



恆勤集團有限公司
HangKan Group Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8331)

THIRD
QUARTERLY
REPORT
2020

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

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This report, for which the directors (the “Directors”) of HangKan Group Limited (the “Company”, together with its subsidiaries, the “Group”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

THIRD QUARTERLY RESULTS FOR 2020 (UNAUDITED)

The board of Directors (the "Board") of the Company is pleased to announce the unaudited condensed consolidated results of the Group for the three months and nine months ended 30 September 2020 (the "Reporting Period"), together with the comparative unaudited figures for the corresponding periods in 2019 as follows:

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

For the three months and nine months ended 30 September 2020

		Three months ended 30 September		Nine months ended 30 September	
		2020	2019	2020	2019
	Notes	CNY'000	CNY'000	CNY'000	CNY'000
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	3	17,508	13,643	38,922	45,082
Cost of sales		(7,693)	(6,008)	(18,397)	(21,926)
Gross profit		9,815	7,635	20,525	23,156
Other income		41	350	577	894
Selling and distribution expenses		(2,478)	(1,717)	(7,007)	(5,687)
Administrative and other expenses		(5,283)	(4,221)	(12,798)	(12,447)
Finance costs		(111)	(106)	(334)	(312)
Profit before tax		1,984	1,941	963	5,604
Income tax expense	5	(752)	(569)	(805)	(1,588)
Profit and total comprehensive income for the period attributable to the owners of the Company		1,232	1,372	158	4,016
Earnings per share (CNY):					
Basic and diluted	7	0.18 cents	0.20 cents	0.02 cents	0.60 cents

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 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	-	-	-	-	-	4,016	4,016
Appropriation and utilisation of safety fund and production maintenance fund, net	-	-	-	721	125	(846)	-
At 30 September 2019 (Unaudited)	5,688	126,103	23,351	4,824	1,303	(84,494)	76,775
At 1 January 2020 (Audited)	5,688	126,103	23,351	5,192	1,338	(81,505)	80,167
Profit and total comprehensive income for the period	-	-	-	-	-	158	158
Appropriation and utilisation of safety fund and production maintenance fund, net	-	-	-	451	110	(851)	(290)
At 30 September 2020 (Unaudited)	5,688	126,103	23,351	5,643	1,448	(82,198)	80,035

Notes:

(i) Other reserve

It represents (i) 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 (ii) the difference between the nominal value of the issued share capital of the Company and share capital of the then holding company, Feishang International, upon the group reorganisation.

(ii) Statutory reserve

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

(iii) Safety fund and production maintenance fund

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL RESULTS

For the three months and nine months ended 30 September 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 GEM of the Stock Exchange on 29 December 2015. As at the date of this report, its ultimate controlling shareholder is Mr. Zhang Qiang (張強), who held approximately 34.57% 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, the PRC.

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

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements of the Group for the nine months ended 30 September 2020 (the "Third Quarterly Financial Statements") have been prepared in accordance with the applicable International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standard Board ("IASB") and the applicable disclosure requirements of the GEM Listing Rules.

The Third Quarterly Financial Statements have been prepared on the historical cost basis.

The accounting policies and methods of computation used in the Third Quarterly Financial Statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The IASB has issued a number of new or amended IFRSs 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		Nine months ended	
	30 September		30 September	
	2020	2019	2020	2019
	CNY'000	CNY'000	CNY'000	CNY'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Disaggregation of revenue from contracts with customers				
Sales of goods (net):				
Drilling mud	4,984	4,166	10,338	14,504
Pelletising clay	12,241	9,194	27,735	29,729
	17,225	13,360	38,073	44,233
Provision of financial guarantee				
Guarantee service fee	283	283	849	849
	17,508	13,643	38,922	45,082

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. INCOME TAX EXPENSE

	Three months ended		Nine months ended	
	30 September		30 September	
	2020	2019	2020	2019
	CNY'000	CNY'000	CNY'000	CNY'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current tax:				
PRC Enterprise Income Tax ("EIT")	719	646	927	1,531
Deferred taxation:				
Current period	33	(77)	(122)	57
	<u>752</u>	<u>569</u>	<u>805</u>	<u>1,588</u>

Notes:

- (i) 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.
- (ii) 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.
- (iii) 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.
- (iv) Feishang Material was recognised as a High Technology Enterprise and subject to EIT at 15% in accordance with the EIT Law for both periods.

6. DIVIDEND

No dividend was paid, declared or proposed by the Group during the Reporting Period (nine months ended 30 September 2019: nil).

