun Xiang, the executive Director. Ms. Chik is a chartered company secretary and fulfilled the requirements under Rules 5.14 and 5.15 of the GEM Listing Rules. She undertook over 15 hours of relevant professional training to update her skills and knowledge during the Year.

All members of the Board have access to the advice and services of the Company Secretary.

CONSTITUTIONAL DOCUMENTS

During the 31 December 2019, there had been no significant changes in the constitutional documents of the Company.

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

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

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

Shareholders may put forward proposals at general meetings by requisitioning an extraordinary general meeting. Pursuant to Article 58 of the Articles of Association, extraordinary general meetings may be convened by the Board on the written requisition of any one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. The requisition shall be deposited at the principal office of the Company in Hong Kong (Unit 1103A, 11th Floor, 148 Electric Road, North Point, Hong Kong) or, in the event the Company ceases to have such a principal office, the registered office (71 Fort Street, P.O. Box 500, George Town, Grand Cayman KY1-1106, Cayman Islands) specifying the business to be transacted at the meeting and signed by the requisitionist(s). If the Board does not within 21 days from the date of deposit of the requisition proceed to convene the meeting to be held, the requisitionist(s) himself (themselves) may convene the general meeting in the same manner provided that any meeting so convened shall be held within two months after the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

(b) Communication with Shareholders and investors

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

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

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

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

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

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

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

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

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

DIRECTORS' RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the financial statements for the year ended 31 December 2019, the Directors have adopted suitable accounting policies and applied them consistently. The Directors are also responsible for keeping proper accounting records with reasonable accuracy for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities. The financial statements for the reporting year have been prepared on a going concern basis.

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

Environmental, Social and Governance Report

ABOUT US

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

Corporate Mission

To Strengthen and Repay the Country with Industries

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

Core Value

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

Corporate Culture

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

Mountains

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

Water

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

Environmental, Social and Governance Report

ABOUT THIS REPORT

This is the environmental, social and governance (the "ESG") report for HangKan. This report is designed to allow the shareholders, investors (including potential investors) of the Company and the public to have a more comprehensive and profound understanding of the work done on the ESG issues of the Group for its financial year ended 31 December 2019 ("the Year). This report elaborates the philosophy and practice in respect of social responsibility and the achievements it has made in economic, environment and social aspects. The Group primarily adopts the principles and basis of Environmental, Social and Governance Reporting Guide (the "ESG Guide") set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its standards, with an aim to establish a sound environmental, social and governance structure. For information on the Group's corporate governance, please refer to the "Corporate Governance Report".

The Board's Commitment and ESG Approach

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

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

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

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

Data of the report

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

STAKEHOLDERS COMMUNICATION AND ENGAGEMENT

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

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

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

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

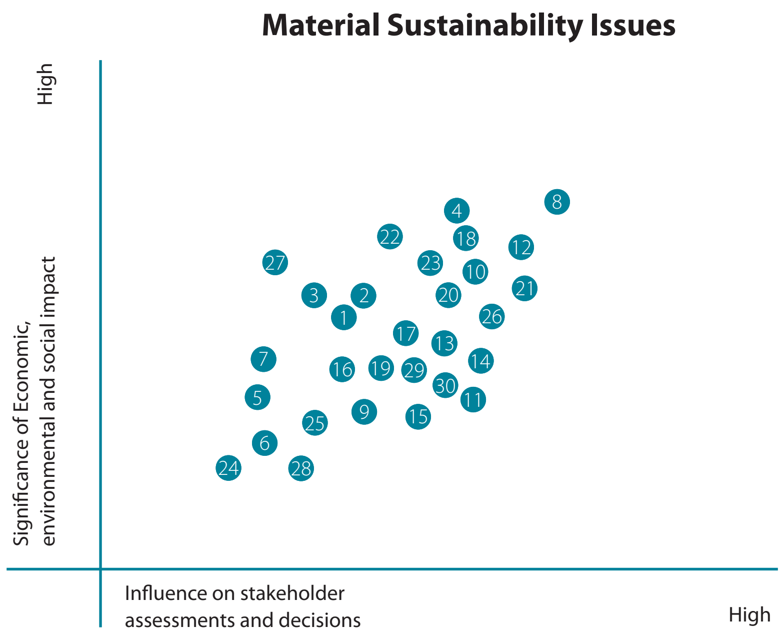
Materiality Assessment Process

The Group has established a sustainable development issues library. The selection of issues is primarily based on the requirements under the "ESG Reporting Guide" of the Stock Exchange, the state's regulatory requirements, key development of the Group, and industrial characteristics, which aim to cover the material sustainability issues related to the Group fully.

Through discussing assessment tools and methods for material issues, we prioritized the 30 issues in the ESG issues library of the Group from the two aspects of "influence on stakeholder assessments and decisions" and "significance of economic, environmental and social impact".

The following ESG materiality matrix is attained by an analysis of the assessment results of stakeholders:

Material Sustainability Issues



1. Emissions management
2. Greenhouse gases and carbon emissions
3. Waste management
4. Energy consumption
5. Effective use of materials
6. Use of renewable material
7. Biodiversity and use of land
8. Green products
9. Product quality and safety
10. Employee Communication
11. Talent attraction and retention
12. Occupational health and safety
13. Staff training and development
14. Staff remuneration and benefits
15. Human right protection
16. Diversity and equal opportunity
17. Employment compliance
18. Customer satisfactory
19. Customer privacy protection
20. Handling of customer complaints
21. Protection of intellectual property rights
22. Anti-corruption and anti-bribery
23. Community relations
24. Cartel and monopoly
25. Supplier management
26. Compliance with local laws and regulations
27. Improve ESG governance
28. Reasonable marketing and promotion
29. Transparency of information
30. Information security

Environmental, Social and Governance Report

We believe the most pertinent sustainability issues include green products, occupational health and safety, protection of intellectual property right, energy consumption, employee communication, compliance with local laws and regulations, community relationship and anti-corruption. Additional material sustainability issues include customer satisfactory, handling of customer complaints and staff development, etc.

ENVIRONMENT

Environmental Management System

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

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

Environmental Leadership Working Group

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

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

ISO14001:2015 – Environmental Management System

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

Pollution and Waste Management

Objectives

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

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

Main processes of pollution and waste handling

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

Air Pollution Control

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

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

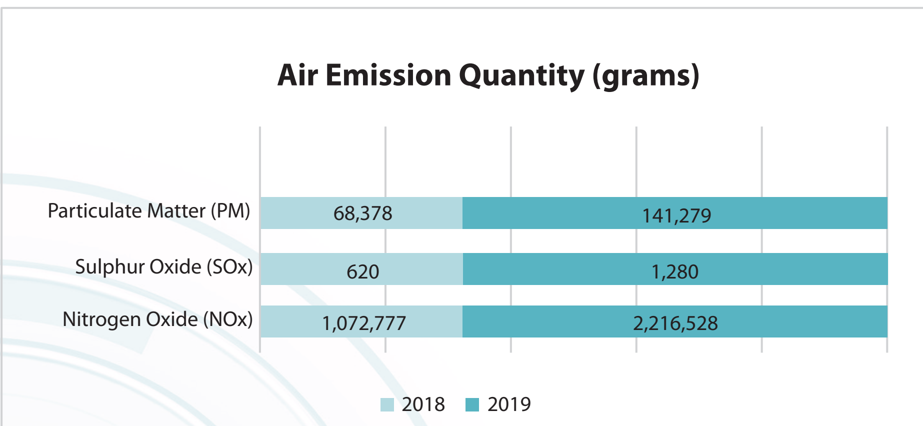
Greenhouse Gas ("GHG") Emission Analysis

Scope of GHG Emissions	Emission Sources	Total GHG (CO2 and CO2 equivalent) emissions (tonnes)		Intensity per production (tonnes)	
		2019	2018	**2019**	2018
Scope 1					
Direct Emission	Combustion of fuel in stationary sources	**917.02**	886.29	**0.008156**	0.008522
	Combustion of fuel in mobile sources	**0.21**	0.10	**0.000002**	0.000001
	Removals from sources	**(58.95)**	(45.95)	**(0.000524)**	(0.000442)
Scope 2					
Indirect emission	Purchased electricity	**5,081.14**	4,854.26	**0.045193**	0.046676
Scope 3					
Other indirect emission	Paper waste disposed at landfills	**1.43**	1.28	**0.000127**	0.000012
	Travelling	**0.64**	1.34	**0.000057**	0.000013
Total		**5,941.49**	5,697.32	**0.052845**	0.054782

Sources of our GHG emissions include fuel combustion, purchased electricity, paper waste disposed at landfills and other processes. The Scope 1 GHG emission from combustion of fuel in stationary sources was the main contributor. In 2019, Our Scope 1, Scope 2 and Scope 3 GHG emissions were 858.28, 5,081.14 and 2.07 respectively, with an emission intensity of 0.052845 tonnes per ton of production. Compared with last year, when production increased by 8%, GHG emissions increased by 5%. The lower increased percentage of GHG is due to the relatively fixed combustion of fuel in stationary sources.

