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## **FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 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.**

*This announcement, 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 announcement 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 announcement misleading.*

*This announcement, containing the full text of the 2020 first quarterly report of the Company, complies with the relevant requirements of the GEM Listing Rules of Stock Exchange in relation to information to accompany preliminary announcements of the first quarterly results. This 2020 first quarterly results announcement of the Company is available for viewing on the websites of Stock Exchanges at [www.hkex.com.hk](http://www.hkex.com.hk) and of the Company at [www.ourhkg.com](http://www.ourhkg.com).*

## FIRST QUARTERLY RESULTS

The board of Directors (the "Board") of the Company is pleased to announce the unaudited condensed consolidated results of the Group for the three months ended 31 March 2020 (the "Reporting Period"), together with the comparative unaudited figures for the corresponding period in 2019 as follows:

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

*For the three months ended 31 March 2020*

|   | Notes | Three months ended<br>31 March |                                |
|---|-------|--------------------------------|--------------------------------|
|   |       | 2020<br>CNY'000<br>(Unaudited) | 2019<br>CNY'000<br>(Unaudited) |
| Revenue   | 3     | 10,917                         | 15,086                         |
| Cost of sales   |       | (5,567)                        | (8,203)                        |
| Gross profit  |       | 5,350                          | 6,883                          |
| Other income  |       | 587                            | 377                            |
| Selling and distribution expenses   |       | (2,656)                        | (2,188)                        |
| Administrative and other expenses   |       | (3,803)                        | (4,024)                        |
| Finance costs   |       | (108)                          | (104)                          |
| (Loss)/profit before tax  |       | (630)                          | 944                            |
| Income tax expense  | 4     | (16)                           | (286)                          |
| (Loss)/profit and total comprehensive income for the period attributable to the owners of the Company | 5     | (646)                          | 658                            |
| (Loss)/earnings per share (CNY):  |       |                                |                                |
| Basic and diluted   | 5     | (0.10) cents                   | 0.10 cents                     |

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2020

|   | Share capital<br>CNY'000 | Share premium<br>CNY'000 | Other reserve<br>CNY'000 | Statutory reserve<br>CNY'000 | Safety fund and production maintenance fund<br>CNY'000 | Accumulated loss<br>CNY'000 | Total<br>CNY'000 |
|---|--------------------------|--------------------------|--------------------------|------------------------------|--|-----------------------------|------------------|
| At 1 January 2019 (audited)   | 5,688                    | 126,103                  | 23,351                   | 4,103                        | 1,178  | (87,664)                    | 72,759           |
| Profit for the period and total comprehensive income for the period               | -                        | -                        | -                        | -                            | -  | 658                         | 658              |
| Appropriation and utilisation of safety fund and production maintenance fund, net | -                        | -                        | -                        | 90                           | (43)   | (47)                        | -                |
| At 31 March 2019 (unaudited)  | 5,688                    | 126,103                  | 23,351                   | 4,193                        | 1,135  | (87,053)                    | 73,417           |
| At 1 January 2020 (audited)   | 5,688                    | 126,103                  | 23,351                   | 5,192                        | 1,338  | (81,505)                    | 80,167           |
| Loss for the period and total comprehensive income for the period                 | -                        | -                        | -                        | -                            | -  | (646)                       | (646)            |
| Appropriation and utilisation of safety fund and production maintenance fund, net | -                        | -                        | -                        | 6                            | 27   | (33)                        | -                |
| At 31 March 2020 (unaudited)  | 5,688                    | 126,103                  | 23,351                   | 5,198                        | 1,365  | (82,184)                    | 79,521           |

Notes:

## (i) Other reserve

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

## (ii) Statutory reserve

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

## (iii) Safety fund and production maintenance fund

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

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. CORPORATE INFORMATION

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 Unit 1103A, 11th Floor, 148 Electric Road, North Point, Hong Kong.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated financial results for the three months ended 31 March 2020 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 accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial statements for the three months ended 31 March 2020 are consistent with those adopted in the Group's annual financial statements for the year ended 31 December 2019. The Group has adopted new or revised standards, amendments to standards and interpretations of IFRSs which are effective for accounting periods commencing on or after 1 January 2020. The adoption of such new or revised standards, amendments to standards and interpretations does not have material impact on the consolidated accounts and does not result in substantial changes to the Group's accounting policies.

The Group has not early applied the new and revised IFRSs that have been issued but are not yet effective.

The unaudited condensed consolidated financial statements for the three months ended 31 March 2020 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).