7. EARNINGS PER SHARE

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

Three months ended 30 September		Nine months ended 30 September	
2020	2019	2020	2019
<i>CNY'000</i>	<i>CNY'000</i>	<i>CNY'000</i>	<i>CNY'000</i>
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)

Earnings

Earnings for the purpose of
basic and diluted earnings
per share

1,232	1,372	158	4,016
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Three months ended 30 September		Nine months ended 30 September	
2020	2019	2020	2019

Number of shares

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

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

0.18 cents	0.20 cents	0.02 cents	0.60 cents
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Note:

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

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 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 affected both production and consumption, especially in the first nine 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 nine 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 Group had a guarantee fee income of approximately CNY0.8 million (for the nine months ended 30 September 2019: CNY0.8 million). The performance of this business segment remained stable during the Reporting Period.



FINANCIAL REVIEW

Revenue

The revenue decreased by approximately 13.7% from approximately CNY45.1 million for the nine months ended 30 September 2019 to approximately CNY38.9 million for the Reporting Period. The decrease in revenue was mainly contributed by the decrease in sales volume of both drilling mud and pelletising clay. Due to the difficult macroeconomic environment, the demand of both drilling mud and pelletising clay was weak during the Reporting Period. The total sales volume recorded a decrease by approximately 12.6% as compared with the corresponding period in 2019.

Gross Profit and Gross Margin

The overall gross profit decreased by approximately 11.4% from approximately CNY23.2 million for the nine months ended 30 September 2019 to approximately CNY20.5 million for the Reporting Period, while the overall gross profit margin increased from approximately 51.4% for the nine months ended 30 September 2019 to approximately 52.7% for the Reporting Period. The decrease in the overall gross profit was mainly due to the decrease in sales volume of both drilling mud and pelletising clay. 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.

Other Income

Other income decreased by approximately CNY0.3 million from approximately CNY0.9 million for the nine months ended 30 September 2019 to approximately CNY0.6 million 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 23.2% from approximately CNY5.7 million for the nine months ended 30 September 2019 to approximately CNY7.0 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 increased by approximately 2.8% from approximately CNY12.4 million for the nine months ended 30 September 2019 to approximately CNY12.8 million for the Reporting Period. The increase was mainly due to increase in professional fees during the Reporting Period.

Finance Costs

The finance costs increased by approximately CNY22,000 from approximately CNY312,000 for the nine months ended 30 September 2019 to approximately CNY334,000 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 CNY0.8 million for the Reporting Period as compared to approximately CNY1.6 million for the nine months ended 30 September 2019. The decrease was mainly due to a drop in the profit before tax from Wuhu Feishang Non-metallic Material Company Limited, the indirect wholly-owned subsidiary of the Company.

Profit and Total Comprehensive Income for the Period

Due to the combined effect of the aforesaid factors, the profit and total comprehensive income attributable to the owners of the Company for the Reporting Period was approximately CNY0.2 million, a decrease of approximately CNY3.8 million from the profit and total comprehensive income of approximately CNY4.0 million for the nine months ended 30 September 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 September 2020, the Group did not have any significant contingent liabilities.

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 followed 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.

The Group saw a decrease in sales of both drilling mud and pelletising clay for the Reporting Period as compared to the corresponding period in 2019 and the investment prospects of the energy industry continued to be uncertain. The Directors consider that the provision of financial guarantee services will better utilize the Group's surplus cash with reasonable return and its commencement marked the Group's first step into the financial services businesses. The Group has been exploring suitable opportunities to commence and develop business of provision of financial services in Hong Kong. On 23 October 2020, the Group entered into a sale and purchase agreement (the "Agreement") to acquire (the "Acquisition") the entire issued share capital of the P.B. Group Limited (the "Target Company"), which holds a licensed insurance broker company and licensed money lender company. The Target Company is also the sole member of P.B. Charity Fund Limited. As the Target Group possesses the necessary licenses in carrying various regulated activities in Hong Kong, including those for money lending and insurance brokerage business, the Board is of the view that the Acquisition provides the Group with an expedient way to diversify its businesses into the financial services sector by directly investing and operating the Target Group. The Board expects that the Acquisition will provide the Group with a good investment opportunity to broaden the revenue base and maximize the return to the Company and the Shareholders in the long run. The acquisition was completed on 5 November 2020.

