Silk Road Logistics Holdings Limited
絲路物流控股有限公司
(Incorporated in Bermuda with limited liability)
(Stock code: 988)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

The board of directors (the "Board") of the Company announces the audited consolidated results of the Group for the year ended 31 December 2020 together with the comparative audited figures for the year ended 31 December 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	**2020** *HK$'000*	2019 *HK$'000*
REVENUE	*4*	**34,609**	5,522,721
Cost of sales and services		**(32,912)**	(5,488,620)
Gross profit		**1,697**	34,101
Other income and gains	*4*	**3,213**	21,406
Selling and distribution expenses		**–**	(131)
Administrative expenses		**(38,536)**	(58,411)
Gain on deemed acquisition of an associate		**1,651**	–
Loss on disposal of oil properties		**(1,573)**	(56,945)
Loss on deemed disposal of an associate		**–**	(7,891)
Impairment of goodwill		**(32,778)**	(14,250)
Impairment of interests in associates		**(274,898)**	(242,000)
Impairment of oil properties		**–**	(18,000)
Impairment of prepayments, deposits and other receivables		**(2,800)**	(4,474)
Share of (loss)/profit of associates		**(3,663)**	4,118
Finance costs	*5*	**(51,498)**	(40,747)
LOSS BEFORE TAX	*6*	**(399,185)**	(383,224)
Income tax credit	*7*	**17,011**	4,412
LOSS FOR THE YEAR		**(382,174)**	(378,812)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME ***(CONTINUED)***
For the year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
LOSS FOR THE YEAR		**(382,174)**	(378,812)
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**14,404**	2,532
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(367,770)**	(376,280)
(Loss)/profit for the year attributable to:			
Owners of the Company		**(376,908)**	(382,988)
Non-controlling interests		**(5,266)**	4,176
		(382,174)	(378,812)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(367,418)**	(378,974)
Non-controlling interests		**(352)**	2,694
		(367,770)	(376,280)

	Notes	2020 HK$	2019 HK$
LOSS PER SHARE	*8*		
– Basic		**(0.07)**	(0.07)
– Diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**176,855**	178,618
Right-of-use assets		**73,482**	74,368
Interests in associates		**214,954**	492,055
Goodwill		**55,960**	88,738
Oil properties		**65,363**	67,017
Total non-current assets		**586,614**	900,796
CURRENT ASSETS			
Inventories		**408**	577
Trade receivables	9	**54**	574
Prepayments, deposits and other receivables		**155,589**	230,211
Income tax recoverable		**4,696**	10,149
Cash and cash equivalents		**3,781**	4,369
Total current assets		**164,528**	245,880
CURRENT LIABILITIES			
Trade payables	10	**84,824**	80,281
Other payables and accruals		**124,669**	150,196
Bank and other borrowings		**443,665**	394,379
Promissory notes payable		**60,929**	54,133
Obligations under finance lease		**44**	86
Total current liabilities		**714,131**	679,075
NET CURRENT LIABILITIES		**(549,603)**	(433,195)
TOTAL ASSETS LESS CURRENT LIABILITIES		**37,011**	467,601

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*

As at 31 December 2020

	2020	2019
	HK$'000	*HK$'000*
NON-CURRENT LIABILITIES		
Other payables and accruals	**–**	18,778
Bank and other borrowings	**295**	35,230
Obligations under finance lease	**33**	110
Lease liabilities	**13,498**	13,083
Assets retirement obligations	**5,207**	5,651
Deferred tax liabilities	**14,929**	31,930
Total non-current liabilities	**33,962**	104,782
Net assets	**3,049**	362,819
EQUITY		
Share capital	**59,893**	57,036
Reserves	**(140,983)**	221,292
Equity attributable to owners of the Company	**(81,090)**	278,328
Non-controlling interests	**84,139**	84,491
Total equity	**3,049**	362,819

Notes:

1. GENERAL

Silk Road Logistics Holdings Limited was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is situated at Room 1702, 17/F, COFCO Tower, 262 Gloucester Road, Causeway Bay, Hong Kong.