### 3. REVENUE

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

|                  | <b>Three months ended 31 March</b> |             |
|------------------|------------------------------------|-------------|
|                  | <b>2020</b>                        | 2019        |
|                  | <b>CNY'000</b>                     | CNY'000     |
|                  | <b>(Unaudited)</b>                 | (Unaudited) |
| Drilling mud     | <b>2,567</b>                       | 4,795       |
| Pelletising clay | <b>8,350</b>                       | 10,291      |
|                  | <hr/>                              | <hr/>       |
|                  | <b>10,917</b>                      | 15,086      |
|                  | <hr/>                              | <hr/>       |

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

### 4. INCOME TAX EXPENSE

|                                   | <b>Three months ended 31 March</b> |             |
|-----------------------------------|------------------------------------|-------------|
|                                   | <b>2020</b>                        | 2019        |
|                                   | <b>CNY'000</b>                     | CNY'000     |
|                                   | <b>(Unaudited)</b>                 | (Unaudited) |
| Current tax:                      |                                    |             |
| PRC Enterprise Income Tax ("EIT") | <b>40</b>                          | 159         |
| Deferred taxation:                |                                    |             |
| Current period                    | <b>(24)</b>                        | 127         |
|                                   | <hr/>                              | <hr/>       |
|                                   | <b>16</b>                          | 286         |
|                                   | <hr/>                              | <hr/>       |

*Notes:*

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

## 5. (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:

|  | <b>Three months ended 31 March</b> |             |
|--|------------------------------------|-------------|
|  | <b>2020</b>                        | 2019        |
|  | <b>CNY'000</b>                     | CNY'000     |
|  | <b>(Unaudited)</b>                 | (Unaudited) |
| <b>(Loss)/earnings</b>                             |                                    |             |
| (Loss)/profit attributable to the owners           |                                    |             |
| for the purpose of basic and diluted               |                                    |             |
| (loss)/earnings per share                          | <b>(646)</b>                       | 658         |
|  |                                    |             |
|  | <b>Three months ended 31 March</b> |             |
|  | <b>2020</b>                        | 2019        |
|  | <b>(Unaudited)</b>                 | (Unaudited) |
| <b>Number of shares</b>                            |                                    |             |
| Weighted average number of ordinary shares for     |                                    |             |
| the purpose of basic and diluted (loss) earnings   |                                    |             |
| per share ('000 shares)                            | <b>670,572</b>                     | 670,572     |
|  |                                    |             |
| <b>Basic and diluted (loss)/earnings per share</b> |                                    |             |
| <b>(CNY)</b>                                       | <b>(0.10) cents</b>                | 0.10 cents  |

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.

## 6. DIVIDEND

The Board has resolved not to declare any interim dividend for the three months ended 31 March 2020 (31 March 2019: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

Stepping into 2020, the outbreak of the 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 is under the restriction by the Chinese government. 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.

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 three 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.

### **FINANCIAL REVIEW**

#### **Revenue**

The revenue decreased by approximately 27.6% from approximately CNY15.1 million for the three months ended 31 March 2019 to approximately CNY10.9 million for the Reporting Period. The decrease in revenue was mainly contributed by: (i) the decrease in sales volume and average selling price of pelletising clay; and (ii) the decrease in sales volume of drilling mud, which was partly offset by the increase in average selling price of drilling mud. Due to the difficult macroeconomic environment, the demand of both pelletising clay and drilling mud was weak during the Reporting Period. The total sales volume recorded a decrease by approximately 27.1% as compared with the corresponding period in 2019.

## **Gross Profit and Gross Margin**

The overall gross profit decreased by approximately 22.3% from approximately CNY6.9 million for the three months ended 31 March 2019 to approximately CNY5.4 million for the Reporting Period, and the overall gross profit margin increased from approximately 45.6% for the three months ended 31 March 2019 to approximately 49.0% for the Reporting Period. The decrease in the overall gross profit was mainly due to: (i) the decrease in sales volume and average selling price of pelletising clay; and (ii) the decrease in sales volume of drilling mud. The increase in overall gross profit margin was contributed by the combined effect of increase in average selling price of drilling mud and decrease in unit cost of sales of both drilling mud and pelletising clay.

## **Other Income**

Other income increased by approximately CNY210,000 from approximately CNY377,000 for the three months ended 31 March 2019 to approximately CNY587,000 for the Reporting Period. The increase was mainly attributed to an increase in bank interest income and the provision of guarantee income from the Back-to-back Guarantee Agreement.

## **Selling and Distribution Expenses**

The selling and distribution expenses increased by approximately 21.4% from approximately CNY2.2 million for the three months ended 31 March 2019 to approximately CNY2.7 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 novel coronavirus ("COVID-19").

## **Administrative and Other Expenses**

The administrative and other expenses decreased by approximately 5.5% from approximately CNY4.0 million for the three months ended 31 March 2019 to approximately CNY3.8 million for the Reporting Period. The decreases were mainly due to the decrease in professional fees, the payment of insurance premium, and staff cost during the Reporting Period.



## **Finance Costs**

The finance costs increased by approximately 3.8% from approximately CNY104,000 for the three months ended 31 March 2019 to approximately CNY108,000 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 CNY16,000 for Reporting Period as compared to income tax expenses approximately CNY286,000 for the three months ended 31 March 2019. The increase was mainly due to a decrease in the profit before tax in Feishang Material.

