



恆勤集團有限公司
HangKan Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8331)

Interim Report
2020

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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

Independent Non-executive Directors

Mr. LEE Ming Tung
Mr. CHOW Chi Hang Tony
Mr. ZHANG Kun
(appointed on 8 April 2020)
Ms. SHAO Yu
(resigned on 8 April 2020)

AUTHORISED REPRESENTATIVES

Mr. SU Chun Xiang
Ms. CHIK Wai Chun

COMPANY SECRETARY

Ms. CHIK Wai Chun

COMPLIANCE OFFICER

Mr. SU Chun Xiang

AUDIT COMMITTEE

Mr. LEE Ming Tung (*Chairman*)
Mr. CHOW Chi Hang Tony
Mr. ZHANG Kun
(appointed on 8 April 2020)
Ms. SHAO Yu
(resigned on 8 April 2020)

NOMINATION COMMITTEE

Mr. CHOW Chi Hang Tony (*Chairman*)
Mr. LEE Ming Tung
Mr. ZHANG Kun
(appointed on 8 April 2020)
Ms. SHAO Yu
(resigned on 8 April 2020)

REMUNERATION COMMITTEE

Mr. LEE Ming Tung (*Chairman*)
Mr. CHOW Chi Hang Tony
Mr. ZHANG Kun
(appointed on 8 April 2020)
Ms. SHAO Yu
(resigned on 8 April 2020)

AUDITORS

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COMPANY'S WEBSITE

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COMPANY'S STOCK CODE

8331.HK

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Hong Kong

LEGAL ADVISER

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

PRINCIPAL BANKERS

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Stepping into 2020, the outbreak of the novel coronavirus (“COVID-19”) and its escalation on a global scale has triggered unprecedented disruptions in business operations and to the economy. During the six months ended 30 June 2020 (“Reporting Period”), our bentonite mining business was under the restriction by the Chinese government. Unprecedented measures including the lockdown of Hubei province and the extension of the Spring Festival holiday had affect both production and consumption, especially in the first six months of 2020. Notwithstanding that, the Chinese government has responded with the implementation of strong fiscal and monetary stabilizing policies, which will support infrastructure construction and the iron and steel and energy sectors, aiming to limit the adverse impacts of COVID-19. As a result of the difficult situation during the Reporting Period, the Group saw a decrease in sales of both drilling mud and pelletising clay for the first six months of 2020 as compared to the corresponding period in 2019. It was also set out in the business review for the 2019 Annual 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.

In relation to the provision of financial guarantee services of the Company, the Board considers that the services will better utilize the Group’s cash with reasonable return (i.e. the guarantee fee from the Borrower together with the normal bank deposit interest income). During the Reporting Period, the annual guarantee fee under the 2019 Agreement in the amount of CNY1.2 million has been duly received by the Group. The Group had a guarantee fee income of approximately CNY0.6 million (for the six months ended 30 June 2019: CNY0.6 million). The above-mentioned provision of financial guarantee services marked the Group’s first step into the financial services business.

Business Strategies Review with Progress of Implementation

The Group aims to strengthen its market position in the People’s Republic of China (the “PRC”). In order to achieve this objective, the Group intends to pursue the following strategies. The following table sets out the Group’s business strategies as disclosed in the 2019 Annual Report with the actual progress of implementation as at 30 June 2020.

Business Strategy	Implementation Plan	Progress of Implementation as of 30 June 2020
Broaden customer base and develop product recognition	<ul style="list-style-type: none"> (i) Collaborating with external institutions in the PRC for the development of new technologies and new bentonite products to cater for high-valued downstream markets other than iron ore pelletising and civil engineering; (ii) attending and participating in industry forums and events to network with other industry professionals and potential customers; and (iii) expanding sales and marketing team to further enhance sales and marketing activities. 	<ul style="list-style-type: none"> (i) The Group has completed techno-economic viability study of two new bentonite products as mentioned below. The external institutions are currently conducting laboratory-scale testing of the two products. In addition, the internal research and development team was working on the multifunctional pelletising clay; and it was also working with the external institutions on the techno-economic viability of several other new bentonite products and processing technologies; (ii) The management team had attended and participated in an industry seminar and established contacts with several industry experts and potential customers to explore cooperation opportunities and there were three new drilling mud customers and two pelletising clay customers starting their purchase with the Group in 2019; and (iii) The Group was in the process of recruiting more experienced personnel for sales and marketing.
Development of new production technology and new products	Signing collaboration agreements with two universities and one research institute.	Completed techno-economic viability study of two new products: (a) polyaniline/montmorillonitenano-composite conductive coating materials; and (b) titanium dioxide/montmorillonitenano-composite materials and photocatalytic. Since the research results were not as expected, the development of these two new products has been terminated. The Group is searching for other suitable new technologies.

