



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 2021

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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 2021, together with the comparative unaudited figures for the corresponding period in 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 30 September 2021

		Three months ended 30 September	
		2021	2020
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Revenue	3	23,252	26,287
Cost of services rendered		<u>(20,893)</u>	<u>(19,225)</u>
Gross profit		2,359	7,062
Other income	4	751	3,550
Fair value changes on financial assets at FVTPL		2,200	(9,412)
Administrative and other operating expenses		(10,742)	(10,205)
Finance costs	6	<u>(477)</u>	<u>(983)</u>
Loss before taxation		(5,909)	(9,988)
Income tax expense	7	<u>(369)</u>	<u>(851)</u>
Loss for the period	5	<u><u>(6,278)</u></u>	<u><u>(10,839)</u></u>

		Three months ended	
		30 September	
		2021	2020
		(Unaudited)	(Unaudited)
<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the period attributable to:			
	– Owners of the Company	(6,196)	(10,767)
	– Non-controlling interests	(82)	(72)
		<u>(6,278)</u>	<u>(10,839)</u>
Loss per share			
	– Basic and diluted (HK cents per share)	(0.08)	(0.14)
		<u>(0.08)</u>	<u>(0.14)</u>
Loss for the period		(6,278)	(10,839)
Other comprehensive income for the period, net of tax			
Item that may be reclassified subsequently to profit or loss:			
	Exchange differences on translating foreign operations	941	13,150
		<u>941</u>	<u>13,150</u>
Total comprehensive (expense) income for the period, net of income tax:		<u>(5,337)</u>	<u>2,311</u>
Total comprehensive (expense) income for the period attributable to:			
	Owners of the Company	(5,255)	2,327
	Non-controlling interests	(82)	(16)
		<u>(5,337)</u>	<u>2,311</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 30 September 2021

	Attributable to owners of the Company					Total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Distributable reserve HK\$'000	Foreign currency translation reserve HK\$'000	Other reserve HK\$'000	Retained Earning (accumulated losses) HK\$'000			
Balance at 1 July 2021 (Audited)	74,926	288,469	(19,969)	2,882	19,457	366,342	205	366,547
Loss for the period	–	–	–	–	(6,196)	(6,196)	(82)	(6,278)
Exchange differences on translating foreign operations	–	–	941	–	–	941	–	941
Total comprehensive income (expense) for the period	–	–	941	–	(6,196)	(5,255)	(82)	(5,337)
Balance at 30 September 2021 (Unaudited)	74,926	288,469	(19,028)	2,882	13,261	360,510	(16)	360,494

For the three months ended 30 September 2020

	Attributable to owners of the Company					Total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Foreign currency translation reserve HK\$'000	Other reserve HK\$'000	Accumulated losses 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

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 2021 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 2021 are consistent with those adopted in preparing the Group's audited financial statements for the year ended 30 June 2021.

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	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15		
– Provision of excavation works and construction works	20,172	22,517
– Provision for heating supply services	–	–
	20,172	22,517
Revenue from other source		
– Interest income from money lending business	3,080	3,770
	23,252	26,287

4. OTHER INCOME

	Three months ended 30 September	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income on bank deposits	86	187
Leasing income from machinery	–	868
Handling income	588	1,128
Government grants	–	268
Gain on disposal of property, plant and equipment	–	813
Sundry income	77	286
	<u>751</u>	<u>3,550</u>

5. LOSS FOR THE PERIOD

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

	Three months ended 30 September	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	794	685
Depreciation of right-of-use assets	129	232
	<u>923</u>	<u>917</u>

6. FINANCE COSTS

	Three months ended 30 September	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest expenses on discounted bills	13	51
Interest expenses on lease liabilities	59	11
Interest on amount due to a former noteholder	405	431
Imputed interest on promissory notes	–	490
	<u>477</u>	<u>983</u>

7. INCOME TAX EXPENSE

	Three months ended 30 September	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax:		
– Hong Kong Profits Tax	28	69
– People's Republic of China ("PRC") Enterprise Income Tax	341	782
	<u>369</u>	<u>851</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 2021 (2020: 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 2021 (2020: Nil).