The Company is an investment holding company. The principal activities of the Company's subsidiaries are trading of commodities, exploration and production of oil and provision of oil well services, and provision of logistics and warehousing services.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention. These consolidated financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Notwithstanding that the current liabilities of the Group at 31 December 2020 exceed the Group's current assets at that date by HK$549,603,000, which includes the other borrowings and the promissory note payable amounted to HK$443,665,000 and HK$60,929,000 respectively, and that the Group incurred net loss amounted to HK$382,174,000 for the year ended 31 December 2020, the directors consider it appropriate for the preparation of the consolidated financial statements on a going concern basis after taking into account of the following circumstances and measures to be implemented:

Management of the Group will closely monitor the financial position of the Group and the directors of the Company will make every effort (a) to secure funds as necessary to finance the business operations of the Group for the foreseeable future; and (b) to negotiate with the lender of the other borrowings and the holder of the promissory note payable for the extension of repayments of the other borrowings and the promissory note to a date when the Group has adequate working capital to serve the repayments.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to restate the values of assets to their estimated recoverable amounts, to provide further liabilities that might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these potential adjustments have not been reflected in the consolidated financial statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts on application of Amendments to HKFRS 3 Definition of a Business

The Group has applied the amendments for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis.

The amendments had no impact on the consolidated financial statements of the Group but may impact future periods should the Group make any acquisition.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and the related Amendments [1]
Amendment to HKFRS 16	Covid-19-Related Rent Concessions [4]
Amendments to HKFRS 3	Reference to the Conceptual Framework [2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2 [5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current [1]
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use [2]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract [2]
Amendments to HKFRS Standards	Annual Improvements to HKFRS Standards 2018-2020 [2]

[1] Effective for annual periods beginning on or after 1 January 2023.
[2] Effective for annual periods beginning on or after 1 January 2022.
[3] Effective for annual periods beginning on or after a date to be determined.
[4] Effective for annual periods beginning on or after 1 June 2020.
[5] Effective for annual periods beginning on or after 1 January 2021.

The directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the aggregate of net invoiced value of goods sold, after allowances for returns and trade discounts, and sales of oil, net of royalties, obligations to governments and other mineral interest owners, and income from logistic services rendered, analysed as follows:

	2020	2019
	HK$'000	*HK$'000*
Revenue from:		
Sales of goods	**31,270**	5,519,831
Rendering of services	**3,339**	2,890
	34,609	5,522,721

Other income and gains

An analysis of other income and gains is as follows:

	2020	2019
	HK$'000	*HK$'000*
Bank interest income	**6**	342
Government grants and subsidies*	**1,284**	1,346
Gain on disposal of property, plant and equipment, net	**–**	18,049
Sundry income	**1,923**	1,669
Total other income and gains	**3,213**	21,406

* Government grants and subsidies represent refund of PRC value-added tax and other taxes paid by the Group in previous years and the government subsidy for the Employment Support Scheme by the Hong Kong Government under COVID-19. There are no unfulfilled conditions or contingencies attached to these grants and subsidies.

5. FINANCE COSTS

	2020	2019
	HK$'000	*HK$'000*
Interest expenses, net of reimbursement on borrowings, on:		
Bank loans, overdrafts and other loans	**43,792**	34,982
Finance leases	**2**	5
Lease liabilities	**908**	1,127
Promissory notes payable	**6,796**	4,633
	51,498	40,747

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	2020	2019
	HK$'000	*HK$'000*
Cost of inventories sold*	**31,882**	5,486,377
Auditors' remuneration		
Audit services	**768**	900
Other services	**110**	–
	878	900
Staff costs (excluding directors' remuneration)		
Salaries and allowances	**7,152**	10,032
Retirement benefit costs	**764**	496
	7,916	10,528
Depreciation of property, plant and equipment	**9,868**	9,590
Depreciation of right-of-use assets	**5,084**	4,613
Accretion expenses – oil properties	**153**	1,678
Amortisation of oil properties	**363**	126
Loss on disposal of property, plant and equipment	**1,561**	–
Lease payments under short term leases	**9**	313
Foreign exchange losses, net	**194**	5

* Cost of inventories sold includes depreciation charges of property, plant and equipment amounted to approximately HK$1,030,000 (2019: HK$2,243,000) which is also included in the respective total amounts disclosed separately above.