Business Strategy	Implementation Plan	Progress of Implementation as of 30 June 2020
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.	<p>Completed the feeding system for one pelletising clay production line;</p> <p>Completed the construction of new storage facilities for pelletising clay;</p> <p>Completed the expansion of storage facilities for dried bentonite ore to be processed into drilling mud;</p> <p>Replaced the old forklift truck;</p> <p>Replaced a transformer in the processing plant;</p> <p>Completed the modification of existing rotary drum dryer;</p> <p>Purchased one new flour mill;</p> <p>Completed the modification of existing transformer room;</p> <p>Purchased one electric motor and one electric belt scale;</p> <p>Purchased and completed the construction of two new storage tanks;</p> <p>Purchased one flour mill and fittings of the machine; and</p> <p>Purchased two forklifts.</p>

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 (<i>metric tonnes</i>)	1,222,000	1,486,000
Probable reserve (<i>metric tonnes</i>)	4,724,000	5,910,000
Total (<i>metric tonnes</i>)	5,946,000	7,396,000
Reserve data (as of 30 June 2020) (Note 2)	Dry	Wet
Proved reserve (<i>metric tonnes</i>)	1,354,000	1,662,000
Probable reserve (<i>metric tonnes</i>)	4,724,000	5,910,000
Total (<i>metric tonnes</i>)	6,078,000	7,572,000
Average quality of bentonite		
Active montmorillonite	47.0%	
Colloid index	61.1 ml/15g	
Swelling capacity	8.7 ml/g	
Capital expenditure for the six months ended 30 June 2020	CNY282,000	
Output for the six months ended 30 June 2020 (<i>metric tonnes</i>)	50,000	

Notes:

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

- (2) The reserve data as of 30 June 2020 has been substantiated by the Group's internal expert by adjusting those reserves extracted by the Group's mining activities from July 2015 to June 2020 from the proved reserve as of 1 July 2015. All assumptions and technical parameters set out in the independent technical report contained in the Prospectus have not been materially changed and continued to apply to the reserve data as of 30 June 2020.
- (3) There is no exploration activity carried out by the Group during the Reporting Period.

Compliance

As at 30 June 2020, as stated in "Business – Legal proceedings and regulatory compliance – Regulatory non-compliance" of the Prospectus, in relation to the incidents of non-compliance with the applicable laws and regulations including those relating to environmental protection, land rehabilitation, safety, etc., the Group had already taken remedial actions and implemented relevant internal control measures. All these aspects have been in compliance with applicable laws and regulations as at the date of this report. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations, in particular, those which have significant impact on the Group. The compliance committee of the Company is not aware of the occurrence of any other material non-compliance incidents during the Reporting Period.

Risk Management and Internal Control

The Board has overall responsibility for the effective risk management and internal control systems of the Group and is committed to the maintenance of good corporate governance, practices and procedures of the Group. The Board believes that all the major risk factors relevant to the Group have already been listed in "Risk factors" of the Prospectus. As at 30 June 2020 and the date of this report, save as disclosed otherwise, the business environment and regulatory environment in which the Group operates have not witnessed any material change, and internal operations and management and financial operations have been running smoothly, and thereby no other major risk factors need to be disclosed separately. In accordance with the revised Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 15 to the GEM Listing Rules, the Group continuously improves the risk management and internal control systems and updates a number of policies. The Board believes that these measures will strengthen the risk management and internal control systems of the Group.

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 report:

Revised timeline as disclosed in the Company's announcement dated 21 March 2016

	From Listing Date up to 31 December 2015 <i>(HK\$ million)</i>	For the six months ended 30 June 2016 <i>(HK\$ million)</i>	For the six months ended 31 December 2016 <i>(HK\$ million)</i>	For the six months ended 30 June 2017 <i>(HK\$ million)</i>	For the six months ending 31 December 2017 <i>(HK\$ million)</i>	Total net proceeds <i>(HK\$ million)</i>	Approximate percentage of proceeds %	Actual use of net proceeds up to the date of this report <i>(HK\$ million)</i>
Development of production technology for new products	-	-	-	-	7.7	7.7	60.6	- <i>(Note 1)</i>
Improvement of plant and equipment	-	0.4	4.6	-	-	5.0	39.4	3.7 <i>(Note 2)</i>
Total	-	0.4	4.6	-	7.7	12.7	100.0	3.7

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. Due to the adverse impacts of the COVID-19 outbreak and the deterioration of Sino-US relations on the Chinese economy, the Group's major customers extended their payment terms. The Group considers to utilise the remaining proceeds to supplement its working capital. Further announcements will be made by the Company (if necessary) in accordance with the requirements of the GEM Listing Rules.
- (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 2020.

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 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 period ended 30 June 2020 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 30 June 2019		Utilization up to 31 December 2019		Utilization up to 30 June 2020		Expected amounts to be utilized for the year ended 31 December 2020	
	CNY			CNY		CNY		CNY		CNY		CNY	
	HK\$ (million)	Equivalent (million)	% of net proceeds	HK\$ (million)	Equivalent (million)	HK\$ (million)	Equivalent (million)	HK\$ (million)	Equivalent (million)	HK\$ (million)	Equivalent (million)	HK\$ (million)	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	5.3	6.1	5.4	6.1	5.5	2.2	1.5
Settlement of professional and audit fees	6.6	5.6	30.8%	2.2	1.9	2.9	2.5	3.6	3.2	4.5	4.1	2.1	1.5
General working capital of the Group (note)	6.5	5.5	30.4%	0.4	0.3	2.1	1.8	4.5	3.9	6.0	5.4	0.5	0.1
Total	21.4	18.1	100%	8.7	7.4	11.1	9.6	14.2	12.5	16.6	15.0	4.8	3.1

Note:

The following table sets out the breakdown of the use of proceeds as general working capital of the Group up to six months ended 30 June 2020:

	HK\$'000	CNY'000
Administrative expenses	1,262.3	1,143.9
Consultation and service	2,949.3	2,672.7
Rental costs	837.0	758.5
Staff cost (including the Director's emoluments)	945.9	857.2
Total	5,994.5	5,432.3

As shown above, the remaining balance of unused net proceeds as at 30 June 2020 of approximately HK\$4.8 million.

