



Silk Road Energy Services Group Limited
絲路能源服務集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8250)

FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2020

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FIRST QUARTERLY RESULTS (UNAUDITED)

The board of Directors (the “**Board**”) of the Company announces herewith the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the three months ended 30 September 2020, together with the comparative unaudited figures for the corresponding period in 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 30 September 2020

		Three months ended 30 September	
		2020	2019
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Revenue	3	26,287	83,246
Cost of services rendered		<u>(19,225)</u>	<u>(67,524)</u>
Gross profit		7,062	15,722
Other income	4	3,550	2,988
Fair value changes on financial assets at FVTPL		(9,412)	8,116
Administrative and other operating expenses		(10,205)	(12,805)
Finance costs	6	<u>(983)</u>	<u>(1,766)</u>
(Loss) profit before taxation		(9,988)	12,255
Income tax expense	7	<u>(851)</u>	<u>(2,083)</u>
(Loss) profit for the period	5	<u><u>(10,839)</u></u>	<u><u>10,172</u></u>

		Three months ended	
		30 September	
		2020	2019
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
<i>Notes</i>			
(Loss) profit for the period attributable to:			
		(10,767)	10,232
– Owners of the Company			
– Non-controlling interests		<u>(72)</u>	<u>(60)</u>
		<u>(10,839)</u>	<u>10,172</u>
(Loss) earning per share			
– Basic and diluted (HK cents per share)	9	<u>(0.14)</u>	<u>0.14</u>
(Loss) profit for the period			
		(10,839)	10,172
Other comprehensive income (expense) for the period, net of tax			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations			
		<u>13,150</u>	<u>(15,220)</u>
Total comprehensive income (expense) for the period, net of income tax:			
		<u>2,311</u>	<u>(5,048)</u>
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		2,327	(4,987)
Non-controlling interests		<u>(16)</u>	<u>(61)</u>
		<u>2,311</u>	<u>(5,048)</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 30 September 2020

	Attributable to owners of the Company						Non-controlling interests	Total
	Share capital	Share premium	Foreign currency translation reserve	Other reserve	Accumulated losses	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 July 2020 (Audited)	374,628	651,897	(49,263)	3,639	(614,559)	366,342	205	366,547
Loss for the period	–	–	–	–	(10,765)	(10,765)	(72)	(10,837)
Exchange differences on translating foreign operations	–	–	13,094	–	–	13,094	56	13,150
Total comprehensive income (expense) for the period	–	–	13,094	–	(10,765)	2,329	(16)	2,313
Transfer	–	–	–	793	(793)	–	–	–
Balance at 30 September 2020 (Unaudited)	374,628	651,897	(36,169)	4,432	(626,117)	368,671	189	368,860

For the three months ended 30 September 2019

	Attributable to owners of the Company						Non-controlling interests	Total
	Share capital	Share premium	Foreign currency translation reserve	Other reserve	Accumulated losses	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 July 2019 (Audited)	374,628	651,897	(34,911)	3,305	(513,188)	481,731	387	482,118
Profit (loss) for the period	–	–	–	–	10,232	10,232	(60)	10,172
Exchange differences on translating foreign operations	–	–	(15,220)	–	–	(15,220)	(1)	(15,221)
Total comprehensive (expense) income for the period	–	–	(15,220)	–	10,232	(4,988)	(61)	(5,049)
Transfer	–	–	–	491	(491)	–	–	–
Balance at 30 September 2019 (Unaudited)	374,628	651,897	(50,131)	3,796	(503,447)	476,743	326	477,069

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS:

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands, and its shares are listed on GEM.

The Company is an investment holding company. Its subsidiaries were principally engaged in the (i) provision of coal mining and construction services; (ii) provision for heating supply services and (iii) provision of money lending services.

2. BASIS OF PREPARATION

The unaudited condensed consolidated results for the three months ended 30 September 2019 have been prepared in accordance with Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards and Interpretation issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance.

The unaudited condensed consolidated results have been prepared under the historical cost basis except for certain financial instruments which are measured at their fair values.

The accounting policies and methods of computation applied in preparation of the unaudited condensed consolidated results for the three months ended 30 September 2020 are consistent with those adopted in preparing the Group's audited financial statements for the year ended 30 June 2020.