7. INCOME TAX CREDIT

	2020	2019
	HK$'000	*HK$'000*
Provision for the year		
– PRC corporate income tax	**6**	2,377
Under/(over) provision in prior years	**58**	(6,789)
Current tax charge/(credit)	**64**	(4,412)
Deferred tax credit	**(17,075)**	–
Income tax credit for the year	**(17,011)**	(4,412)

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong for the year. Under the Corporate Income Tax Law of the PRC, the PRC corporate income tax is calculated at the rate of 25% (2019: 25%) on the Group's estimated assessable profits arising in the PRC. US income tax on the assessable profits arising in the USA is calculated at the rate of 21% (2019: 21%). However, no Hong Kong profit tax and US income tax have been provided as the Group did not generate any assessable profits arising in Hong Kong and the USA.

8. LOSS PER SHARE

The calculation of the basic loss per share attributable to the owners of the Company is as follows:

	2020	2019
	HK$'000	*HK$'000*
Loss		
Loss for the purpose of basic loss per share		
Loss for the year attributable to owners of the Company	**(376,908)**	(382,988)

	2020	2019
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**5,712,203**	5,703,616

Diluted loss per share for the years ended 31 December 2020 and 31 December 2019 is not presented as there is no potential ordinary shares in issue for each of these years.

9. TRADE RECEIVABLES

	2020	2019
	HK$'000	*HK$'000*
Trade receivables	**100,563**	101,051
Less: Impairment of trade receivables	**(100,509)**	(100,477)
	54	574

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period granted by the Group to its trade customers generally ranged from one to three months. Overdue balances are reviewed regularly by senior management.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2020	2019
	HK$'000	*HK$'000*
Not more than 30 days	**54**	574
31-60 days	**–**	13
61-90 days	**–**	40
91-365 days	**–**	59
Over one year	**100,509**	100,365
	100,563	101,051

The trade receivables that are not considered to be impaired is analysed as follows:

	2020	2019
	HK$'000	*HK$'000*
Not past due	**54**	574
	54	574

10. TRADE PAYABLES

	2020	2019
	HK$'000	*HK$'000*
Trade payables	**84,824**	80,281

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2020	2019
	HK$'000	*HK$'000*
Not more than 30 days	**107**	79,767
31-60 days	**33**	61
61-90 days	**7**	1
91-365 days	**9**	340
Over one year	**84,668**	112
	84,824	80,281

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

DISCLAIMER OF AUDIT OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We do not express an opinion on the consolidated financial statements. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

Going concern

As disclosed in note 2 to the consolidated financial statements, the current liabilities of the Group at 31 December 2020 exceed the Group's current assets at that date by approximately HK$549,603,000 and the Group incurred net loss of approximately HK$382,174,000 for the year ended 31 December 2020.

The consolidated financial statements have been prepared by the directors of the Company on a going concern basis, the validity of which depends upon the results of the successful implementation and outcome of the measures to be undertaken by the Group, as detailed in note 2 for the consolidated financial statements. In view of the extent of the material uncertainties relating to the results of those measures to be undertaken by the Group which might cast a significant doubt on the Group's ability to continue as a going concern, we have disclaimed our audit opinion on the consolidated financial statements.

Should the going concern assumption be inappropriate, adjustments would have to be made to the consolidated financial statements to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments have not been reflected in the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For the year ended 31 December 2020, the Group recorded revenue from operations of approximately HK$34,609,000 (2019: approximately HK$5,522,721,000), representing a decrease of 99% from prior year. The Group's gross profit of the operations shrink to approximately HK$1,697,000 for the year ended 31 December 2020 from approximately HK$34,101,000 recorded in 2019, with the gross profit margin at 4.9% in this year. The Company recorded a loss attributable to the owners of the Company from the operations for the year ended 31 December 2020 to approximately HK$376,908,000 from that of about HK$382,988,000 recorded in the preceding year.

BUSINESS REVIEW

The year 2020 was a roller coaster ride for the global economy and to some extent the capital markets amid the COVID-19 pandemic. The only bright spot in the dire environment, China has tackled the disease with collective national resolve and shown remarkable resilience. After a sharp GDP dip in the first quarter, the Chinese economy has soon returned to the expansion path since the second quarter, ending the year with a 2.3% annual growth. However, although the swift recovery in China surprised on the upside, the global economy was dampened by continual outbreaks in other countries throughout the year.