FINANCIAL REVIEW

Revenue

Breakdown of the Group's Revenue by Products

	Six months ended 30 June			
	2020		2019	
	<i>CNY'000</i>	%	<i>CNY'000</i>	%
	(unaudited)		(unaudited)	
Drilling mud	5,354	25.0	10,338	32.9
Pelletising clay	15,494	72.4	20,535	65.3
Guarantee service fee	566	2.6	566	1.8
Revenue	<u>21,414</u>	<u>100</u>	<u>31,439</u>	<u>100.0</u>

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

	Six months ended 30 June			
	2020		2019	
	Sales	Average	Sales	Average
	volume	selling price	volume	selling price
	(tonnes)	(CNY/tonne)	(tonnes)	(CNY/tonne)
Drilling mud	12,014	445.6	23,344	442.9
Pelletising clay	<u>35,415</u>	<u>437.5</u>	<u>46,268</u>	<u>443.8</u>

The revenue decreased by approximately 31.9% from approximately CNY31.4 million for the six months ended 30 June 2019 to approximately CNY21.4 million for the six months ended 30 June 2020. The decrease in revenue was mainly contributed by the decrease in sales volume of both drilling mud and pelletising clay. Due to the different macroeconomic environment, the demand of both drilling mud and pelletising clay was weak during the Reporting Period. The total sales volume recorded an decrease by approximately 31.9% as compared with the corresponding period in 2019.

Cost of Sales

Breakdown of the Group's Cost of Sales

Cost Items	Six months ended 30 June			
	2020		2019	
	CNY'000 (unaudited)	%	CNY'000 (unaudited)	%
Extraction costs	315	2.9	381	2.4
Processing costs				
– Air-drying costs	812	7.6	783	4.9
– Consumables, materials and supplies	1,703	15.9	6,029	37.9
– Depreciation and amortisation	755	7.1	642	4.0
– Staff costs	2,364	22.1	2,536	15.9
– Transportation costs	1,679	15.7	1,900	11.9
– Utility costs	1,645	15.4	2,034	12.8
– Others	1,214	11.3	1,091	6.9
Sales tax and surcharges	217	2.0	522	3.3
Total cost	10,704	100	15,918	100.0

Breakdown of the Group's Cost of Sales by Products

	Six months ended 30 June					
	2020			2019		
	CNY/tonne	CNY'000 (unaudited)	%	CNY/tonne	CNY'000 (unaudited)	%
Drilling mud	230.9	2,774	25.9	221.9	5,179	32.5
Pelletising clay	223.9	7,930	74.1	232.1	10,739	67.5
		10,704	100		15,918	100.0

The total cost of sales decreased by approximately 32.8% from approximately CNY15.9 million for the six months ended 30 June 2019 to approximately CNY10.7 million for the Reporting Period. The decrease in total cost of sales was mainly caused by the decrease in sales volume of both drilling mud and pelletising clay.

Cost of sales for drilling mud decreased by approximately 46.4% from approximately CNY5.2 million for the six months ended 30 June 2019 to approximately CNY2.8 million for the Reporting Period. The decrease in cost of sales for drilling mud was mainly due to the decrease in sales volume by approximately 48.5%, which was offset by a slight increase in unit processing cost from CNY221.9 per tonne for the six months ended 30 June 2019 to approximately CNY230.9 per tonne for the Reporting Period.

Cost of sales for pelletising clay decreased by approximately 26.1% from approximately CNY10.7 million for the six months ended 30 June 2019 to approximately CNY7.9 million for the Reporting Period. The decrease in cost of sales for pelletising clay was due to the decrease in sales volume by approximately 23.5%, and a slight decrease in unit processing cost.

Gross Profit and Gross Profit Margin

The overall gross profit decreased by approximately 31.0% from approximately CNY15.5 million for the six months ended 30 June 2019 to approximately CNY10.7 million for the Reporting Period, while the overall gross profit margin increased from approximately 49.4% for the six months ended 30 June 2019 to approximately 50.0% for the Reporting Period. The increase in overall gross profit margin was contributed by the combined effect of a slight increase in selling price of drilling mud and a decrease in unit processing cost of pelletising clay.