Air Emission Analysis

For the year ended 31 December 2019, the air emission data is as follow:



During the year, the Group produced 2,216,528g of nitrogen oxide, 1,280g of Sulphur oxide and 141,279g particulate matter. These air emissions were mainly produced from combustion of fuel in mobile sources such as vehicles and private cars.

Noise Pollution Control

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

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

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

Solid Waste Management

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

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

Wastewater Discharge Management ("WDM")

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

Hazardous waste

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

For the year ended 31 December 2019, there was no hazardous waste produced.

Non-hazardous waste

For the year ended 31 December 2019, the non-hazardous wastes in our production were approximately 15,954.56 (2018: 18,302.93) tonnes, and the intensity was 0.141903 (2018: 0.175990) kg per ton of bentonite produced. Part of the non-hazardous wastes such as waste soil and rock were used to fill the abandoned mine pit and tunnel. Compared with last year, the total amount of non-hazardous waste has been reduced by 13%, and the Group will continue to monitor and manage the generation of non-hazardous wastes.

Packaging Materials

Total plastic used for packaging in 2019 was approximately 151.20 (2018: 37.74) tonnes, and the intensity was 0.001345 (2018: 0.000363) kg per ton of production. Compared with last year, the use of packaging materials has increased significantly. The Group will strictly control the use of materials and consider to use more recyclable materials such as biodegradable plastics to reduce the impact on the environment.

Pollution Accident Handling Plan

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

Environmental Assessment

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

Reward and Punishment Mechanism

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

Efficient Use of Resources

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

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

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

The principles of resources management policy are:

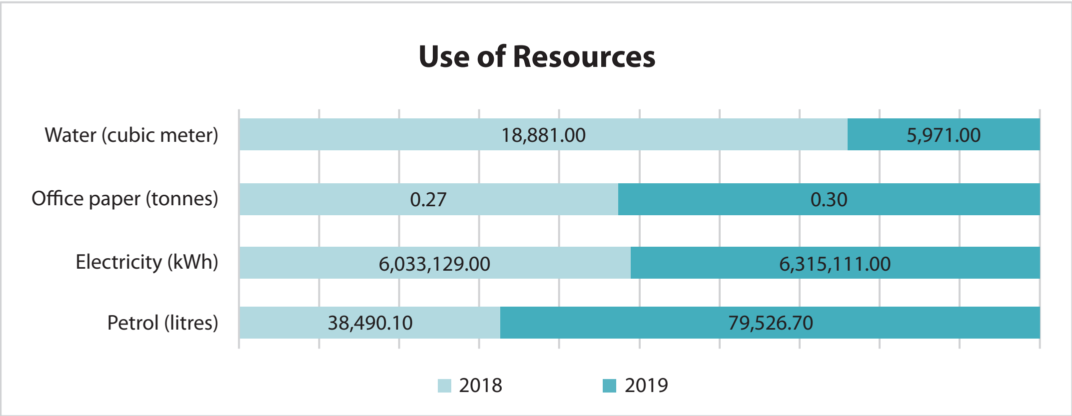
- conservancy of resources
- optimization of structure and balanced energy mix
- emission reduction with cost benefit
- technology development and replacement of plant and machine with high energy consumption

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

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

Analysis of Resources Usage

For the year ended 31 December 2019, the resource usage data is as follow:



Water

The Group makes every effort in saving water and reducing wastewater discharge. We integrate water and wastewater management to reduce water consumption at the source, and we implement water reuse to reduce the impacts on the water environment from our operations.

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

Our offices operate in leased office premises for which both the water supply and discharge are solely controlled by the building management. Part of consumed water, which did not enter the sewage system, were used for planting the tree.

All water used by the Group is sourced from municipal water, with the domestic use by administrative office and water sprinkling to prevent fugitive dust emission during the production as the main consumption. The proportion of water consumed in industrial production processes is relatively small. We had a total municipal water consumption of 5,971 cubic meter, and the water intensity was 0.05 cubic meter per ton of production.

Office paper

A total of approximately 0.30 tonnes of paper with an intensity of 0.00000266 tonnes per ton of production has been used for daily office operations. Paper usage is similar to last year and paper recycling practice is engaged and promoted regularly to raise employees' awareness on conserving paper.

Electricity

The Group actively promotes a reduction in energy consumption by:

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

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

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

The electricity consumption by the Group was 6,315,111 kWh with an energy intensity of 56.17 kWh per ton of production. Compared with last year, when production increased by 8%, electricity consumption increased by 5%. The Group will continue to raise employees' awareness of energy saving.

Petrol

A total of 79,526.7 litres of diesel, with an intensity of 0.71 per tonne of production, was used for private cars for transportation. The use of diesel is twice that of last year. The Group will pay more attention to the use of diesel and use clean energy instead of diesel.

ENVIRONMENTAL PROTECTION PLAN

Reclamation Plan

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

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

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

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

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

The Group had performed the following major reclamation works:

Procedures	**Details**
Drainage ditch and Sedimentation tank	The drainage ditch was constructed to collect the rain water in order to prevent the surface runoff. Sedimentation tank was constructed to collect the suspended solids in order to reduce the water pollution.
Covering soil and vegetation reconstruction	During the year, 13,490m^2 of mining area were covered soil and planted 565 trees and grass.
Monitoring system	Monitoring points were setup to monitor drainage diversion, mountain slope stability and the survival rate of newly planted tree and grass.

Climate Change Risk and Natural Disaster Emergency Plan

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

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

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

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

EMPLOYEES

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

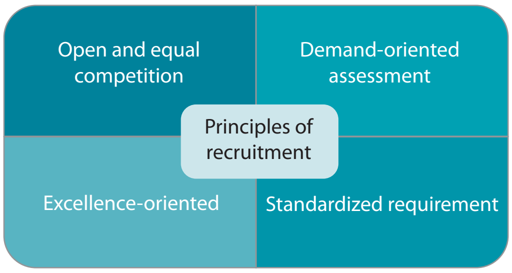
Communications and Mutual Respect

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

Recruitment Principles

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

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



Prohibiting Child and Forced Labour

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

Compliance

The Group takes responsibility for ensuring compliance with labour laws where we have operation. We conduct labour risks assessment annually, evaluating the urgency and severity of the risks. We take all relevant information into consideration including the latest legal requirements, feedback from stakeholders, and media analysis as we adjust our management approach to the matter.

The Group protects human rights and labour rights in accordance with the "Labour Law of the PRC" which have significant impact on the Group.

Comprehensive Incentive System

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

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

In addition, we provide the follow incentives to employees:

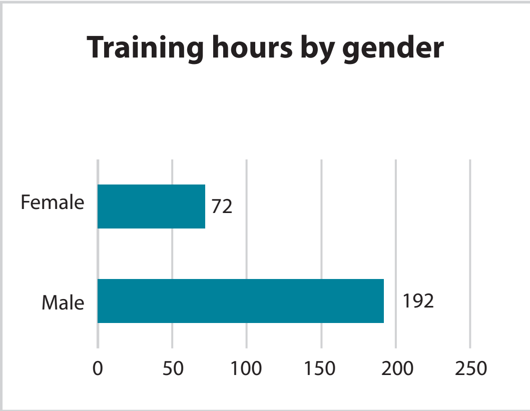
- incentive for the length of services to value the employees' historical contributions and giving extra care
- bonus related to profit, revenue, other contributions
- allowances for transportation, meal, housing, night shift and overtime

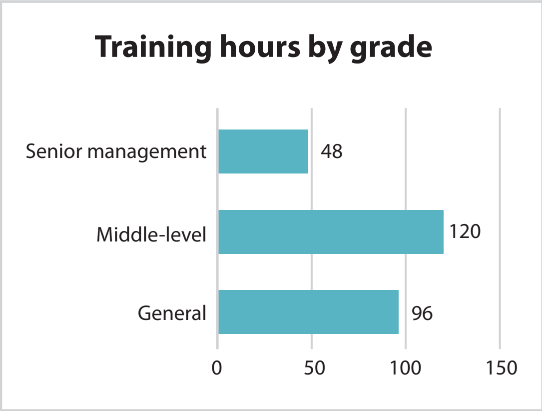
Nurturing Internal Talents

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

Training and Development

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





Step by Step Training

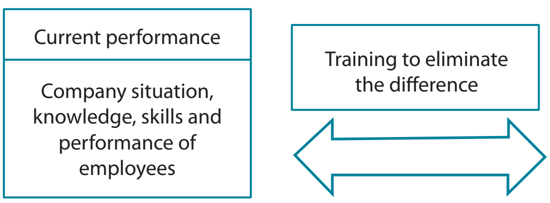
Human Resources Department is responsible for planning, arranging and recording the training and assessment of the employees. A special reward is given to trainer to promote a culture of sharing of knowledge between employees. The trainings are divided into different steps and provided to employees at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

Orientation training

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

On-job Training System

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



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

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

Education Subsidies

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

Resignation Procedures

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

Anti-discrimination and Anti-harassment

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

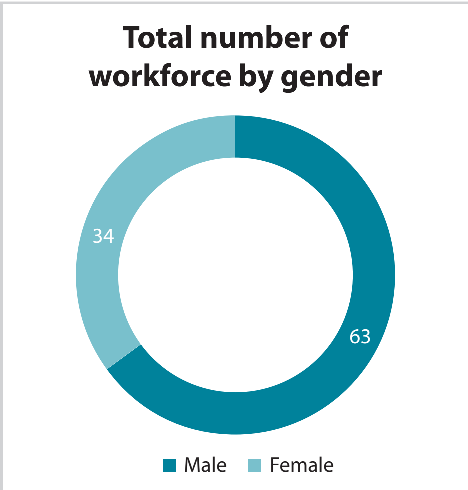
All levels of management are responsible for applying these policies and avoiding any form of discrimination.