In order to cope with the fallout of the coronavirus crisis, the Group decided to scale down our operations across all the business segments for enhanced financial and risk management. Our trading and logistics segment went through the first half of 2020 with near inactivity, and then its business gradually picked up in the second half. The Group has since applied a prudent approach to business selection with the target of optimizing warehouse utilization and minimizing business risk, which sets a strategic course of controlled recovery for our trading activities. Our core subsidiary Silk Road Logistics (Qian'an) Company Limited ("Qian'an Logistics"), the primary source of revenue of the Group's operation in recent years, has made an initial step in recovering its trading volume, however, the result was not remarkable. Revenue from trading segment amounted to approximately HK$29,129,000 for the full year 2020, decreasing by HK$5,488,095,000 from HK$5,519,831,000 for the full year 2019. Moreover, further impairment in goodwill and the investments in associates was caused by reduced asset valuation of the trading and logistics segment. These impairments are due to the predicted deterioration in future economy for a period of time in light of the serious impact caused by the COVID-19 pandemic, leading to a prudent approach on future operations. Also, additional investments will require for the associates located in Inner Mongolia to initiate and expand their operations. In view of current business environment and the recoverability of economy from the COVID-19 pandemic, it is unpredictable to determine the future sources of funds. Combining the considerations above, the values of the investments in those associates were fully impaired to reflect these uncertainties.

The oil market was hit in April 2020 by a perfect storm created by a price war between OPEC and Russia and the realization of the pandemic. In an unprecedented turbulence, the oil price yo-yoed down to the negative territory and then back up to the US$40 level for much of the second half of the year. The weakness in the demand has persisted due to the constraints on the transportation sector in the form of reduced air flights and car driving. Consequently, the oil segment of the Group undertook suspension of oil production between April and June to cushion the financial impact of the low oil price. In Canada, RockEast Energy Corporation ("RockEast") recorded a loss of approximately HK$7,954,000 for the full year 2020 of which the Group owns about 29.95% equity interest. Besides, our US oil production unit with relatively higher operational costs resulted with an operating loss for years. Recently, the oil price has moved above US$60/bbl, partly due to the optimism from vaccination rollouts and partly due to the continuing production cuts by OPEC+. The Group will keep closely monitoring the market situation to plan capital investment accordingly for better profitability of the oil assets.

The debtor's turnover day of the Group in 2020 was 3 days compared with 20 days in 2019. It is in line with the credit period of the Group assign to the customers. In future, the Group will maintain its strict credit policy to customers with more emphasis on repayment quality. If there are any irregularities in repayment, credit terms granted to debtors will be adjusted accordingly. For the adoption of HKFRS 9, the Group has measured the expected credit losses, receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance. The management will continue to closely monitor the credit qualities and the collectability of the trade receivables.

During the year, the Company placed 285,714,285 shares to an independent third party, resulted with a net proceed of approximately HK$7,700,000. It aims to improve the financial position of the Company and broadening the shareholder and capital base of the Company.

The Group completed the acquisition of Useful Light Group Limited ("Useful Light") in August 2015 (the "Acquisition"). After the Acquisition, the Group indirectly held approximately 30% interest in RockEast Energy Corp. ("RockEast"). Pursuant to the 2015 Shareholders Agreement entered into by the shareholders of RockEast in July 2015, the Drag -along Right was provided therein. Subsequent to the 2015 Shareholders Agreement, RockEast and various then RockEast shareholder (excluding Useful Light) entered into a Shareholders' Agreement in 2016 to supersede the 2015 Shareholders Agreement. The Company was bound by the Drag-along Right under the 2016 Shareholders Agreement. The Company did not disclose the Drag-along Right during the material times of the Acquisition. At the material time of the Acquisition, given that the 2015 Shareholders Agreement has been entered into before the Acquisition, the Company was not aware of the Drag-along Right which was subject to the Listing Rules compliance, and failed to comply with the relevant rules in a timely manner. Useful Light did not sign the 2016 Shareholders Agreement but it is bound by the Drag-along Right contemplated under the 2016 Shareholders Agreement. The Company consulted its legal advisers about the impact of the exercise of the Drag-along Right on the Company under the Listing Rules and was given to know that the Drag-along Right should be regarded as a grant of option and was subject to relevant Listing Rules. The Company decided to proceed with the remedial action in order to rectify the non-compliance arising from the Drag-along Right. Please refer to the announcements of the Company dated 4 March, 2021 and 23 March 2021 for details.