9. LOSS PER SHARE

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

	Three months ended 30 September	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss		
Loss for the purpose of basic and diluted loss per share (for the period attributable to owners of the Company)	<u>(6,196)</u>	<u>(10,767)</u>

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

Diluted loss per share was the same as the basic loss per share as there were no potential dilutive ordinary shares outstanding for the three months ended 30 September 2021 and 30 September 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and financial review

For the three months ended 30 September 2021 (the “**Period**”), the Group recorded a revenue of approximately HK\$23.25 million (2020: HK\$26.29 million), representing a decrease of 11.55% as compared with that of the corresponding period in 2020. The decrease in revenue was mainly due to the workplace safety inspections conducted by government authorities which adversely affected the operations of coal mining and construction segment. The Group’s gross profit decreased from HK\$7.06 million for the three months ended 30 September 2020 to HK\$2.39 million for the Period and its overall gross profit margin decreased from 26.86% for the three months ended 30 September 2020 to 10.15% for the Period. The decrease was mainly due to the decline in revenue and the increase of labour costs.

The Group recorded other income, which mainly comprised of the handling income for coal packing services and interest income, in the amount of approximately HK\$0.75 million (2020: HK\$3.55 million) for the Period. The decrease of other income is mainly due to the absence of leasing income from machinery (2020: HK\$0.87 million), government grants (2020: HK\$0.27 million) and a gain on disposal of assets (2020: HK\$0.81 million).

The Group recorded a gain of HK\$2.20 million (2020: loss of 9.41 million) of fair value change on financial assets at fair value through profit or loss (the “**FVTPL**”), which was contributed by gain from investments in listed securities. The Group recorded administrative and other operating expenses in the amount of HK\$10.74 million (2020: HK\$10.21 million) and finance costs in the amount of HK\$0.37 million (2020: HK\$0.98 million). These costs are similar to that incurred in the corresponding period in 2020. The Group recorded income tax expense in the amount of HK\$0.40 million (2020: HK\$0.85 million), the decrease in taxation is in line with the decrease in operating profit.

In conclusion, loss attributable to owners of the Company for the Period amounted to approximately HK\$6.20 million (2020: HK\$10.84 million). The decrease in loss was mainly due to a gain of approximately HK\$2.20 million for the Period in respect of the change of fair value on financial assets at FVTPL, as opposed to a loss of approximately HK\$9.41 million for the three months ended 30 September 2020, which was partially off set by the decrease in gross profit and other income.

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 to two customers recorded a revenue of approximately HK\$20.17 million (2020: HK\$22.52 million) which accounted for 86.75% of the Group’s total revenue. This segment recorded a loss of approximately HK\$6.47 million during the Period.

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 granted 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\$3.08 million (2020: HK\$3.77 million) which accounted for 18.30% of the Group's total revenue. The decrease in revenue in this segment was mainly attributable to the decline in loan balances as the Group was more cautious in granting new loans. The interest rate charged by the Group ranged from 5% to 18% per annum. Save for a loan of HK\$3 million which was secured by a second charge of property, all loans extended by the Group were unsecured. This segment recorded a profit of approximately HK\$1.33 million during the Period.

Provision for heating supply

The Group provides heating supply services to customers in Tianjin City, the PRC. 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

As at 30 September 2021, the Group invested in securities listed in Hong Kong, the United States and the PRC markets (i.e. Financial assets at FVTPL), the financial assets at FVTPL amounted to approximately HK\$31.10 million (30 June 2021: HK\$27.33 million). During the Period, the Group recorded a gain of fair value change on financial assets at FVTPL of approximately HK\$2.20 million (2020: HK\$ loss of 9.41 million).