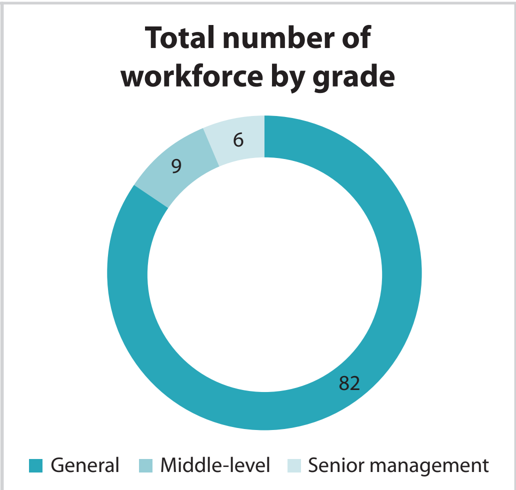
All remuneration, benefits, career opportunities, and retirement arrangements must comply with this policy. Employee will be selected and treated on the basis of their abilities according to the requirements of the job, and have equal opportunity to show their ability and to progress within the organization.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

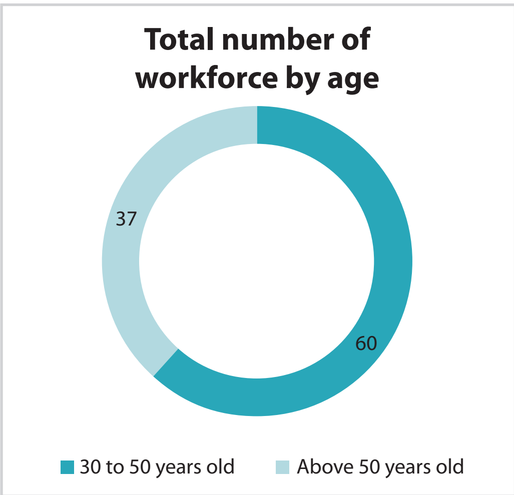
Any acts of unlawful discrimination will be viewed as gross misconduct. All advertisements and advertising material must be reviewed to ensure they do not imply any intention to discrimination.

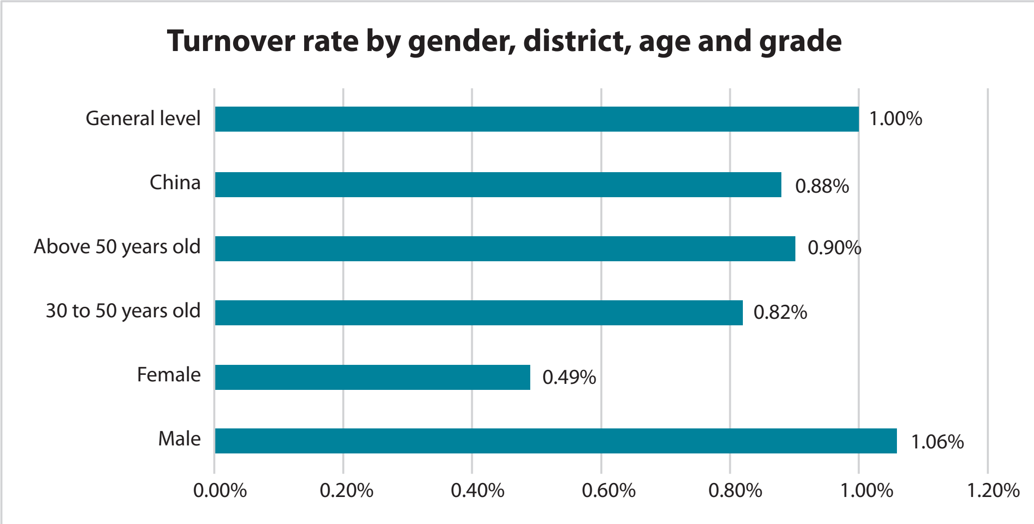
Employment Profile

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









As of 31 December 2019, the Group had a total of 97 employees. All the employees were in China. The proportion of male to female is 65:35. 82 employees were general employee, 9 employees were in mid-level and 6 employees were senior management. 37 employees aged 30 to 50 years old and 60 number of employees aged over 50 years old. Its overall employee turnover rate was 0.86%.

Concerns About Occupational Safety

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

Production Safety

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

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

The key points of our policies are:

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

During the year, we recorded zero cases of occupational disease and we were not aware of any non-compliance with laws and regulations having a significant impact on the Group relating to occupational health and safety.

Safety Training

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

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

Safety Check System

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

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

Safety Incident Emergency Management

The Group has established a safety incident emergency procedure which:

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

SUSTAINABLE SUPPLY CHAIN MANAGEMENT

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

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

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

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

Preference should be given to suppliers which have:

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

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

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

By the end of 2019, we have 34 suppliers and all of them are in mainland China.

CUSTOMER

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

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

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

Data Privacy Policy

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

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

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

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

Protection of intellectual property rights

Brand is one of the most important intangible assets for modern enterprises. In order to exercise our product philosophy consistently throughout the product design and production process comprehensively and sufficiently, as well as to ensure the exclusivity of our brand, we firmly stick to the concept of intellectual property protection and emphasise the utmost importance of intellectual property right management. We strictly comply with the relevant laws and regulations on intellectual property protection, such as the "Intellectual Property Protection Law of the People's Republic of China" by setting up specialised departments to follow up related work while seeking professional advice from external intellectual property law firms.

In the course of co-operation with our partners, we maintain our own intellectual property rights in accordance to law. We also respect our partners in intellectual property, which will be applied strictly within the authorised scope as required. In respect of marketing and promotion, we strictly comply with the "Advertising Law of the PRC", and use authorised promotion materials and information to ensure that others' intellectual property rights are not infringed. In case of litigation, we can apply the intellectual property system in a timely manner to safeguard the legitimate rights and interests of enterprises, and appeal against intellectual property infringers.

Intellectual property management system

The Group's intellectual property management system was certified by a leading IPMS certification company in China for the compliance of national intellectual property standards of "Enterprise Intellectual Property Management (GB/T 29490-2013)". The compliance of the standards enhance the Group's capabilities of risk management and control environment related to intellectual property management.

The Group's intellectual property management system includes the following process:

- Planning: To understand the Group's intellectual property management needs and formulate intellectual property policies and objectives;

- Implementation: To obtain, maintain, apply and protect intellectual property rights in the business aspects of product establishment, research and development, procurement, production, sales and after-sales;

– Evaluation: To monitor and review the effectiveness of intellectual property management;

– Improvement: To continuously improve the intellectual property management system based on the evaluation results.

Product Quality Control

Our product quality supervision process can be divided into fourth stages including raw material testing, semi-finished products testing, finished products testing and testing for products delivery. The testing results are recorded in the system for the management's review and control.

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

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

CODE OF CONDUCT AND GUIDELINES

Insider Trading

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

Fair Competition

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

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

Anti-bribery

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

Report of Illegal or Unethical Behavior

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

Management Effort for Anti-fraud

The anti-fraud work of the management includes:

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

Annual Anti-fraud Meeting

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

COMMUNITY INVESTMENT

Community Participation

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

Community Charitable Donation

To support the China's agricultural and rural development, the Group continuously pay attention to the available opportunities and provide adequate support to the local rural community. During the year, the Group donated to Lishan Village and Dachong Village of Suncun Town respectively for the construction of rural area. At the same time, the Group also donated to Xinyi Village of Nanling County for the development of brown rice agricultural.