Gross profit for the sale of drilling mud significantly decreased by approximately 50.0% from approximately CNY5.2 million for the six months ended 30 June 2019 to approximately CNY2.6 million for the Reporting Period, with the gross profit margin for the sale of drilling mud decreased from approximately 49.9% for the six months ended 30 June 2019 to approximately 48.2% for the Reporting Period. The decrease in gross profit margin for the sale of drilling mud was mainly due to the decrease of sales volume by approximately 48.5%. The decrease in gross profit margin was attributed to: (i) increase in selling price of drilling mud by approximately 0.6% from approximately CNY442.9 per tonne for the six months ended 30 June 2019 to approximately CNY445.6 per tonne for the Reporting Period; and (ii) increase in unit cost of drilling mud by approximately 4.1% from approximately CNY221.9 per tonne for the six months ended 30 June 2019 to approximately CNY230.9 per tonne for the Reporting Period. The reasons for the increase in unit cost of drilling mud had been discussed above.

Gross profit for the sale of pelletising clay decreased by approximately 22.8% from approximately CNY9.8 million for the six months ended 30 June 2019 to approximately CNY7.6 million for the Reporting Period, while the gross profit margin for the sale of pelletising clay increased from approximately 47.7% for the six months ended 30 June 2019 to approximately 48.8% for the Reporting Period. The decrease in gross profit was mainly due to the decrease of sales volume by approximately 23.5%. The increase in gross profit margin for the sale of pelletising clay was contributed by to (i) decrease in the average selling price by approximately 1.4% from approximately CNY 443.8 per tonne for the six months ended 30 June 2019 to approximately CNY437.5 per tonne for the Reporting Period; and (ii) decrease in unit cost of pelletising clay by approximately 3.5% from approximately CNY232.1 per tonne for the six months ended 30 June 2019 to approximately CNY223.9 per tonne for the Reporting Period.

Other Income

Other income decrease by approximately CNY8,000 from approximately CNY544,000 for the six months ended 30 June 2019 to approximately CNY536,000 for the Reporting Period. The decrease was mainly attributed to the decrease in other operating income.

Selling and Distribution Expenses

The selling and distribution expenses increased by approximately 14.1% from approximately CNY4.0 million for the six months ended 30 June 2019 to approximately CNY4.5 million for the Reporting Period. This was primarily due to the increase in transportation cost arising from the tighter traffic control in Anhui Province due to the COVID-19.

Administrative and Other Expenses

The administrative and other expenses decreased by approximately 8.6% from approximately CNY8.2 million for the six months ended 30 June 2019 to approximately CNY7.5 million for the Reporting Period. The decrease was mainly due to the tighter control of expenses in the Reporting Period.

Finance Costs

The finance costs slightly increase by approximately 8.3% from approximately CNY206,000 for the six months ended 30 June 2019 to approximately CNY223,000 for the Reporting Period. No material fluctuation was noted during the Reporting Period.

Income Tax Expense

The Group had an income tax expense of approximately CNY53,000 for the Reporting Period as compared to approximately CNY1.0 million for the six months ended 30 June 2019. The decrease was mainly due to a decrease in the profit before tax from Wuhu Feishang Non-metallic Material Company Limited, the indirect wholly-owned subsidiary of the Company.

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

Due to the combined effect of the aforesaid factors, the loss and total comprehensive expense attributable to the owners of the Company for the Reporting Period was approximately CNY1.1 million, a decrease of approximately CNY3.7 million from the profit and total comprehensive income of approximately CNY2.6 million for the six months ended 30 June 2019.

Currency Exposure and Management

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

Contingent Liabilities

As at 30 June 2020, the Group did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2020, the Group employed 83 full time employees (as at 30 June 2019: 100) for its principal activities. Employees' costs (including Directors' emoluments) amounted to CNY6.0 million for the Reporting Period (six months ended 30 June 2019: CNY5.8 million). The Group recognises the importance of retaining high calibre and competent staff and continues to provide remuneration packages to employees with reference to the performance of the Group, the performance of individuals and prevailing market rates. Other various benefits, such as medical and retirement benefits, are also provided. In addition, share options may be granted to eligible employees of the Group in accordance with the terms of the share option scheme adopted by the Company.

EVENT AFTER THE REPORTING PERIOD

Reference were made to the announcements of the Company dated 30 July 2018, 29 July 2019 and 24 July 2020 in relation to the provisional 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. In return, the Wuhu Subsidiary shall receive a guarantee fee of 6% of the amount of deposit pledged by the Wuhu Subsidiary. The Board considers that the Group has surplus cash in CNY in excess of the working capital needs for its business operation in the PRC. The provision of Guarantee in favour of the Borrower will better utilize the Group's surplus cash with reasonable return.

As save as above, there is no material event undertaken by the Company or the Group subsequent to 30 June 2020 and up to the date of this report.

OUTLOOK

Due to the outbreak of the COVID-19 in Year 2020 in China and around the world, the Chinese economy will inevitably face more challenges and further slow down. After the bentonite mining release and travel restriction measures in containing the COVID-19 outbreak are relaxed and follow by the strong fiscal and monetary stabilizing policies by the Chinese government. The Group will continue to monitor the development of the COVID-19 epidemic and its impact on the operations and results of the Group, if any. Furthermore, it would be difficult to gauge the longer-term impact of such events as the situation is dynamically revolving, the Group has been proactive in closely monitoring the market conditions and taking appropriate measures to respond to the challenges. The Group will also continue to strengthen its cost control and resources management as well as to actively participate in project tenders, in order to maintain its competitiveness in the market.