We are optimistic that the financial services businesses will become a key driver of the Group. The Group will continually strive on the development of the money lending and insurance brokerage business. The Group believes this business has the potential to grow and contribute more to the Group in the coming future. Looking forward, the Group will continue to identify other investment opportunities and explore further opportunities for investments in the financial services businesses to broaden its business portfolio and income stream and maximise returns for its Shareholders. Meanwhile, we will cautiously monitor market change and impose robust control measures to improve cost efficiency and risk management which will provide a solid foundation for sustainable growth in the future.



DIVIDEND

In order to retain resources for the Group's business development, the Board does not recommend the payment of a dividend for the Reporting Period (nine months ended 30 September 2019: Nil).

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

As at 30 September 2020, 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.

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 September 2020, no options had been granted, exercised or cancelled pursuant to the Share Option Scheme.

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

As at 30 September 2020, so far as 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 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 September 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.

CORPORATE GOVERNANCE CODE

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

Chairman and Chief Executive Officer

Code Provision A.2.1 of the CG Code stipulates that, the roles of the chairman and chief executive officer should be separate 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.

During the Reporting Period, the Company has not appointed a chairman, and the roles and functions of a chairman, including the management and leadership of the Board to formulate overall strategies and business development directions for the Group, have been performed by the Board collectively.

During the Reporting Period, the Company did not have a designated chief executive officer. 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.

On 11 November 2020, Mr. PANG Ho Yin, the Company’s executive Director, has been appointed as the Company’s chief executive director and is responsible for the daily operations of the Group and the implementation of business policies, objectives and plans as formulated and adopted by the Board.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

PRE-EMPTIVE RIGHTS

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

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

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

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

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

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.

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 unauthorized 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.

As at 30 September 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.

OTHER INFORMATION

Prepayment to Suppliers

Reference was made to the Company’s 2018 and 2019 Annual Reports, and 2019 and 2020 Interim Reports, 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. Lituo Enterprise (HK) Limited filed its defence on 28 November 2018. Upon counsel’s advice, the Company considered to have taken out summary proceedings against Lituo Enterprise (HK) Limited pursuant to Order 14 of the Rules of High Court, Cap 4A of the Laws of Hong Kong. However, after thoroughly considered the evidence of the case, counsel advised that it would be quite difficult to obtain summary Judgment against Lituo Enterprise (HK) Limited by way of summary proceedings and advised that the case should proceed normally to trial. The Company adopted such advice given by counsel and thereby decided not to proceed to summary proceedings. Accordingly, the Company’s legal representatives have recently followed the normal civil procedures in proceedings and applied for usual order of directions from the court, whereby the court will grant an order as to fixing timeline for the parties to make discovery of documents and exchange of statements of witnesses. 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. Whereas the 2nd Defendant, which is incorporated in British Virgin Islands (BVI), has never responded to the case and on 15 May 2020, the court granted final judgment against the 2nd Defendant upon the Company’s application. Thereafter, the Company has appointed BVI lawyers to execute and enforce the judgement by way of presenting a winding-up petition 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. The trial for the action has been scheduled for 7 December 2020 with four days reserved.

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 September 2020 and up to the date of this report.

EVENTS AFTER THE REPORTING PERIOD

Reference were made to the announcements of the Company dated 23 October 2020 and 5 November 2020 in relation to the acquisition of the entire issued share capital of P.B. Group Limited (the "Target Company") which is an investment holding company incorporated in the Cayman Islands with limited liability. Under and pursuant to the terms and conditions of the Agreement dated 23 October 2020, the Vendor has conditionally agreed to sell to the Company and the Company has conditionally agreed to purchase from the Vendor the Sale Share, representing the entire issue share capital of the Target Company at the consideration of HK\$9,000,000, by involving the allotment and issue by the Company to Vendor of 125,000,000 Consideration Shares, at an issue price of HK\$0.072 per Consideration Shares under General Mandate. The acquisition was completed on 5 November 2020.

The Target Company and its wholly-owned subsidiaries became a direct wholly-owned subsidiary and indirect wholly-owned subsidiaries of the Company, respectively, and the financial results of the Target Group will be consolidated into the accounts of the Group accordingly.

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

AUDIT COMMITTEE

The Company has an audit committee (“Audit Committee”) which was established in accordance with the requirements of the GEM Listing Rules for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The Audit Committee comprises three independent non-executive Directors, namely, Mr. 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.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises (i) two executive Directors, namely Mr. SU Chun Xiang and Mr. PANG Ho Yin (*Chief Executive Officer*); and (ii) three independent non-executive Directors, namely Mr. LEE Ming Tung, Mr. CHOW Chi Hang Tony and Mr. ZHANG Kun.

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

Hong Kong, 13 November 2020

* *The English name is for identification purpose only*