3. REVENUE

Revenue represents revenue arising on services rendered, net of sales related taxes, where applicable. An analysis of the Group's revenue for the period is as follows:

	Three months ended	
	30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15		
– Provision of coal production, excavation works and construction works	22,517	77,478
– Provision for heating supply services	–	–
	22,517	77,478
Revenue from other source		
– Interest income from money lending business	3,770	5,768
	26,287	83,246

4. OTHER INCOME

	Three months ended 30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income on bank deposits	187	150
Leasing income from machinery	868	1,746
Handling income	1,128	–
Government grants	268	–
Gain on disposal of property, plant and equipment	813	–
Sundry income	286	1,092
	<u>3,550</u>	<u>2,988</u>

5. (LOSS) PROFIT FOR THE PERIOD

The Group's (loss) profit for the period has been arrived at after charging:

	Three months ended 30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	685	2,822
Depreciation of right-of-use assets	232	–
Amortisation of customer contracts	–	1,973
	<u>–</u>	<u>1,973</u>

6. FINANCE COSTS

	Three months ended 30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest expenses on discounted bills	51	–
Interest expenses on lease liabilities	11	–
Interest expenses on short term loan	431	–
Imputed interest on promissory notes	490	1,766
	<u>983</u>	<u>1,766</u>

7. INCOME TAX EXPENSE

	Three months ended 30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax:		
– Hong Kong Profits Tax	69	203
– People's Republic of China ("PRC") Enterprise Income Tax	782	2,373
Deferred tax credit	–	(493)
	<u>851</u>	<u>2,083</u>

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying corporation will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. Other than the qualifying corporation, Hong Kong Profits Tax was calculated at a flat rate of 16.5% of the estimated assessable profits for both years.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for the year ended 30 June 2020 (2019: 25%).

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

8. DIVIDENDS

The Board does not recommend the payment of a dividend for the three months ended 30 September 2020 (2019: Nil).

9. (LOSS) EARNING PER SHARE

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

	Three months ended 30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit (loss)		
(Loss) profit for the purpose of basic and diluted (loss) earning per share (for the period attributable to owners of the Company)	<u>(10,767)</u>	<u>10,232</u>

	Number of Shares <i>'000</i>	Number of Shares <i>'000</i>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted (loss) earning per share	<u>7,492,562</u>	<u>7,492,562</u>

Diluted (loss) earning per share was the same as the basic (loss) earning per share as there were no potential dilutive ordinary shares outstanding for the three months ended 30 September 2020 and 30 September 2019.

10. CAPITAL COMMITMENT

As at 30 September 2020, the Group's capital commitment are as follow:

	As at 30 September 2020 (Unaudited) <i>HK\$'000</i>	As at 30 June 2020 (Audited) <i>HK\$'000</i>
Capital injection in respect of an investee	<u>20,498</u>	<u>19,728</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business and financial review

For the three months ended 30 September 2020 (the “**Period**”), the Group recorded a revenue of approximately HK\$26.29 million (2019: HK\$83.25 million), representing a decrease of 68.42% as compared with that of the corresponding period in 2019. The decrease in revenue was mainly due to the termination and non-renewal of coal mining service agreements (“**Cessation of Agreements**”) by the customers as announced in the Company’s announcements dated 16 January 2020 and 17 June 2020. The Group recorded gross profit of approximately HK\$7.06 million (2019: HK\$15.72 million) for the Period. The gross profit declined by approximately 55.09%, mainly due to the decline in revenue. The overall gross profit margin increased from 18.89% to 26.86% for the Period. The increase in margin was mainly due to a larger percentage of contribution to revenue from money lending business which has a much higher gross profit margin comparing with the business of provision of coal mining & construction services.

The Group recorded other income, which was mainly contributed by the handling income for coal transportation services, leasing income from machinery and gain on disposal of fixed assets, in the amount of approximately HK\$3.55 million (2019: HK\$2.99 million) for the Period. The Group recorded a loss of approximately HK\$9.41 million (2019: gain of approximately HK\$8.12 million) of fair value change on financial assets at fair value through profit or loss (“**FVTPL**”), which represented a loss on investments in securities listed in Hong Kong. The Group recorded administrative and other operating expenses in the amount of HK\$10.21 million (2019: HK\$12.81 million), the decrease was mainly due to the absence of amortization of intangible assets in the Period. The Group recorded finance costs in the amount of HK\$0.98 million (2019: HK\$1.77 million). The Group recorded income tax expense in the amount of HK\$0.85 million (2019: HK\$2.08 million), the decrease in taxation is in line with the decrease of operating profit.