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.

In the future, the Group will keep looking for investment opportunities to further expand its service and will also focus on risk management. By balancing its risk exposure and allocating resources effectively, the Group is confident that this practice will enable it to be responsive to market change and needs and to enjoy revenue growth.

AUDIT COMMITTEE

The Company has an audit committee (“Audit Committee”) which was established in accordance with the requirements of the GEM Listing Rules for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The Audit Committee comprises three independent non-executive Directors, namely, Mr. LEE Ming Tung (chairman of Audit Committee), 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 unaudited condensed consolidated financial statements of the Group for the Reporting Period have been reviewed by the Audit Committee, which was of the opinion that the preparation of such statements complied with applicable IFRSs and that adequate disclosure has been made in respect thereof.

APPRECIATION

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

By Order of the Board

HangKan Group Limited
SU Chun Xiang

Executive Director

Hong Kong, 12 August 2020

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 June 2020, so far as was known to the Directors, the following persons/entities (other than the Directors or chief executives of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"), or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of substantial shareholders	Long/short position	Capacity	Number of Shares	Percentage of the issued Shares (%)
Mr. Zhang Qiang	Long position	Beneficial owner	275,000,000	41.01
Ms. Wang Jie (<i>Note 1</i>)	Long position	Interest of spouse	275,000,000	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 (<i>Note 2</i>)	Long position	Investment Manager	111,762,000	16.67

Notes:

1. Ms. Wang Jie is the spouse of Mr. Zhang Qiang. Therefore, Ms. Wang Jie is deemed to be interested in the Shares in which Mr. Zhang Qiang is interested.
2. P.B. Capital Advanced Fund SPC (acting on behalf of and for the account of P.B. Capital Advanced Fund 1 Segregated Portfolio) is managed by P.B. Global Asset Management Limited, a company incorporated with limited liability in Hong Kong licensed by the Securities and Futures Commission for Type 4 (Advising on Securities) and Type 9 (Asset Management) regulated activities under the SFO and specialised in asset management and investment advisory services. The figure refers to the same holding in 111,762,000 shares held by the P.B. Capital Advanced Fund SPC – P.B. Capital Advance Fund 1

Segregated Portfolio. P.B. Global Asset Management Limited is the investment manager of P.B. Capital Advanced Fund SPC – P.B. Capital Advance Fund 1 Segregated Portfolio and is thereby deemed to have an interest in the shares in which P.B. Capital Advanced Fund SPC – P.B. Capital Advance Fund 1 Segregated Portfolio is interested.

Save as disclosed above, as at 30 June 2020, no other interests or short positions in the shares or underlying shares of the Company were recorded in the register required to be kept by the Company under Section 336 of the SFO.

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

As at 30 June 2020, none of the Directors and chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered into the register required to be kept by the Company under section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Rules 5.48 to 5.67 of the GEM Listing Rules.

SHARE OPTION SCHEME

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

As at 30 June 2020, no options had been granted, exercised or cancelled pursuant to the Share Option Scheme.

CORPORATE GOVERNANCE CODE

Throughout the Reporting Period, the Company has complied with the code provisions as set out in the CG Code contained in Appendix 15 of the GEM Listing Rules, save and except for code provision A.2.1, as set out below.

Chairman and Chief Executive Officer

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

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by Directors in respect of the shares of the Company (the "Code of Conduct"). The Company has made specific enquiry to all Directors, and all Directors have confirmed that they have fully complied with the required standard of dealings set out in the Code of Conduct throughout the Reporting Period.

The Company also has written guidelines regarding securities transactions on terms no less exacting than the required standard set out in the Required Standard of Dealings for senior management and any individuals who may have access to inside information in relation to the securities of the Company.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

PRE-EMPTIVE RIGHTS

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

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

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

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

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

DISCLOSURE OF CHANGE OF DIRECTORS' INFORMATION

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

PUBLIC FLOAT

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

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the Reporting Period (six months ended 30 June 2019: Nil).

OTHER INFORMATION

Prepayment to Suppliers

Reference was made to the Company's 2018 and 2019 Annual Reports, and 2019 Interim Report, regarding the failure of the suppliers namely Lituo Enterprise (HK) Limited, Trade Rosy Global Limited and Kai Muk Company 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 outstanding deposits amounted to 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 has been advised to have the action disposed of by way of summary procedures in accordance with Order 14, Rules of the High Court. The legal adviser of the Company is currently taking instructions and gathering relevant information for considering taking out an application for summary judgment against Lituo Enterprise (HK) Limited on the basis that Lituo Enterprise (HK) Limited has no defence to the claim at all. Barring any material development regarding the current legal proceeding against Lituo Enterprise (HK) Limited, and subject to the advice from its legal adviser, the Company is likely to commence summary proceedings against Lituo Enterprise (HK) Limited in September 2020, after the Court's summer vacation for the whole month of August. The case is in progress;
- ii) instituted legal proceedings against, Lituo Enterprise (HK) Limited and another company ("the 2nd Defendant") which was the payee designated by Lituo Enterprise (HK) Limited under the underlying contract, to recover 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 2nd Defendant was 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 serve 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. There was no response from the 2nd Defendant and the Company made an ex-parte application on 10 March 2020 for Judgement to be granted against the 2nd Defendant. The Company has been advised to enforce the Judgement against the 2nd Defendant by instituting the winding-up procedures in British Virgin Islands and to appoint liquidators with British Virgin Islands presence in the proceedings. 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. The pre-trial review has been fixed to take place on 28 August 2020 and the 4-day trial has been fixed to take place from 7 December 2020 to 10 December 2020. As at the date of this report, the legal adviser of the Company is preparing the relevant documents for the pre-trial review. 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 Lituo Enterprise (HK) Limited, Trade Rosy Global Limited and Kai Muk Company 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.