A. Environmental		HangKan's actions
Aspect: A1: Emissions	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Environmental Management System and Environmental Leadership Working Group – P.44 Air pollution control – P.45 Accident handling Plan – P.48 Environmental Assessment – P. 48 Reward and Punishment Mechanism – P. 48
KPI A1.1	The types of emissions and respective emissions data.	Air Emission Analysis – P.46
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Greenhouse Gas ("GHG") Emission Analysis – P.46
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Solid Waste Management – P.47 Hazardous Waste – P.47
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Solid Waste Management – P.47 Non-Hazardous Waste – P.47
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Pollution and Waste Management – P.45 Air Pollution Control – P.45 Noise Pollution Control – P.47
KPI A1.6	Description of how hazardous and nonhazardous wastes are handled, reduction initiatives and results achieved.	Hazardous Waste – P.47 Solid Waste Management – P.47

A. Environmental		HangKan's actions
Aspect A2: Use of Resources	General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials.	Efficient Use of Resources – P.48 to 49
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Petrol, Electricity, Office paper – P.49 to 50
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Water – P.49
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Efficient Use of Resources, Petrol, Electricity, Office paper, Water – P.49 to 50
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Water – P.49 Wastewater Discharge Management ("WDM") – P.47
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Packaging Material – P.48
Aspect A3: The Environment and Natural Resources	General Disclosure Policies on minimising the issuer's significant impact on the environment and natural resources.	Reclamation Plan – P.50 to 51 Climate Change Risk and Natural Disaster Emergency Plan – P.52 to 53
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Reclamation Plan – P.50 to 51 Climate Change Risk and Natural Disaster Emergency Plan – P.52 to 53

B. Social		HangKan's actions
Employment and Labour Practices		
Aspect B1: Employment	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Communications and Mutual Respect – P.53 Recruitment Principles – P.54 Comprehensive Incentive System – P.54 Nurturing Internal Talents – P.55 Resignation Procedures – P.56 Anti-discrimination and Anti-harassment – P.56 to 57 Compliance – P.54
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Employment Profile – P.57
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Turnover Rate – P.58
Aspect B2: Health and Safety	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Concerns About Occupational Safety – P.58 Production Safety – P.58 to 59 Safety Training, Safety Check System, Safety Incident Emergency Procedures – P.59 to 60
KPI B2.1	Number and rate of work-related fatalities.	During the Year, there was no work-related fatalities
KPI B2.2	Lost days due to work injury.	Concerns About Occupational Safety – P.58
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Concerns About Occupational Safety – P.58 Production Safety, Safety Training, Safety Check System, Safety Incident Emergency Procedures – P.58 to 60

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

B. Social		HangKan's actions
Aspect B6: Product Responsibility	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Customer – P.61 to 63 Product Quality Control – P.63
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	N/A
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	N/A
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Protection of intellectual property rights, Intellectual property management system – P.62 to 63
KPI B6.4	Description of quality assurance process and recall procedures.	N/A
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Data Privacy Policy – P.62
Aspect B7: Anti-corruption	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Code of Conduct and Guidelines – P.63 to 64
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	During the Year, there was no legal cases regarding corrupt practices brought against us or our employees.
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	N/A

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

Independent Auditor's Report

elite partners
CERTIFIED PUBLIC ACCOUNTANTS

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

QUALIFIED OPINION

We have audited the consolidated financial statements of HangKan Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 76 to 139, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standard Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR QUALIFIED OPINION

Corresponding figures

The auditor's report on the consolidated financial statements of the Group for the year ended 31 December 2018 ("2018 Financial Statements") contained qualification on the opening balances and corresponding figures ("Qualifications"). Details of which has been set out in the auditor's report for 2018 Financial Statements dated 7 March 2019.

As the 2018 Financial Statements formed the basis for the corresponding figures presented in the current year's consolidated financial statements, any adjustments found to be necessary in respect of the Qualifications would have an effect on (i) the opening balance of the corresponding figures in the consolidated financial statements for the year ended 31 December 2019; and (ii) the related disclosures thereof in the consolidated financial statements of the Group for the year ended 31 December 2019.

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in our audit
Impairment assessment of property, plant and equipment, right-of-use assets and intangible asset	
We identified the impairment assessment of property, plant and equipment, right-of-use assets and intangible asset as a key audit matter due to the significant judgement involved by the management in the impairment assessment. As at 31 December 2019, the Group has property, plant and equipment, right-of-use assets and intangible asset of approximately CNY15,470,000, CNY2,701,000 and CNY4,933,000 respectively. Management performed impairment assessment and concluded that there is no impairment loss of on property, plant and equipment, right-of-use assets and intangible asset would be recognised in profit or loss. This conclusion was based on value-in-use calculation that required significant management judgement with respect to the discount rate and the underlying cashflows projection.	Our procedures in relation to the management's impairment assessment of property, plant and equipment, right-of-use assets and intangible asset included: • Assessing the methodologies used and the appropriateness of the key assumptions adopted in the value-in-use calculation; • Challenging the management on the reasonableness of key assumptions based on our knowledge of the business and industry; and • Checking, on sampling basis, the accounting and relevance of the input data used.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement director on the audit resulting in this independent auditor's report is Mr. Yip Kai Yin with practising certificate number P05131.

Elite Partners CPA Limited
Certified Public Accountants

10/F, 8 Observatory Road,
Tsim Sha Tsui, Kowloon
Hong Kong
22 April 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 CNY'000	2018 CNY'000
Revenue	7	**58,099**	51,204
Cost of sales		**(28,153)**	(29,257)
Gross profit		**29,946**	21,947
Other income	9	**2,337**	1,474
Selling and distribution expenses		**(7,308)**	(6,740)
Administrative and other expenses		**(15,907)**	(72,723)
Finance costs	10	**(451)**	(1,283)
Gain on disposal of subsidiaries		**–**	874
Profit (Loss) before tax		**8,617**	(56,451)
Income tax expense	11	**(1,209)**	(1,134)
Profit (Loss) and total comprehensive income (expense) for the year attributable to owners of the Company	12	**7,408**	(57,585)
Earnings (Loss) per share (CNY):			
Basic	16	**1.10 cents**	(10.05) cents
Diluted	16	**1.10 cents**	(10.05) cents

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 CNY'000	2018 CNY'000
Non-current assets			
Property, plant and equipment	17	**15,470**	11,323
Prepaid lease payments	18	**–**	2,509
Right-of-use assets	19	**2,701**	–
Intangible asset	20	**4,933**	5,056
Restricted bank balances	24	**9,935**	8,965
Deferred tax assets	21	**142**	306
		33,181	28,159
Current assets			
Inventories	22	**3,158**	2,166
Trade, bills and other receivables	23	**14,483**	15,989
Prepaid lease payments	18	**–**	77
Pledged bank deposit	24	**20,000**	20,000
Bank balances and cash	24	**39,158**	29,993
		76,799	68,225
Current liabilities			
Trade and other payables	25	**18,922**	14,504
Lease liability	26	**205**	–
Income tax payables		**2,158**	916
		21,285	15,420
Net current assets		**55,514**	52,805
		88,695	80,964

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 CNY'000	2018 CNY'000
Capital and reserves			
Share capital	29	**5,688**	5,688
Reserves		**74,479**	67,071
Total equity		**80,167**	72,759
Non-current liabilities			
Asset retirement obligations	27	**8,143**	7,725
Deferred income	28	**385**	480
		8,528	8,205
		88,695	80,964

The consolidated financial statements on pages 76 to 139 were approved and authorised for issue by the board of directors on 22 April 2020 and are signed on its behalf by:

SU Chun Xiang
Director

PANG Ho Yin
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

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

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

Notes:

(i) Other reserve

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

(ii) Statutory reserve

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

(iii) Safety fund and production maintenance fund

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

* For identification purpose only

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019 CNY'000	2018 CNY'000
OPERATING ACTIVITIES		
Profit (Loss) before tax	**8,617**	(56,451)
Adjustments for:		
Depreciation of property, plant and equipment	**1,225**	1,170
Depreciation of right-of-use asset	**408**	–
Amortisation of intangible asset	**123**	86
Amortisation of prepaid lease payments	**–**	77
Government grants	**(28)**	(312)
Net (gain) loss on disposal/written off of property, plant and equipment	**(76)**	362
Finance costs	**451**	1,283
Bank interest income	**(799)**	(595)
Guarantee service fee income	**(1,132)**	(472)
Release of government grant for property, plant and equipment	**(95)**	(95)
Prepayments written off	**–**	57,430
Gain on disposal of subsidiaries	**–**	(874)
Operating cash flows before movements in working capital	**8,694**	1,609
(Increase) Decrease in inventories	**(992)**	255
Decrease (Increase) in trade, bills and other receivables	**1,506**	(4,377)
Increase in trade and other payables	**4,418**	1,560
Cash used in operations	**13,626**	(953)
Income tax refund (paid)	**197**	(196)
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	**13,823**	(1,149)
INVESTING ACTIVITIES		
(Increase) Decrease in bank deposits with a maturity of more than three months	**(38)**	15,239
Placement of restricted bank balances	**(970)**	(922)
Purchases of property, plant and equipment	**(5,381)**	(668)
Proceed from disposal of property, plant and equipment	**85**	–
Bank interest income received	**799**	595
Guarantee service fee income received	**1,132**	472
Placement of pledged bank deposit	**–**	(20,000)
Net cash inflows on disposal of subsidiaries	**–**	874
NET CASH USED IN INVESTING ACTIVITIES	**(4,373)**	(4,410)

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 CNY'000	2018 CNY'000
FINANCING ACTIVITIES			
Government grant received		**28**	312
Proceeds from placing of shares		**–**	20,667
Share issue expenses		**–**	(1,506)
New short-term loan raised		**–**	4,223
Repayment of short-term loan		**–**	(4,223)
Repayment of lease liability		**(318)**	–
Interest paid		**(33)**	(888)
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES		**(323)**	18,585
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**9,127**	13,026
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**29,287**	16,261
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	24	**38,414**	29,287

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 of Hong Kong Limited (the "Stock Exchange") on 29 December 2015. Its ultimate controlling shareholder is Mr. Zhang Qiang（張強）, who held approximately 41.01% interests in the Company, continued to be the single largest shareholder of the Company.