OUTLOOK

Thanks to the advancement of vaccine development and production, global economy recovery is expected to gather pace in the second half of 2021 after vaccination reaches a critical level within the general world population. The recovery will also be supported by the expected extension of expansionary fiscal policies around the world. However, in the medium term economies might experience "scarring" from the depth of the recession and the ensuing structural changes, including the repercussions of firm bankruptcies, adjustment costs of surviving firms from upgrading workplace safety, and costly resource reallocation away from contact-intensive sectors. In comparison, prospects for China are stronger than for other countries due to strong policy support and resilient exports. The optimism over China's economic recovery is also reflected in the regained consumer confidence and spending at levels seen before the pandemic. All these key drivers will power the economic rebound and will benefit our business performance.

The Group is of the view that the post-COVID-19 environment will be simultaneously exciting and volatile. Navigating our business through this environment is a balancing act: beware geopolitical shifts while strengthening ties with foreign countries and companies; and develop our unique strengths while diving deeper into the digital ecosystem that buttresses the Chinese economy.

In the near term, the Group will continue to work closely with our existing trading and logistics customers on business resumption and growth. Such business decisions will be supported by relevant risk assessment in the process. For longer term business development, the Group will seek to develop in the asset light direction by an organic combination of the strength of our logistics network and our expertise in commodity trading. This strategic directive is guided by the national strategy of "dual circulation" which demands a stable and efficient supply system for raw materials. In diversify our revenue stream and business portfolio, the Group will exercise utmost prudence in appraising investment proposals to safeguard shareholders' value.

In order to position ourselves for the opportunities galore, our organization is being optimized for agility, profitability and cost. To get traction on our international strategy, the Group is set to fine tune our hierarchy and organizational structure. While functions — that is, technical, sales, supply-chain, and customer-service — are the primary designated departments for employees, the Group will rely more on small-scale business units with P&L accountability, appropriate decision-making authority, and direct reporting responsibility to the senior management. This "secondary" product-line organization holds the enterprise view for overall profitability. In other words, this agile layer of organization synthesizes product strategy, allocates capital expenditure, and drives collaboration across functions and geographies.

Taking advantage of a flexible workforce, the Group can better tap into the market potentials and embrace new technologies. In our quest of operational excellence based on staff empowerment and technology adoption, we aim to enhance our value proposition with a higher visibility of the supply chain from end to end. The Group will harness the many innovations being spearheaded in China in the logistics industry to improve efficiency and generate creative solutions for our clients.

CAPITAL STRUCTURE, LIQUIDITY, FINANCIAL RESOURCES AND DEBT MATURITY PROFILE

As at 31 December 2020, the Group had total interest bearing bank and other borrowings in the amount of approximately HK$443,665,000 (31 December 2019: HK$399,196,000), representing an decrease of HK$44,469,000. The Group's interest bearing bank and other borrowings are repayable within one year.

The Group's total interest bearing bank and other borrowings are all denominated in HK$ of which approximately HK$35,230,000 is charged at floating interest rates, and HK$408,435,000 is charge at fixed rate. The Group's cash and bank balances of approximately HK$3,781,000 were 25.5% denominated in RMB, 4.9% in USD and 69.6% in HK$.

As at 31 December 2019 and continued in 2020, the other borrowing (previously regarded as the holders of convertible bonds) with the aggregate principal amount of HK$300,000,000 was matured and become an other borrowing as it is not redeemed at maturity date. Combining the unsettled interests, the total amount of other borrowings was HK$408,435,000 (2019: HK$366,413,000). It is denominated in HK$ and bear interest at fixed interest rate of 11% per annum.

TREASURY POLICY

The Group adopts a conservative approach towards its treasury policy. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluation of the financial condition of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

MATERIAL ACQUISITION OR DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year under review, there was no material acquisition or disposal of subsidiaries and affiliated companies.

EMPLOYEES

As at 31 December 2020, the total number of employees of the Group was approximately 33 (31 December 2019: 40). Apart from the basic remuneration, discretionary bonus may be granted to eligible employees by reference to the Group's performance as well as the individual's performance. For the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation, and/or to enable the Group to recruit high-calibre employees the Group has adopted a share option scheme in June 2017. As at 31 December 2020 and 31 December 2019, there were no outstanding share options granted under the share option scheme.

CHARGE OF GROUP ASSETS

As at 31 December 2020, no property, plant and equipment (31 December 2019: Nil) is pledged as securities for the Group's banking facilities.