As save as above, there is no material event undertaken by the Company or the Group subsequent to 30 June 2020 and up to the date of this report.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Notes	Three months ended 30 June		Six months ended 30 June	
		2020 CNY'000 (Unaudited)	2019 CNY'000 (Unaudited)	2020 CNY'000 (Unaudited)	2019 CNY'000 (Unaudited)
Revenue	3	10,214	16,070	21,414	31,439
Cost of sales		(5,137)	(7,715)	(10,704)	(15,918)
Gross profit		5,077	8,355	10,710	15,521
Other income	5	304	450	536	544
Selling and distribution expenses		(1,873)	(1,782)	(4,529)	(3,970)
Administrative and other expenses		(3,712)	(4,202)	(7,515)	(8,226)
Finance costs	6	(114)	102	(223)	(206)
(Loss)/profit before tax		(318)	2,719	(1,021)	3,663
Income tax expense	7	(16)	733	(53)	(1,019)
(Loss)/profit and total comprehensive (expense) income for the period attributable to the owners of the Company	8	<u>(334)</u>	<u>1,986</u>	<u>(1,074)</u>	<u>2,644</u>
(Loss) earnings per share (CNY):					
Basic and diluted	10	<u>(0.05) cents</u>	<u>0.29 cents</u>	<u>(0.16) cents</u>	<u>0.39 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		At 30 June 2020 <i>CNY'000</i> (Unaudited)	At 31 December 2019 <i>CNY'000</i> (Audited)
Non-current assets			
Property, plant and equipment	11	14,900	15,470
Right-of-use assets		2,497	2,701
Intangible asset	12	4,787	4,933
Restricted bank balances	14	14,466	9,935
Deferred tax assets		295	142
		<hr/> 36,945 <hr/>	<hr/> 33,181 <hr/>
Current assets			
Inventories		3,761	3,158
Trade, bills and other receivables	13	16,742	14,483
Pledged bank deposits	14	20,000	20,000
Bank balances and cash	14	30,114	39,158
		<hr/> 70,617 <hr/>	<hr/> 76,799 <hr/>
Current liabilities			
Trade and other payables	15	18,044	18,922
Lease liability		30	205
Income tax payables		1,999	2,158
		<hr/> 20,073 <hr/>	<hr/> 21,285 <hr/>
Net current assets		<hr/> 50,544 <hr/>	<hr/> 55,514 <hr/>
		<hr/> 87,489 <hr/>	<hr/> 88,695 <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

As at 30 June 2020

		At 30 June 2020 <i>CNY'000</i> (Unaudited)	At 31 December 2019 <i>CNY'000</i> (Audited)
Capital and reserves			
Share capital	16	5,688	5,688
Reserves		73,103	74,479
		<hr/> 78,791 <hr/>	<hr/> 80,167 <hr/>
Non-current liabilities			
Asset retirement obligations		8,360	8,143
Deferred income		338	385
		<hr/> 8,698 <hr/>	<hr/> 8,528 <hr/>
		<hr/> 87,489 <hr/>	<hr/> 88,695 <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	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 (Audited)	5,688	126,103	23,351	4,103	1,178	(87,664)	72,759
Profit and total comprehensive income for the period	-	-	-	-	-	2,644	2,644
Appropriation and utilisation of safety fund and production maintenance fund, net	-	-	-	354	56	(410)	-
At 30 June 2019 (Unaudited)	5,688	126,103	23,351	4,457	1,234	(85,430)	75,403
At 1 January 2020 (Audited)	5,688	126,103	23,351	5,192	1,338	(81,505)	80,167
Loss and total comprehensive expense for the period	-	-	-	-	-	(1,074)	(1,074)
Appropriation and utilisation of safety fund and production maintenance fund, net	-	-	-	44	31	(377)	(302)
At 30 June 2020 (Unaudited)	5,688	126,103	23,351	5,236	1,369	(82,956)	(78,791)

Notes:

(I) OTHER RESERVE

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

(II) STATUTORY RESERVE

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

(III) SAFETY FUND AND PRODUCTION MAINTENANCE FUND

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
<i>Note</i>	CNY'000	CNY'000
	(Unaudited)	(Unaudited)
NET CASH GENERATED FROM OPERATING ACTIVITIES	<u>(8,632)</u>	<u>5,549</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(282)</u>	<u>(981)</u>
NET CASH GENERATED FROM FINANCING ACTIVITIES	<u>-</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(8,914)	4,568
CASH AND CASH EQUIVALENTS AT 1 JANUARY	<u>38,414</u>	<u>29,287</u>
CASH AND CASH EQUIVALENTS AT 30 JUNE	<i>14</i> <u><u>29,500</u></u>	<u><u>33,855</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. CORPORATE INFORMATION

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

The address of the registered office of the Company is 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 Xiao Keshan, Xingang Town, Fanchang County, Wuhu, Anhui Province, PRC.