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

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

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

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

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

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

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

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

IFRS 16 Leases

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

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

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

IFRS 16 Leases *(Continued)*

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 Determining whether an Arrangement contains a Lease and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

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

As a lessee

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

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

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

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

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

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

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

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

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

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

IFRS 16 Leases *(Continued)*

As a lessee (Continued)

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

	Note	CNY'000
Operating lease commitments disclosed as at 31 December 2018	33	578
Lease liability at 1 January 2019 discounted at relevant incremental borrowing rates		523
Analysed as		
Current		339
Non-current		184
		523

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

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

Notes:

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

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

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

IFRS 16 Leases *(Continued)*

As a lessee (Continued)

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

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

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

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

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

New and amendments to IFRSs in issue but not yet effective

IFRS 17	Insurance Contracts[1]
Amendments to IFRS 3	Definition of Business[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1 and IAS 8	Definition of Material[4]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[4]

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("the "GEM Listing Rules") and by the disclosure requirement of the Hong Kong Companies Ordinance.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are accounted for in accordance with IFRS 16 (since 1 January 2019) or IAS 17 (before application of IFRS 16) Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

Property, plant and equipment

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of IFRS 16) or "prepaid lease payments" (before application of IFRS 16) in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives and residual values are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

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

Intangible assets

Intangible assets acquired separately

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

Research and development expenditure

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses on property, plant and equipment, right-of-use assets and intangible asset

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

The recoverable amount of property, plant and equipment, right-of-use assets and intangible asset are estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

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

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

Inventories

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

Work in progress

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

Financial instruments

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

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

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income which are derived from the Company's ordinary course of business are presented as revenue.

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (Continued)

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

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

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

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

A financial asset is classified as held for trading if:

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

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

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

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

(i) *Amortised cost and interest income*

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade, bills and other receivables, financial guarantee contracts, restricted bank balances, pledged bank deposit and bank balances and cash) which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

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

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

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

(i) Significant increase in credit risk

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

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

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

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

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition of financial assets

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

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities at amortised cost

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Financial guarantee contracts

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

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Revenue from contracts with customers

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

Definition of a lease (upon application of IFRS 16 in accordance with transitions in note 2)

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.

For contracts entered into or modified on or after the date of initial application, 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 are subsequently changed.

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2)

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, including contract for acquisition of ownership interests of a property which includes both leasehold land and non-lease building components, unless such allocation cannot be made reliably.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of leasehold properties that have a lease term of 12 months or less from the commencement date and do not contain a purchase option.

Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases, 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; and
- any initial direct costs incurred by the Group.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2) *(Continued)*

Right-of-use assets (Continued)

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

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.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

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 lease payments (including in-substance fixed payments).

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2) *(Continued)*

Lease liabilities (Continued)

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

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the 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 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.

The Group as lessee (prior to 1 January 2019)

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

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

Foreign currencies

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

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

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

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

Retirement benefit costs and termination benefits

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

Short-term and other long-term employee benefits

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss.

Provisions

General

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

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

Assets retirement obligations

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key sources of estimation uncertainty

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

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment is less than the original estimated useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining period. As at 31 December 2019, the carrying amounts of property, plant and equipment were approximately CNY15,470,000 (2018: CNY11,323,000).

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

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

Reserve estimates

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

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

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

Key sources of estimation uncertainty *(Continued)*

Reserve estimates *(Continued)*

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

- Asset carrying amount may be affected due to change in estimated future cash flows.
- Depreciation, depletion and amortisation charged to the profit or loss may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change.
- Asset retirement obligations may change where changes in estimated reserves affect expectations about the timing or cost of these activities.
- The carrying value of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

As at 31 December 2019, the carrying amounts of dismantlement asset were approximately CNY3,223,000 (2018: CNY3,303,000) while the carrying amounts of intangible asset were approximately CNY4,933,000 (2018: CNY5,056,000).

Impairment of property, plant and equipment, right-of-use assets and intangible asset

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

As at 31 December 2019, the carrying amounts of property, plant and equipment were approximately CNY15,470,000 (2018: CNY11,323,000), no impairment loss was recognised for the years ended 31 December 2019 and 2018.

Provision of ECL for trade receivables

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

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in note 6.

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

Key sources of estimation uncertainty *(Continued)*

Allowance for inventories

The management of the Group reviews the ageing of the inventories at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer saleable in the market. The identification of obsolete inventories requires the use of estimation of the net realisable value of items of inventory and judgements on the conditions and usefulness of items of inventories. Where the expected net realisable value is lower than the cost of certain items, a write-down of inventories may arise. As at 31 December 2019, the carrying amounts of inventories were approximately CNY3,158,000 (2018: CNY2,166,000), no allowance for inventories was recognised for the years ended 31 December 2019 and 2018.

Asset retirement obligations

The ultimate asset retirement obligations are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect the future financial results. As at 31 December 2019, the carrying amounts of asset retirement obligations were approximately CNY8,143,000 (2018: CNY7,725,000).

Income taxes

As at 31 December 2019, the Group has recognised deferred tax assets of approximately CNY142,000 (2018: CNY306,000). The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

5. CAPITAL RISK MANAGEMENT

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

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

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

6. FINANCIAL INSTRUMENTS

a) Categories of financial instruments

	2019 CNY'000	2018 CNY'000
Financial assets		
Financial assets at amortised cost	**83,195**	74,608
Financial liabilities		
Financial liabilities at amortised cost	**17,088**	13,561

b) Financial risk management objectives and policies

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

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

Market risk

(i) Currency risk

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

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

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

	2019 CNY'000	2018 CNY'000
Assets	**10,586**	15,406
Liabilities	**(7,800)**	(7,645)
	2,786	7,761

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis

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

The following table details the Group' sensitivity to a 5% (2018: 5%) increase and decrease in CNY against HK$ for the year ended 31 December 2019. 5% (2018: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2018: 5%) change in foreign currency rates.

A positive (2018: negative) number below indicates an increase (2018: decrease) in profit after tax (2018: loss after tax) for the year where CNY strengthen 5% (2018: 5%) against HK$. For a 5% (2018: 5%) weakening of CNY against HK$, there would be an equal and opposite impact on the profit after tax (2018: loss after tax) for the year and the balance below would be positive (2018: negative).

	2019 **CNY'000**	2018 CNY'000
Post-tax profit or loss	**119**	308

(ii) Interest rate risk

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

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade, bills and other receivables, restricted bank balances, pledged bank deposit, bank balances. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets and financial guarantee contracts, except that the credit risks associated with trade receivables of CNY736,000 is mitigated because they are secured over properties.

The Group performed impairment assessment for financial assets and financial guarantee contract under ECL model. Information about the Group's credit risk management, maximum credit risk exposures and the related impairment assessment, if applicable, are summarised as below:

Trade receivables arising from contracts with customers and bills receivables

The Group offers revolving credit to two customers (2018: two customers). This revolving credit provides for a predetermined credit limit that may be outstanding at any one time based on, among others, their background, credit history, length of business relationship and historical transaction amounts. The Group generally evaluates the credit limits granted to the customers annually upon renewal of the relevant sales agreements and upon special request from the customers.

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

Restricted bank balances/Pledged bank deposit/Bank balances

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

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk and impairment assessment *(Continued)*

Other receivables and deposits

For other receivables and deposits, the directors of the Company make periodic individual assessment on the recoverability of other receivables and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the year ended 31 December 2019 and 2018, the Group assessed the ECL for other receivables and deposits were insignificant and thus no loss allowance was recognised.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Accounts receivables	Other financial assets/
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle in full	Lifetime ECL – not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk and impairment assessment *(Continued)*

The tables below detail the credit risk exposures of the Group's financial assets which are subject to ECL assessment:

	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	2019 Gross carrying amount CNY'000	2018 Gross carrying amount CNY'000
Financial assets at amortised cost						
Trade receivables	23	N/A	(Note 1)	Lifetime ECL	**6,789**	6,344
Bills receivables	23	Low risk	N/A	12-month ECL	**6,996**	8,936
Other receivables	23	N/A	(Note 2)	12-month ECL	**169**	227
Deposits	23	N/A	(Note 2)	12-month ECL	**148**	143
Restricted bank balances	24	Low risk	N/A	12-month ECL	**9,935**	8,965
Pledged bank deposit	24	Low risk	N/A	12-month ECL	**20,000**	20,000
Bank balances	24	Low risk	N/A	12-month ECL	**39,158**	29,993

Notes:

(1) For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items by individual assessment.