GEARING RATIO

As at 31 December 2020, the gearing ratio of the Group (being the ratio of net debt divided by total capital plus net debt) was approximately 99.4% (31 December 2019: approximately 63.3%). Net debt represents the aggregate amount of the Group's interest-bearing bank and other borrowings, the liability component of convertible bonds, the non-current portion of the amount loans due to related parties and promissory note less cash and cash equivalents of the Group. Total capital represents total equity attributable to the owners of the Company.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The Group's reporting currency is denominated in HK$. The Group's monetary assets, loans and transactions were principally denominated in RMB, USD and HK$. The Group had a net exchange exposure to RMB as the Group's assets were principally located in the PRC and the revenues were in RMB.

The Group does not have any derivative financial instruments or hedging instruments. The Group will constantly review the economic situation and its foreign currency risk profile, and will consider appropriate hedging measures in future as may be necessary.

CONTINGENT LIABILITIES

Pursuant to the civil complaint dated 29 November 2019 (the "Haitong Civil Complaint") filed by Haitong UniTrust International Leasing Co., Ltd. (海通恒信國際租賃股份有限公司) (the "Plaintiff") as plaintiff with the Shanghai Financial Court, the Plaintiff claimed against Silk Road Logistics (Qian'an) Company Limited ("Qian'an Logistics"), an indirect non wholly-owned subsidiary of the Company for (i) repayment of an aggregate amount of RMB197,754,190.70; and (ii) all the costs in relation to the Haitong Civil Complaint. The Haitong Civil Complaint had been accepted by the Shanghai Financial Court. The Haitong Civil Complaint was arisen from the dispute under a domestic factoring agreement dated 26 September 2018 (the "Factoring Agreement") entered into among the Plaintiff, 天津物產進出口貿易有限公司 (transliterated in English as Tewoo Import and Export Trade Company Limited) ("Tewoo") and Qian'an Logistics. Pursuant to the Factoring Agreement, the Plaintiff agreed to provide financing to Tewoo which, in return, agreed to assign all its rights under the account receivables in the aggregate amount of RMB223,463,688.00 (the "Account Receivables") payable by Qian'an Logistics to the Plaintiff in connection with five copper cathode contracts supplied by Tewoo to Qian'an. According to the Factoring Agreement, the Plaintiff appointed Tewoo to be its collection and receiving agent for the receipt of the Account Receivables payable by Qian'an Logistics. The management of Qian'an Logistics represented that Qian'an Logistics has fully settled the Account Receivables with Tewoo in connection with the five copper cathode contracts. In the premises, Qian'an Logistics has instructed its PRC legal adviser to contest the claim and to handle all other legal issues in connection with the Haitong Civil Complaint. As judgement has not rendered, the effects of the Haitong Civil Complaint on the Company cannot be assessed at this moment.

Pursuant to the civil complaint dated 22 November 2019 (the "Haotai Civil Complaint"), filed by 天津浩泰恒遠國際貿易有限公司 (transliterated in English as Tianjin Haotai Hengyuan International Trading Company Limited) (the "Haotai") as plaintiff with Tianjin No. 1 Intermediate People's Court, Haotai claimed against Qian'an Logistics for (i) repaying the aggregate amount of RMB68,370,454.42, being the purchase price for goods supplied by the Haotai to Qian'an Logistics; and (ii) all the costs in relation to the Haotai Civil Complaint. The amount of RMB68,370,454.42 claimed by Haotai is included in accounts payables and other payables as at 30 June 2020. On 4 January 2021, the Group received a judgment from Tianjin No. 1 Intermediate People's Court pursuant to which the court approved the withdrawal application filed by Haotai in relation to its civil complaint against Qian'an Logistics, i.e. the Haotai Civil Complaint. The legal costs of the court should be borne by Haotai.

USE OF NET PROCEEDS FROM THE PLACING

In December 2020, the Company completed placing of 285,714,285 new shares of the Company and raised net proceeds of approximately HK$7,700,000. The proceeds are used for the general working capital of the Group.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2020.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is committed to raising the standard of corporate governance within the Group in order to enhance the transparency in disclosure of material information. In the opinion of the Directors, the Company has complied with the code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules throughout the year ended 31 December 2020, except the following deviations:

Code provision A.1.3

Under code provision A.1.3, notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. During the year under review, not all notices of regular Board meetings were issued to the Directors at least 14 days prior to the relevant Board meetings, due to the practical reasons. Nevertheless, most of the Directors had attended the meetings. The Company will use its best endeavor to give 14 days' advanced notifications of Board meeting to the extent practicable.