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

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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements of the Group for the Reporting Period have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB") and the applicable disclosure requirements of the GEM Listing Rules.

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

The accounting policies and methods of computation used in the condensed consolidated interim financial statements for the Reporting Period are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019.

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

Amendments to References to Conceptual Framework in IFRS Standards	
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 7, IFRS 9 and IAS 39	Interest Rate Benchmark Reform
Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 16	Covid-19-Related Rent Concessions

The new or amended IFRSs that are effective from 1 January 2020 did not have any significant impact on the Group's accounting policies.

3. REVENUE

An analysis of revenue is as follows:

	Three months ended 30 June		Six months ended 30 June	
	2020	2019	2020	2019
	<i>CNY'000</i>	<i>CNY'000</i>	<i>CNY'000</i>	<i>CNY'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Disaggregation of revenue from contracts with customers				
Sales of goods (net)				
Drilling mud	2,787	5,543	5,354	10,338
Pelletising clay	7,144	10,244	15,494	20,535
	9,931	15,787	20,848	30,873
Provision of financial guarantee				
Guarantee service fee	283	283	566	566
	10,214	16,070	21,414	31,439

4. SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports which provides information about components of the Group. Information are reported to and reviewed by the chief operating decision maker for the purposes of resource allocation and performance assessment.

For management purpose, the Group has two reportable and operating segments: (i) bentonite mining, production and sales of drilling mud and pelletising clay and (ii) financial services business.

5. OTHER INCOME

	Three months ended 30 June		Six months ended 30 June	
	2020 <i>CNY'000</i> (Unaudited)	2019 <i>CNY'000</i> (Unaudited)	2020 <i>CNY'000</i> (Unaudited)	2019 <i>CNY'000</i> (Unaudited)
Bank interest income	202	245	476	408
Release of government grant for property, plant and equipment	20	25	40	48
Exchange gain, net	-	104	-	2
Others	82	76	20	86
	304	450	536	544

6. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2020	2019	2020	2019
	CNY'000	CNY'000	CNY'000	CNY'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest expenses on lease liability	2	–	6	–
Unwinding of discount on provision for dismantlement	112	102	217	206
	114	102	223	206

7. INCOME TAX EXPENSE

	Three months ended 30 June		Six months ended 30 June	
	2020	2019	2020	2019
	CNY'000	CNY'000	CNY'000	CNY'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current tax:				
PRC Enterprise Income Tax (“EIT”)	40	726	208	885
Deferred taxation:				
Current period	(24)	7	(155)	134
	16	733	53	1,019

Notes:

- Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.
- No provision for Hong Kong Profits Tax has been made for both periods as the Group did not have any assessable profits subject to Hong Kong Profits Tax.
- Under the Law of the PRC on EIT (“EIT Law”) and implementation regulation of the EIT Law, the tax rate of the subsidiaries established in the PRC other than Feishang Material is 25% for both periods.
- Feishang Material was recognised as a High Technology Enterprise and subject to EIT law at 15% for both periods.

8. (LOSS) PROFIT FOR THE PERIOD

	Three months ended 30 June		Six months ended 30 June	
	2020	2019	2020	2019
	CNY'000	CNY'000	CNY'000	CNY'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
(Loss) profit for the period has been arrived at after charging:				
Amortisation of intangible asset	13	35	41	55
Amortisation of prepaid lease payments	20	20	39	39
Amount of inventories recognised as an expenses	4,788	7,424	10,183	15,396
Exchange loss/(gain), net	(71)	(141)	(70)	29
Depreciation of property, plant and equipment	464	290	695	574
Amortisation of land-use right	102	102	204	204

9. DIVIDEND

No dividend was paid, declared or proposed during the Reporting Period, nor has any dividend been proposed since the end of the Reporting Period (six months ended 30 June 2019: nil).

10. (LOSS) EARNINGS PER SHARE

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

Three months ended 30 June		Six months ended 30 June	
2020	2019	2020	2019
CNY'000	CNY'000	CNY'000	CNY'000
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)

(Loss) earnings

(Loss) earnings for the purpose of basic and diluted (loss) earnings per share

(334)	1,986	(1,074)	2,644
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Three months ended 30 June		Six months ended 30 June	
2020	2019	2020	2019
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)

Number of shares

Weighted average number of ordinary shares for the purpose of basic and diluted (loss) earnings per share ('000 shares)

670,572	670,572	670,572	670,572
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Basic and diluted (loss) earnings per share (CNY)

(0.05) cents	0.29 cents	(0.16) cents	0.39 cents
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Note:

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

11. PROPERTY, PLANT AND EQUIPMENT

During the Reporting Period, the Group spent approximately CNY282,000 (six months ended 30 June 2019: approximately CNY473,000) on acquisition of property, plant and equipment.