During the year ended 31 December 2019 and 2018, no impairment allowance on trade receivables and bills receivables are provided based on the provision matrix assessed individually as the amounts involved are immaterial.

(2) For the purposes of internal credit risk management, the Group uses past due and repayment information to assess whether credit risk has increased significantly since initial recognition. There is no fixed repayment terms for the other receivables as at 31 December 2019 and 2018.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk and impairment assessment *(Continued)*

Financial guarantee contract

For financial guarantee contracts, the maximum amount that the Group has guaranteed under the respective contracts was CNY20,000,000 (2018: CNY20,000,000) as at 31 December 2019. At the end of the reporting period, the directors of the Company have performed impairment assessment, and concluded that there has been no significant increase in credit risk since initial recognition of the financial guarantee contracts. Accordingly, the loss allowance for financial guarantee contracts issued by the Group is measured at an amount equal to 12m ECL. An amount of CNY738,000 (2018: CNY641,000) has been estimated as a loss allowance as at 31 December 2019 in accordance with IFRS 9, however, no loss allowance was recognised in the profit or loss because the premium received less cumulative amount recognised in profit or loss was higher than expected amount of loss allowance. Details of the financial guarantee contracts are set out in note 32.

The Group's concentration of credit risk by geographical location is in the PRC, which accounted for all of the trade receivables as at 31 December 2019 and 2018.

The Group has concentration of credit risk as 38% (2018: 47%) and 95% (2018: 99%) of the total trade receivables was due from the Group's largest trade receivable and the five largest trade receivables respectively as at 31 December 2019.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows and the earliest date that the Group can be required to pay, are within one year or on demand (2018: within one year or on demand).

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

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

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

7. REVENUE

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

Disaggregation of revenue from contracts with customers

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

7. REVENUE *(Continued)*

Performance obligations

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

Sale of bentonite products

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

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose the amount of the transaction price allocated to the remaining performance obligations for contracts with an original expected duration of one year or less.

8. SEGMENT INFORMATION

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

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

Information about geographical areas

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

Information about major customers

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

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

8. SEGMENT INFORMATION *(Continued)*

Information from major products

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

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

9. OTHER INCOME

	2019	2018
	CNY'000	CNY'000
Bank interest income	**799**	595
Government grants (Note (a))	**28**	312
Release of government grant for property, plant and equipment (Note 28)	**95**	95
Guarantee service fee income (Note (b))	**1,132**	472
Sundry income	**105**	–
Gain on disposal of property, plant and equipment	**76**	–
Exchange gain	**62**	–
Others	**40**	–
	2,337	1,474

Notes:

(a) Government grants of CNY28,000 (2018: CNY312,000) received from local government authority was related to product innovation contributed by the Group to the industry, which were recognised as other income for the year as the Group fulfilled the relevant granting criteria. There was no unfulfilled conditions or contingencies relating to these government grants.

(b) Guarantee service fee income represents income arising from provision of financial guarantee to an independent third party. The detail of financial guarantee has been set out in note 32.

10. FINANCE COSTS

	2019	2018
	CNY'000	CNY'000
Interest expenses on unsecured borrowing	**–**	888
Interest expenses on lease liability	**33**	–
Unwinding of discount on provision for dismantlement (Note 27)	**418**	395
	451	1,283

11. INCOME TAX EXPENSE

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

Notes:

(a) Pursuant to the rules and regulations of the Cayman Islands and the 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 years as the Group did not have any assessable profits subject to Hong Kong Profits Tax.

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

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

(e) As at 31 December 2019, the aggregate amount of temporary differences associated with the PRC subsidiary's undistributed retained earnings for which deferred tax liabilities have not been recognised were approximately CNY4,706,000 (2018: CNY3,616,000). No deferred tax liabilities have been recognised in respect of these temporary differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such temporary differences will not be reversed in the foreseeable future.

11. INCOME TAX EXPENSE *(Continued)*

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

	2019 **CNY'000**	2018 CNY'000
Profit (Loss) before tax	**8,617**	(56,451)
Tax at the tax rate of 25%	**2,154**	(14,113)
Preferential income tax rates applicable to a subsidiary	**(364)**	(759)
Tax effect of expenses not deductible for tax purpose	**384**	16,248
Tax effect of income not taxable for tax purpose	**(220)**	(219)
Over-provision in previous year	**(745)**	(23)
Income tax expense	**1,209**	1,134

Details of the deferred tax are set out in note 21.

12. PROFIT (LOSS) FOR THE YEAR

	2019 CNY'000	2018 CNY'000
Profit (Loss) for the year has been arrived at after charging:		
Directors' and chief executive's emoluments	**497**	442
Salaries, wages, allowances and other benefits	**8,598**	7,386
Contributions to retirement benefits scheme (excluding directors' and chief executive's emoluments)	**1,151**	1,302
Total staff costs	**10,246**	9,130
Auditor's remuneration	**519**	465
Amortisation of intangible asset	**123**	86
Amortisation of prepaid lease payments	**–**	77
Amount of inventories recognised as an expense	**27,185**	28,349
Exchange (gain) loss, net	**(62)**	658
Depreciation of property, plant and equipment	**1,225**	1,170
Depreciation of right-of-use assets	**408**	–
(Profit)/Loss on disposal/written off of property, plant and equipment	**(76)**	362
Research and development cost (Note a)	**3,358**	2,110
Prepayment written off	**–**	57,430
Lease payments paid under operating lease in respect of		
– plant and equipment	**–**	2,190
– office properties	**–**	269
Expenses related to short-term leases – plant and equipment	**2,932**	–

Note:

(a) Staff cost of approximately CNY824,000 (2018: CNY603,000) are included in the research and development cost for the year ended 31 December 2019.

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

Emoluments paid or receivable in respect of a persons' services as a director, whether of the Company or its subsidiaries undertaking:	Fees	Salaries, allowances and other benefits	Contributions to retirement benefits scheme	Total
	CNY'000	CNY'000	CNY'000	CNY'000
Year ended 31 December 2019				
Executive directors				
Mr. Su Chun Xiang (note i)	–	107	–	107
Mr. Pang Ho Yin (note iii)	68	–	–	68
Independent non-executive directors				
Mr. Ko Yat Fei (note v)	52	–	–	52
Mr. Lee Ming Tung (note vi)	56	–	–	56
Mr. Chow Chi Hang, Tony (note i)	107	–	–	107
Ms. Shao Yu (note vii)	107	–	–	107
Total	390	107	–	497

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

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

Notes:

(i) Appointed on 9 January 2018

(ii) Resigned on 9 February 2018

(iii) Appointed on 15 May 2019

(iv) Resigned on 12 February 2018

(v) Appointed on 9 January 2018 and retired on 24 June 2019

(vi) Appointed on 24 June 2019

(vii) Appointed on 9 January 2018 and resigned on 8 April 2020

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

There was no arrangement under which a director waived or agreed to waive any remuneration for the years ended 31 December 2019 and 2018.

No emoluments were paid by the Group as an incentive payment for joining the Group or as compensation for loss of office tax the years ended 31 December 2019 and 2018.

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, none of them (2018: three) were the directors of the Company whose emoluments are set out in Note 13 above. The emoluments of the remaining five (2018: two) highest paid individuals for the year ended 31 December 2019 were as follows:

	2019 CNY'000	2018 CNY'000
Salaries, allowances, and other benefits	**1,212**	148
Contributions to retirement benefits scheme	**38**	49
	1,250	197

Their emoluments were within the following bands:

	2019 Number of individuals	2018 Number of individuals
Nil to HK$1,000,000	**5**	2

14. EMPLOYEES' EMOLUMENTS *(Continued)*

There was no arrangement to the five highest paid individuals for waiving or agreed to waive any remuneration for the years ended 31 December 2019 and 2018.

No emoluments were paid by the Group to the five highest paid individuals as an incentive payment for joining the Group or as compensation for loss of office for the years ended 31 December 2019 and 2018.

15. DIVIDEND

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

16. EARNINGS (LOSS) PER SHARE

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

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

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

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

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

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Dismantlement asset	Motor vehicles	Total
	CNY'000	CNY'000	CNY'000	CNY'000	CNY'000
COST					
As at 1 January 2018	10,904	14,531	3,706	501	29,642
Additions	81	587	–	–	668
Disposal/written off	–	(4,836)	–	–	(4,836)
As at 31 December 2018	10,985	10,282	3,706	501	25,474
Additions	2,032	2,919	–	430	5,381
Disposal/written off	–	(246)	–	–	(246)
As at 31 December 2019	13,017	12,955	3,706	931	30,609
ACCUMULATED DEPRECIATION					
As at 1 January 2018	4,794	12,034	347	280	17,455
Charge for the year	502	551	56	61	1,170
Eliminated on disposal/written off	–	(4,474)	–	–	(4,474)
As at 31 December 2018	5,296	8,111	403	341	14,151
Charge for the year	519	522	80	104	1,225
Eliminated on disposal/written off	–	(237)	–	–	(237)
As at 31 December 2019	5,815	8,396	483	445	15,139
CARRYING AMOUNT:					
As at 31 December 2019	**7,202**	**4,559**	**3,223**	**486**	**15,470**
As at 31 December 2018	5,689	2,171	3,303	160	11,323

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

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

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

18. PREPAID LEASE PAYMENTS

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

	2019 **CNY'000**	2018 CNY'000
Current assets	**–**	77
Non-current assets	**–**	2,509
	–	2,586

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

The Group's prepayments for land use right were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the carrying amount of the Group's prepayments for land use right were transferred to right-of-use assets (note 19).