## **(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 CNY646,000, an decrease of approximately CNY1.3 million from the profit and total comprehensive income of approximately CNY658,000 for the three months ended 31 March 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 31 March 2020, the Group did not have any significant contingent liabilities.

## OUTLOOK

Due to the outbreak of COVID-19 in early 2020 in China and around the world, the Chinese economy will inevitably face more challenges and further slow down. Within the bentonite industry, uncertainties due to COVID-19 will cause market competition to further intensify, and prices face downward pressure. Meanwhile, it is expected that there will be no fundamental change in the general situation of oversupply in the iron and steel industry and the problem of overcapacity has yet to be addressed. In addition, affected by the new series of real estate market regulation and control policies, it is expected that the iron and steel industry will be confronted with major challenges, imposing great pressure on the demand for pelletising clay. Although the Group strives to maintain sales volume of pelletising clay by means of, among others, improved product quality and “selling more with lower margin” strategy, the Group may not be able to maintain the current level of gross profit margin in the coming months. The Group intends to continue expanding its customer base and market share by boosting product awareness of pelletising clay, refining its production technology and developing new products with a view to enhance the Group’s overall competitiveness to cope with the unfavorable business environment.

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

## **CAPITAL COMMITMENTS**

As at 31 March 2020, the Group did not have significant capital commitments.

## **DIVIDEND**

In order to retain resources for the Group's business development, the Board does not recommend the payment of a dividend for the Reporting Period (three months ended 31 March 2019: Nil).

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

As at 31 March 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 and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered into the register required to be kept by the Company under section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Rules 5.48 to 5.67 of the GEM Listing Rules.

## **SHARE OPTION SCHEME**

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

As at 31 March 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 31 March 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 of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

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

### Notes:

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

Save as disclosed above, as at 31 March 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**

Pursuant to provision A.2.1 of the CG Code, 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.

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

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

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

## **DIRECTORS' INTEREST IN COMPETING BUSINESS**

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

## **PRE-EMPTIVE RIGHTS**

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

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

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

## **SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS**

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 31 March 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 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 Annual Report, 2019 Interim Results and 2019 Annual 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 sought legal advice from its legal adviser and was advised to amend the statement of claim in this action. As the Hong Kong Judiciary has generally adjourned its proceedings and closed court registries/offices since 29 January 2020 owing to the novel coronavirus epidemic and the court registries will only start to re-open in stages from early May 2020, it is envisaged that the application for the amendment will be taken out in June 2020. 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 case is in progress.

- iii) issued demand letter to Trade Rosy Global Limited requesting the refund of deposits amounted HK\$14,500,000 on 1 November 2018. Trade Rosy Global Limited does not respond and has failed and/or refused to pay the deposit or any part thereof. Thereafter, there had been discussion by the Company with its legal adviser to explore the alternate legal action to institute winding up proceedings against Trade Rosy Global Limited in British Virgin Islands. However, based on the limited information about Trade Rosy Global Limited and its lack of response, the Board considered that the lengthy period of time and substantial legal costs and expenses to be incurred if it were to initiate legal proceedings against Trade Rosy Global Limited to recover the deposit. Accordingly, the Board considered that it would be in the best interest of the Company and its shareholders as a whole to refrain from taking any further action against Trade Rosy Global Limited for the time being until there is a better chance to seek meaningful remedial actions to recover the deposit from Trade Rosy Global Limited; and
- iv) instituted legal proceedings against Kai Muk Company to recover the remaining balance of a deposit amounted HK\$8,530,000 under High Court Action No. 1767 of 2018. The parties attended a mediation session on 28 October 2019 but were unable to reach an agreement on any settlement arrangement. Thereafter, the parties were initially scheduled to fix a date for pre-trial review and trial on 29 January 2020, but such appointment was rescheduled as the Judiciary of Hong Kong has generally adjourned court proceedings and closed court registries/offices since 29 January 2020 (the "General Adjourned Period") in view of the novel coronavirus epidemic and public health considerations. The General Adjourned Period ended on early May 2020 and the court offices have gradually re-opened for registry business by stages and in a staggered manner. The parties will proceed with fixing dates for the pre-trial review and trial once notified by the High Court of the date of the rescheduled fix date appointment. The case is in progress.

As disclosed in the 2018 Annual report dated 7 March 2019, full provision for impairment for the possible unrecoverable prepayments to the 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 31 March 2020 and up to the date of this report.



## **EVENTS AFTER THE REPORTING PERIOD**

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

## **AUDIT COMMITTEE**

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

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

8 May 2020

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

*This announcement will remain on the “Latest Company Announcements” page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for at least seven days from the day of its publication. This announcement will also be published on the Company’s website at [www.ourhkg.com](http://www.ourhkg.com).*