Code provisions A.2

Code provision A.2 stipulates that the role of chairman and chief executive should be separate and should not be performed by the same individual. The chairman and the chief executive of the Company was performed by two separate individuals, with Mr. Cai Jianjun ("Mr. Cai") acted as the chairman and Mr. Fang Gang ("Mr. Fang") acted as the chief executive. Mr. Cai resigned as executive Director and chairman of Board on 5 June 2020, and Mr. Fang resigned as the chief executive on 15 July 2020. Following the resignation of Mr. Cai, the Company does not have the chairman of the Board, and the chairman has not held meeting with all independent non-executive Directors/non-executive Director without the executive Directors present. The Company also did not comply with code provision A.2. The Company will identify appropriate persons to fill in the vacancies of chairman and the chief executive.

Code Provision A.4.1

Under code provision A.4.1, non-executive directors should be appointed for a specific term and be subject to re-election. Two independent non-executive Directors namely, Ms. Choy So Yuk and Mr. Leung Yuen Wing (who has resigned as an independent non-executive Director on 22 January 2021) were not appointed for a specific term. However, all Directors are subject to the retirement provisions in the Bye-laws of the Company which provides that one-third of the Directors for the time being shall retire from office by rotation and every Director shall be subject to retirement at least once every three years. The Company will arrange to appoint Ms. Choy with a specific term to comply with the CG Code.

Code Provisions A.6.7 and E.1.2

Under code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of the shareholders. In addition, code provision E.1.2 provides that the chairman of the board should attend the annual general meeting. The independent non-executive Directors, Mr. Leung Yuen Wing, Mr. Wu Zhao, Mr. Zhu Dengkai, Mr. Liu Wei and Mr. Zou Mingwu had not attended the annual general meeting held on 10 July 2020 ("2020 AGM") as they were not in Hong Kong, and due to the COVID-19 pandemic, they had not come/returned to Hong Kong, or had other commitments which must be attended to. Besides, as no chairman was appointed after the resignation of Mr. Cai on 5 June 2020, the 2020 AGM did not have chairman to attend. However, the executive Director, Ms. Yang Yi and Mr. Meng Fanpeng, the non-executive Director, Mr. Qin Bo and the independent non-executive Director and also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee, Ms. Choy So Yuk had attended the 2020 AGM.

Code Provision A.7.1

Under code provision A.7.1, for regular board meetings, and as far as practicable in all other cases, an agenda and accompanying board papers should be sent, in full, to all directors at least 3 days before the intended date of a board meeting or board committee meeting. Since additional time was required to prepare the board papers for the meetings, in some occasions, the board papers were not sent to all Directors 3 days before such meetings. The Company will arrange the board papers at the earliest possible time in future.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding directors' securities transactions set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules (the "Model Code"). Following specific enquiry by the Company, all Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2020.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the “AGM”) is scheduled to be held on 3 June 2021. The Notice of the AGM will be published and despatched to the shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders who are entitled to attend and vote at the AGM, the register of members of the Company will be closed from 28 May 2021 to 3 June 2021, both days inclusive during which period, no transfer of shares will be registered. In order to qualify for attending and voting at the AGM, all transfers of shares accompanied by the relevant share certificates and transfer forms should be lodged for registration with the Company’s branch share registrar in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as practicable and in any event not later than 4:30 p.m. on 27 May 2021.

REVIEW OF ANNUAL RESULTS

The audit committee of the Company (the “Audit Committee”) currently comprises three independent non-executive Directors, namely Mr. Wong Chun Hung (the chairman), Ms. Choy So Yuk and Mr. Wu Zhao. The Audit Committee has reviewed with the management and the Group’s auditors the annual results of the Group for the year ended 31 December 2020.

By order of the Board
Silk Road Logistics Holdings Limited
Meng Fanpeng
Executive Directors

Hong Kong, 30 March 2021

As at the date of this announcement, the Board comprises three executive Directors, namely Ms. Wong Kai Ling, Ms. Yang Yi and Mr. Meng Fanpeng; one non-executive Director, namely Mr. Qin Bo; and four independent non-executive Directors, namely Ms. Choy So Yuk, Mr. Wu Zhao, Mr. Zou Mingwu and Mr. Wong Chun Hung.