19. RIGHT-OF-USE ASSETS

	Land use rights (note (i)) CNY'000	**Office premises** (note (ii)) CNY'000	**Total** CNY'000
COST:			
As at 1 January 2019	–	–	–
Initial application of IFRS 16	2,586	523	3,109
As at 31 December 2019	2,586	523	3,109
ACCUMULATED DEPRECIATION:			
As at 1 January 2019	–	–	–
Charge for the year	77	331	408
As at 31 December 2019	77	331	408
CARRYING AMOUNT:			
As at 31 December 2019	**2,509**	**192**	**2,701**
As at 1 January 2019	–	–	–

Notes:

(i) Land use rights represents lump sum considerations paid or payable by the Group to acquire leasehold lands located in the PRC. These leasehold lands are with lease periods of 37 years and there are no ongoing payments to be made under the terms of the land leases.

(ii) For both years, the Group leases an office for its operations. Lease contracts are entered into for fixed term of 2 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

20. INTANGIBLE ASSET

	Mining right CNY'000
COST	
As at 1 January 2018, at 31 December 2018 and 31 December 2019	5,666
AMORTISATION	
As at 1 January 2018	524
Charge for the year	86
As at 31 December 2018	610
Charge for the year	123
As at 31 December 2019	733
CARRYING VALUES	
As at 31 December 2019	**4,933**
As at 31 December 2018	5,056

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

21. DEFERRED TAXATION

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

	2019 **CNY'000**	2018 CNY'000
Deferred tax assets	**142**	306

21. DEFERRED TAXATION *(Continued)*

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

	Temporary difference on allowance, accrued liabilities and deferred income CNY'000	Temporary difference on asset retirement obligations CNY'000	Accelerated tax depreciation CNY'000	Total CNY'000
As at 1 January 2018	339	1,099	(941)	497
Credit (charge) to profit or loss (Note 11)	(220)	60	(31)	(191)
As at 31 December 2018	119	1,159	(972)	306
Credit (charge) to profit or loss (Note 11)	(219)	63	(8)	(164)
At 31 December 2019	(100)	1,222	(980)	142

22. INVENTORIES

	2019 **CNY'000**	2018 CNY'000
Materials and supplies	**1,267**	1,419
Work-in-progress	**1,492**	411
Finished goods	**399**	336
	3,158	2,166

23. TRADE, BILLS AND OTHER RECEIVABLES

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

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

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

As at 1 January 2018, trade receivables from contracts amounted to CNY3,381,000.

The Group offers revolving credit to its two customers amounted approximately CNY900,000 as at 31 December 2019 (2018: CNY1,300,000). This revolving credit provides for a predetermined credit limit that may be outstanding at any one time based on their background, credit history, length of business relationship and historical transaction amounts. The Group generally evaluates the credit limits granted to the customer annually upon renewal of the relevant sales agreements and upon special request from the customers. The Group held charges on such customers' buildings as collaterals over the balance of approximately CNY900,000 as at 31 December 2019 (2018: CNY1,300,000). Such collateral is not transferable and rentable and can be realised by the Group at first priority upon the liquidation or deregistration of such customer. For the remaining balances of approximately CNY5,889,000 as at 31 December 2019 (2018: CNY5,044,000), the Group does not hold any collateral over these amounts.

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

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

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

24. RESTRICTED BANK BALANCES, PLEDGED BANK DEPOSIT AND BANK BALANCES AND CASH

Restricted bank balances

Restricted bank balances represent restricted cash set aside by the Group in banks placed for the settlement of asset retirement obligations for future environmental rehabilitation. The restricted bank balances carried at prevailing market rates ranging from 0.10% to 2.10% per annum (2018: 0.10% to 2.10% per annum) during the year ended 31 December 2019.

Pledged bank deposit

Pledged bank deposit represented deposit pledged to bank to secure general banking facilities granted to an independent third party. As at 31 December 2019, the bank deposit of CNY20,000,000 (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 bank deposit carry interest rates at 1.95% (2018: 1.95%) per annum and will be released upon the expiry of the relevant banking facilities.

Bank balances and cash

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

	2019	2018
	CNY'000	CNY'000
Cash at bank and in hand	**35,374**	26,301
Short-term bank deposits	**3,784**	3,692
Bank balances and cash shown in the consolidated statement of financial position	**39,158**	29,993
Less: Bank deposits with a maturity of more than three months	**(744)**	(706)
Cash and cash equivalents shown in the consolidated statement of cash flows (Note)	**38,414**	29,287

Note:

Bank balances and bank deposits carried at prevailing market rates ranging from 0.10% to 1.89% per annum during the year ended 31 December 2019 (2018: 0.10% to 1.89% per annum).

25. TRADE AND OTHER PAYABLES

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

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

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

The average credit period granted is 30 days.

As at 1 January 2018, contract liabilities amounted to CNY1,006,000.

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

The following table shows the amount of the revenue recognised for the year ended 31 December 2019 relates to carried-forward contract liabilities.

	2019 CNY'000	2018 CNY'000
Revenue recognised that was included in the contract liabilities balance at 1 January 2019		
Sales of drilling mud and pelletising clay	**943**	1,006

26. LEASE LIABILITY

The exposure of the Group's lease liability are as follows:

	2019 CNY'000
Current	**205**
Non-current	**–**
	205

	Minimum lease payments CNY'000	Present value of lease liability CNY'000
Minimum lease payment due:		
– Within one year	211	205
– more than one year but not more than two years	–	–
– more than two years but not more than five years	–	–
– Over five years	–	–
	211	205
Future finance charges	(6)	
Present value of lease liability	205	
Amounts due for settlement within one year (shown under current liabilities)		205
Amounts due for settlement after one year		–

The Group leases office premises for operation and these lease liability were measured at the present value of the lease payment that are not yet paid. All leases are entered at fixed prices.

Lease obligations of the Company are denominated in Hong Kong dollars.

27. ASSET RETIREMENT OBLIGATIONS

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

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

	2019 **CNY'000**	2018 CNY'000
At the beginning of the year	**7,725**	7,330
Unwinding of discount (Note 10)	**418**	395
At the end of the year	**8,143**	7,725

The asset retirement obligation is calculated at the net present value of estimated future net cash flows of the restoration costs, amounting to approximately CNY15,305,000, discounted at 5.40% per annum at 31 December 2019 (2018: 5.40% per annum).

28. DEFERRED INCOME

	2019 **CNY'000**	2018 CNY'000
Analysed as:		
Current liabilities (included in other payables)	**95**	95
Non-current liabilities	**385**	480
	480	575

Note:

During the year ended 31 December 2013, the Group received government grants of CNY800,000, which were designated for the purchase of plant and machinery. Such government grants are presented as deferred income and are released to income over the useful lives of the related plant and machinery. During the year ended 31 December 2019, government grants released to the consolidated statement of profit or loss and other comprehensive income amounted to CNY80,000 (2018: CNY80,000).

During the year ended 31 December 2016, the Group received government grants of CNY300,000, which was designated for buildings improvement work. Such government grants are presented as deferred income and are released to income over the useful lives of building. During the year ended 31 December 2019, government grants released to the consolidated statement of profit or loss and other comprehensive income amounted to CNY15,000 (2018: CNY15,000).

29. SHARE CAPITAL

	Number of shares		Share capital			
	2019	2018	2019		2018	
				(Equivalent to)		(Equivalent to)
	'000	'000	HK$'000	CNY'000	HK$'000	CNY'000
Ordinary share of HK$0.01 each						
Authorised						
At the end of the financial year	10,000,000	10,000,000	100,000		100,000	
Issued and fully paid						
At the beginning of the financial year	670,572	558,810	6,706	5,688	5,588	4,698
Placing of new shares (Note a)	–	111,762	–	–	1,118	990
At the end of the financial year	670,572	670,572	6,706	5,688	6,706	5,688

Note:

(a) 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.

30. 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 of the Company and eligible employees, and will expire on 28 December 2025. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

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

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

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

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

As at 31 December 2019, no share options have been granted, exercised, expired, lapsed, cancelled and outstanding.

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

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

Notes:

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

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

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

31. RETIREMENT BENEFITS SCHEME

As stipulated by rules and regulations in the PRC, subsidiaries in the PRC are required to contribute to a state-managed retirement plan for all its employees at a certain percentage of the basic salaries of its employees. The state-managed retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-managed retirement plan, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions.