In conclusion, loss attributable to owners of the Company for the Period amounted to approximately HK\$10.77 million (2019: profit of HK\$10.23 million). The change from profit to loss was mainly due to a loss of HK\$9.41 million (2019: profit of HK\$8.12 million) of fair value change on financial assets at FVTPL.

Provision of coal mining & construction services

The major revenue of this segment comprises of service income from excavation works and provision of construction works. During the Period, the Group’s provision of coal mining & construction services recorded a revenue of approximately HK\$22.52 million (2019: HK\$77.48 million) which accounted for 85.66% of the Group’s total revenue. During the Period, the Group has ceased to provide services which are governed by the Entrusted Management Measures (“**Measure**”) to its customers after the Cessation of Agreements but the Group still provided services not governed by the Measures. Furthermore, the Group also provided construction works to new customer.

Money lending business

The Group operates its money lending business through an indirectly wholly-owned subsidiary of the Company, which is a licensed money lender under the Money Lenders Ordinance (Cap. 163, Laws of Hong Kong). The Group also made short term loans to third parties in the PRC through its subsidiaries in Mainland China. During the Period, the revenue from loan interest income was approximately HK\$3.77 million (2019: HK\$5.77 million) which accounted for 14.34% of the Group's total revenue. The decrease in revenue was mainly attributable to the decline in loan balances as the Group was more cautious in granting loans. The interest rate charged by the Group ranged from 5% to 20% per annum. Save for a loan of HK\$3 million which was secured by second charge of property, all loans extended by the Group were unsecured. The loans have credit terms of not more than one year.

Provision for heating supply

The Group provided the heat supply services in Tianjin City, the PRC. The services include transformation of coal-fired heating systems and provided heating to the customers. During the Period, no revenue was recorded as the heat supply season commences in November and ends in March every year. The group recorded an insignificant loss in this segment for the Period.

Investment in listed securities (i.e. Financial assets at FVTPL)

As at 30 September 2020, the Group invested in certain securities listed in Hong Kong (i.e. Financial assets at FVTPL), the financial assets at FVTPL amounted to approximately HK\$16.40 million (30 June 2020: HK\$27.04 million). During the Period, the Group recorded a loss of fair value change on financial assets at FVTPL of approximately HK\$9.41 million (2019: gain of HK\$8.12 million).

Outlook

The directors expect the provision of coal mining and construction services will remain the Group's major source of revenue notwithstanding the challenges of increasing production costs and intense market competition. Given the income from the provision of coal-mining service and construction services is charged on project basis and is non-recurrent in nature, the Group may achieve lower-than expected revenue if it fails to maintain continuity of the Group's order book for its new projects. Accordingly, the Group has been actively pursuing new customers so as to enlarge its customer base. On the other hand, the Group has also implemented efficiency initiatives to streamline operation and achieve savings.

There has been an increase in demand for heating system and such growing trend is expected to continue in coming years due to rapid urbanisation and the environmental regulations facilitate the process of boiler conversions from coal to natural gas in the PRC. In line with the Group's strategy to develop its environmental friendly heating business, the Group seeks further expansion in the more profitable areas such as Beijing.

Given the coronavirus pandemic has an impact on the economies of China and Hong Kong, the Group will continue to enhance its control over the making of loans as well as monitoring its outstanding loans receivable to minimise credit risk with respect to its money lending business.

Looking ahead, the Group will maintain healthy development of different business segments to consolidate its business portfolio and diversify its source of income. Subject to the availability of financial resources, the Group will continue to actively consider venturing into new business areas, to broaden its source of revenue thereby creating greater value for its shareholders.

USE OF PROCEEDS FROM PLACING

The Company completed the placing of an aggregate of 1,046,260,000 Shares on 21 April 2016. The net proceeds from the placing were of approximately HK\$201.28 million. The Group intended to use 80% (approximately HK\$160 million) of the proceeds for the development in the business of provision of services related to clean energy and the remaining 20% (approximately HK\$40 million) of the proceeds for working capital purpose. As at 30 September 2020, the Group had utilized approximately HK\$81 million for the business of provision of services related to clean energy including (i) investment in the joint ventures for the provision of heat supply services, (ii) capital expenditure such as purchasing heat supply equipment and carrying construction works and (iii) operation costs of the joint ventures, and approximately HK\$40 million for general working capital. As at the date of this announcement, the remaining balance was deposited into the banks.