During the Reporting Period, the Group has certain property, plant and equipment with an aggregate carrying values of nil (six months ended 30 June 2019: CNY4,000) for no cash proceeds (six months ended 30 June 2019: nil), resulting in a loss on disposal of nil (six months ended 30 June 2019: loss of approximately CNY4,000).

12. INTANGIBLE ASSET

During the six months end 30 June 2020, the Group did not spend any expenditure (2019: nil) in relation to the mining site.

13. TRADE, BILLS AND OTHER RECEIVABLES

	At 30 June 2020 CNY'000 (Unaudited)	At 31 December 2019 CNY'000 (Audited)
Trade receivables – goods	4,296	6,789
Bills receivables	11,385	6,996
Prepayments and deposits	655	529
Other receivables	406	169
	<hr/> 16,742 <hr/>	<hr/> 14,483 <hr/>

As at 30 June 2020 and 31 December 2019, trade receivables from contracts with customers amounted to CNY4,296,000 and CNY6,789,000 respectively.

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

The Group offers revolving credit to two of its customers amounted approximately CNY900,000 as at 30 June 2020 (31 December 2019: two customers amounted CNY900,000). This revolving credit provides for a predetermined credit limit that may be outstanding at any one time based on their background, credit history, length of business relationship and historical transaction amounts. The Group generally evaluates the credit limits granted to the customer annually upon renewal of the relevant sales agreements and upon special request from the customers. The Group held charges on such customers' vehicles as collaterals over the balance of approximately CNY900,000 as at 30 June 2020 (31 December 2019: CNY900,000). Such collateral is not transferable and rentable and can be realised by the Group at first priority upon the liquidation or deregistration of such customer. For the remaining balances of approximately CNY3,396,000 as at 30 June 2020 (31 December 2019: CNY5,889,000), the Group does not hold any collateral over these amounts.

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

	At 30 June 2020 CNY'000 (Unaudited)	At 31 December 2019 CNY'000 (Audited)
Within 30 days	4,291	6,784
31 to 60 days	–	5
Over 60 days	5	–
	<hr/>	<hr/>
Total	<u>4,296</u>	<u>6,789</u>

As at 30 June 2020 and 31 December 2019, all of the bills receivables were aged within 180 days.

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

Restricted bank balances

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

Pledged bank deposits

Pledged fixed deposits represented deposit pledged to banks to secure general banking facilities granted to an independent third party. During the Reporting Period, the bank deposit of CNY20,000,000 (31 December 2019: 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 deposits carry interest rates at 1.95% per annum (31 December 2019: 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 condensed consolidated statement of cash flows:

	At 30 June 2020 CNY'000 (Unaudited)	At 31 December 2019 CNY'000 (Audited)
Cash at bank and in hand	30,114	35,374
Short-term bank deposits	—	3,784
	<hr/>	<hr/>
Bank balances and cash shown in the condensed consolidated statement of financial position	30,114	39,158
Less: Bank deposits with a maturity of more than three months	(624)	(744)
	<hr/>	<hr/>
Cash and cash equivalents shown in the condensed consolidated statement of cash flows (<i>Note</i>)	<u>29,490</u>	<u>38,414</u>

Note:

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

15. TRADE AND OTHER PAYABLES

	At 30 June 2020 CNY'000 (Unaudited)	At 31 December 2019 CNY'000 (Audited)
Trade payables	4,693	3,886
Other payables and accruals	12,338	13,202
Contract liabilities	1,013	1,834
	18,044	18,922

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

	At 30 June 2020 CNY'000 (Unaudited)	At 31 December 2019 CNY'000 (Audited)
Within 30 days	2,726	3,286
31 to 60 days	309	279
61 to 90 days	969	83
91 to 365 days	451	230
Over 1 year	238	8
Total	4,693	3,886

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

16. SHARE CAPITAL

	Number of shares		Share capital (Equivalent to)
			HK\$ CNY'000
Ordinary share of HK\$0.01 each Authorised			
At 1 January 2019, 31 December 2019 and 30 June 2020	<u>10,000,000,000</u>	<u>100,000,000</u>	
Issued and fully paid			
At 1 January 2019	<u>670,572,000</u>	<u>6,706,000</u>	<u>5,688</u>
At 31 December 2019 and 30 June 2020	<u>670,572,000</u>	<u>6,706,000</u>	<u>5,688</u>

17. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company

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

No share options have been granted since the adoption of the Scheme and during the Reporting Period (six months ended 30 June 2019: nil).

18. RELATED PARTY TRANSACTIONS

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

Compensation to key management personnel

The remuneration of directors of the Company and other members of key management during the period was as follow:

	Three months ended 30 June		Six months ended 30 June	
	2020 <i>CNY'000</i> (Unaudited)	2019 <i>CNY'000</i> (Unaudited)	2020 <i>CNY'000</i> (Unaudited)	2019 <i>CNY'000</i> (Unaudited)
Short-term benefits	<u>165</u>	<u>115</u>	<u>280</u>	<u>219</u>
	<u>165</u>	<u>115</u>	<u>280</u>	<u>219</u>

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