During the year ended 31 December 2019, the total amount contributed by the Group to this scheme and charged to the consolidated statement of profit or loss and other comprehensive income amounted to approximately CNY1,151,000 (2018: CNY1,302,000).

32. CONTINGENT LIABILITIES

During the year ended 31 December 2019, Feishang Material entered into the back-to-back Guarantee Agreement, pursuant to which Feishang Material has agreed to provide financial guarantee to the Wuhu Haiyuan Copper Industrial Co., Limited (蕪湖市海源銅業有限責任公司), a company established in the PRC and an independent third party (the "Borrower"), by means of pledging its deposit in the sum of RMB20 million for procuring the Borrower to obtain the loan of RMB19 million provided by the bank. In return, Feishang Material receive a guarantee fee of 6% of the amount of deposit pledged by Feishang Material. The fair value of the financial guarantee issued at initial recognition was immaterial. Details of the loss allowance for financial guarantee contracts are set out in note 6.

33. COMMITMENTS

Operating lease commitment

The Group as lessee

	2018 CNY'000
Minimum lease payments paid under operating leases during the year	269

33. COMMITMENTS *(Continued)*

Operating lease commitment *(Continued)*

The Group as lessee *(Continued)*

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 CNY'000
Within one year	356
In the second to fifth years inclusive	222
	578

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are 2 years.

The Group is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liability relating to these leases (see note 1(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liability in the consolidated statement of financial position.

34. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group has entered into the following transactions with related parties.

Compensation to key management personnel

The remuneration of directors of the Company and other members of key management during the year was as follows:

	2019 **CNY'000**	2018 CNY'000
Short-term benefits	**497**	442
Post-employment benefits	**–**	–
	497	442

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

35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Lease liability CNY'000
As at 1 January 2018, 31 December 2018	–
Adjustment upon application of IFRS 16	523
As at 1 January 2019 (restated)	523
Changes from financing cash flows:	
Repayment of lease liability	(318)
Interest paid	(33)
Other changes:	
Interest expenses	33
At 31 December 2019	205

36. DISPOSAL OF A SUBSIDIARY

De-consolidation of certain subsidiaries of the Group for the year ended 31 December 2017

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

* The English name is for identification purpose only.

36. DISPOSAL OF A SUBSIDIARY *(Continued)*

De-consolidation of certain subsidiaries of the Group for the year ended 31 December 2017 *(Continued)*

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

During the year ended 31 December 2018, the Group disposed the entire share capital of Lucky Capital Group Limited for a consideration of HK$1,000,000 (equivalent to CNY874,000). The gain on disposal of subsidiaries was as follows:

	CNY'000
Gain on disposal of subsidiaries:	
Consideration received and receivable	874
Net assets disposed of subsidiaries	–
	874

37. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2019 CNY'000	2018 CNY'000
Non-current assets			
Investment in a subsidiary		**47,192**	47,192
Right-of-use assets		**193**	–
		47,385	47,192
Current assets			
Other receivables and prepayments		**366**	392
Amount due from a subsidiary		**4,082**	4,003
Bank balances		**6,872**	11,934
		11,320	16,329
Current liabilities			
Other payables		**7,769**	7,650
Lease liability (Note)		**205**	–
		7,974	7,650
Net current assets		**3,346**	8,679
		50,731	55,871
Capital and reserves			
Share capital		**5,688**	5,688
Reserves	(a)	**45,043**	50,183
		50,731	55,871

Note: The Company has applied IFRS 16 since 1 January 2019 in accordance with transitional provision stated in Note 2. Lease liability amounted to CNY523,000 were recognised on initial application of IFRS 16, of which CNY523,000 recognised as right-of-use assets for own use. There is no impact of transition to IFRS 16 on accumulated losses as at 1 January 2019.

The Company's statement of financial position was approved and authorised for issue by the board of directors on 22 April 2020 and are signed on its behalf by:

SU Chun Xiang
Director

PANG Ho Yin
Director

37. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

(a) Movements in reserves

	Share premium	Share options reserve	Other reserve	Accumulated losses	Total
	CNY'000	CNY'000	CNY'000 (Note)	CNY'000	CNY'000
At 1 January 2018	107,932	37,833	44,051	(94,101)	95,715
Loss and total comprehensive expense for the year	–	–	–	(63,703)	(63,703)
Lapsed of share options	–	(37,833)	–	37,833	–
Placing of new shares	19,677	–	–	–	19,677
Transaction costs attribute to the issue of new shares	(1,506)	–	–	–	(1,506)
At 31 December 2018	126,103	–	44,051	(119,971)	50,183
Loss and total comprehensive expense for the year	–	–	–	(5,140)	(5,140)
At 31 December 2019	**126,103**	**–**	**44,051**	**(125,111)**	**45,043**

Note: Other reserve represents the difference between the nominal value of the shares issued and the net asset value of the subsidiaries of the Company upon the Reorganisation on 17 September 2015.

38. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries as at 31 December 2019 and 2018 are as follows:

Name of subsidiary	Place and date of incorporation and type of legal entity	Issued and fully paid ordinary share capital/registered capital	Percentage of equity interest and voting power attributable to the Company – Direct 2019	Direct 2018	Indirect 2019	Indirect 2018	Principal activities
Feishang International Holdings Limited	Incorporated in the BVI on 5 February 2002 as a limited liability company	United States Dollar 1	**100%**	100%	**–**	–	Investment holding
Hangkan One Holdings Limited (恒勤壹號控股有限公司)	Incorporated in the BVI on 12 June 2018 as a limited liability company	United States Dollar 1	**100%**	100%	**–**	–	Inactive
Wuhu Feishang Non-metallic Material Co., Ltd* (蕪湖飛尚非金屬材料有限公司)	Incorporated in the PRC on 21 June 2002 as a limited liability company	HK$35,000,000	**–**	–	**100%**	100%	Bentonite mining, production and sales of drilling mud and pelletising clay
Shenzhen Zhuorui Business Management Consultant Company Limited* (深圳市卓瑞企業管理咨詢有限公司) (Deregistered on 9 October 2019)	Incorporated in the PRC on 19 June 2015 as a wholly foreign owned enterprise	CNY1,000,000	**–**	–	**–**	100%	Provision of business management consultation service for the group companies.
HangKan ONE (Hong Kong) Limited (恒勤壹號(香港)有限公司)	Incorporated in Hong Kong on 23 May 2018 as a limited company	HK$1	**–**	–	**100%**	100%	Inactive

None of the subsidiaries has issued any debt securities sublisting at the end of both years or at any time during both years.

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39. EVENTS AFTER THE REPORTING PERIOD

After the outbreak of the novel coronavirus ("COVID-19") in early 2020, a series of precautionary and control measures have been and continued to be implemented across Hong Kong and China. The Group will pay close attention to the development of COVID-19 and evaluate its impact on the financial position and operating results of the Group. As at the date on which this set of consolidated financial statements were authorised for issue, the Group has already resumed normal operations according to the production plan and was not aware of any material adverse effects on the consolidated financial statements as a result of COVID-19.

Financial Summary

	For the year ended 31 December				
	2019	2018	2017	2016	2015
	CNY'000	CNY'000	CNY'000	CNY'000	CNY'000
Revenue and Profit					
Revenue	**58,099**	51,204	28,796	26,311	28,823
Cost of sales	**(28,153)**	(29,257)	(18,456)	(14,791)	(15,463)
Gross profit	**29,946**	21,947	10,340	11,520	13,360
Other income	**2,337**	1,474	693	3,245	1,229
Selling and distribution expenses	**(7,308)**	(6,740)	(3,148)	(1,413)	(1,314)
Administrative and other expenses	**(15,907)**	(72,723)	(73,536)	(8,932)	(21,956)
Finance costs	**(451)**	(1,283)	(376)	(521)	(358)
Gain (loss) on disposal (deconsolidation) of subsidiaries	**–**	874	(5,616)	–	–
Profit (loss) before tax	**8,617**	(56,451)	(71,643)	3,899	(9,039)
Income tax expense	**(1,209)**	(1,134)	(437)	(1,099)	(1,835)
Profit (loss) and total comprehensive income (expense) for the year	**7,408**	(57,585)	(72,080)	2,800	(10,874)
Earnings (loss) per share (CNY) Basic and diluted	**1.10 cents**	(10.05) cents	(14.21) cents	0.56 cents	(2.89) cents

	As at 31 December				
	2019	2018	2017	2016	2015
	CNY'000	CNY'000	CNY'000	CNY'000	CNY'000
Assets and Liabilities					
Current assets	**76,799**	68,225	103,746	46,222	65,788
Non-current assets	**33,181**	28,159	28,455	27,668	23,425
Current liabilities	**(21,285)**	(15,420)	(13,113)	(3,530)	(22,199)
Non-current liabilities	**(8,528)**	(8,205)	(7,905)	(7,624)	(7,078)
Total equity	**80,167**	72,759	111,183	62,736	59,936