OTHER INFORMATION

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures

As at 30 September 2020, none of the Directors and the Chief Executives had any other interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporation (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, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to Rules 5.48 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange.

Directors' rights to acquire shares or debentures

To the best knowledge of the Directors, at no time during the Period was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporation.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 30 September 2020, so far as is known to the Directors and the Chief Executives, the interests and short positions of the persons or corporations in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO; or who was directly or indirectly, to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company as follows:

Long position in ordinary shares of HK\$0.05 each of the Company

Name of Shareholders	Nature of interests	Number of shares held	Approximate percentage of shareholding
CHEN Zhaohui	Beneficial owner	437,480,000	5.84%
Zhou Jiao (<i>Note 1</i>)	Held by controlled entity	511,320,000	6.82%
159 Anti-Aging Health Group Ltd. (<i>Note 1</i>)	Beneficial owner	511,320,000	6.82%
XU, Gongming	Beneficial owner	12,000,000	0.16%
XU, Gongming (<i>Note 2</i>)	Held by controlled entity	660,060,000	8.81%
Zheng He Industrial Group Limited (<i>Note 2</i>)	Beneficial owner	660,060,000	8.81%
Full Ying Holdings Limited	Beneficial owner	443,480,000	5.92%

Note 1: Zhou Jiao is deemed to be interested in 511,320,000 shares held by 159 Anti-Aging Health Group Ltd, the company is incorporated in the British Virgin Islands and are wholly and beneficially owned by Zhou Jiao.

Note 2: XU, Gongming is deemed to be interested in 660,060,000 shares held by Zheng He Industrial Group Limited, the company is incorporated in the British Virgin Islands, which is wholly and beneficially owned by XU, Gongming.

Save as disclosed above, as at 30 September 2020, no other person or corporation has interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO; or, who was directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

Share Options Scheme

A share options scheme was passed by the shareholders of the Company at the annual general meeting of the Company held on 12 December 2014 (the “**2014 AGM**”), thereby allowing the Company to grant options for subscription of up to a total of 533,250,233 shares of the Company, representing 10% of the 5,332,502,338 shares of the Company in issue as at the date of the 2014 AGM. The new share options scheme will enable the Company to reward and provide incentives to, and strengthen the Group’s business relationship with, the eligible participants who may contribute to the growth and development of the Group. No options have been granted under the new share options scheme as at the date of this announcement.

Competing Interests

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

Purchase, Sale or Redemption of the Company’s Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the Period.

Compliance with Code of Conduct for Securities Transactions by Directors

The Company has adopted the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as a code of conduct of the Company regarding securities transactions by the Directors. The Company has made specific enquiry of all the Directors, and the Directors have complied with the required standard of dealings and the Company’s code of conduct regarding securities transactions by the Directors throughout the Period.

Code on Corporate Governance Practices

The Company endeavours in maintaining high standard of corporate governance for the enhancement of shareholders' value. The Company has applied the principles of and complied with all the applicable code provisions and, where appropriate, the applicable recommended best practices of the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 15 to the GEM Listing Rules during the Period.

Audit Committee

The Company has established an audit committee (the “**Audit Committee**”) with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to (i) review the Company's annual report and accounts, interim reports and quarterly reports; (ii) provide advice and comments thereon to the Board; and (iii) review and supervise the Group's financial reporting and internal control procedures and risk management system. The Audit Committee comprises four independent non-executive Directors, namely Ms. Wong Na Na (committee chairman), Mr. Wang Zhixiang, Ms. Feng Jibei and Mr. Chen Xier.

The Group's unaudited condensed consolidated financial statements for the Period, has been reviewed by the Audit Committee, which is of the opinion that the preparation of such results complied with the applicable accounting standards, the GEM Listing Rules and that adequate disclosures have been made.

By Order of the Board
Silk Road Energy Services Group Limited
Cai Da
Co-Chairman

Hong Kong, 12 November 2020

As at the date of this announcement, the Board of the Company, comprises (i) five executive directors namely, Mr. Cai Da, Mr. Li Xianghong, Mr. Chen Youhua, Mr. Li Wai Hung and Mr. Wang Tong Tong; and (ii) four independent non-executive Directors namely, Ms. Wong Na Na, Mr. Wang Zhixiang; Ms. Feng Jibei and Mr. Chen Xier.