Outlook

The directors expect the provision of coal mining and construction services will remain one of the Group's major sources 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. Whilst, the Group has yet acquired new customers during the Period, it will continue to pursue for new customers so as to enlarge its customer base.

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 implementation of environmental regulations which 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 of its business in Tianjin and Beijing. The Company would be cautious when assessing and considering potential investment opportunities.

Given the impact of the COVID-19 pandemic on the economies of Mainland China and Hong Kong, the Group will continue to exercise significant control over the granting 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 its different business segments to consolidate its business portfolio and diversify its sources of income. Subject to the availability of financial resources, the Group will continue to actively consider venturing into new business areas. Having considered various business areas, the Group intends to diversify into the business of fruit trading through investment in a joint venture with an individual who has extensive experience in this field. The Directors are of the view that the business of import of fruits into the PRC has great potential and is a good business opportunity to broaden the Group's source of revenue thereby creating greater value for its shareholders.

USE OF PROCEEDS FROM PLACING

As disclosed in the announcement of the Company dated 8 April and 21 April 2016, the Company completed the placing of an aggregate of 1,046,260,000 new shares in the Company on 21 April 2016 ("**Placing**"), from which the net proceeds of HK\$201.2 million was raised. 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\$41 million) of the proceeds for working capital purpose ("**Intended Purposes**"). Among other things, the Company has applied part of the proceeds from the Placing to develop clean energy heat supply services in Shandong (subsequently ceased in 2017) and Tianjin.

The breakdown for the usage of the proceeds up to 30 September 2021 are as follows:

	Actual net proceeds HK\$	The cumulative usage of the Placing proceeds up to 30 June 2021 HK\$	For the Period HK\$	Unutilised Proceeds as at 30 September 2021 HK\$
Provision of heat supply services by clean energy including				
(i) investment in the joint ventures for the provision of heat supply services		35 million	Nil	
(ii) capital expenditure such as purchasing heat supply equipment and carrying out construction works and		34 million	Nil	
(iii) operation costs of the joint ventures		11 million	Nil	
Sub-total	<u>160 million</u>	<u>80 million</u>	<u>Nil</u>	<u>80 million</u>
General working capital	<u>41 million</u>	<u>41 million</u>	<u>Nil</u>	<u>Nil</u>
Total	<u><u>201 million</u></u>	<u><u>121 million</u></u>	<u><u>Nil</u></u>	<u><u>80 million</u></u>

The remaining balance of unutilised proceeds (“**Unutilised Proceeds**”) of approximately HK\$80 million was and is still being deposited in banks and has remained unutilised during the Period and as at the date of this announcement.

The Company has continued looking for potential investment opportunities to which the Company may apply the Unutilised Proceeds. All of the potential investments which the Company is currently considering are at a preliminary stage and information, including the amount of the Unutilised Proceeds which is intended to be applied to such investment(s), may be provided once the Company and the counterparty(ies) have reached binding commercial terms of such investments. Given the Company is still considering the potential investments and the negotiation with the counterparty(s) on commercial terms are still at a preliminary stage, the Company does not have an expected timeline for the utilisation of the Unutilised Proceeds. In view of the above, the directors consider that the potential investments currently being considered by the Company are in relation to the provision of heat supply services using natural gas are consistent with the Intended Purposes.

OTHER INFORMATION

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

As at 30 September 2021, 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 2021, 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\$0.01 each of the Company

Name of Shareholders	Nature of interests	Number of shares held	Approximate percentage of shareholding
XU, Gongming	Beneficial owner	12,000,000	0.16%
XU, Gongming (<i>Note 1</i>)	Held by controlled entity	1,037,980,000	13.85%
Redwood Bay Investment Group International Company Limited (<i>Note 1</i>)	Beneficial owner	1,037,980,000	13.85%
WEI, Kai	Beneficial owner	232,900,000	1.24%
WEI, Kai (<i>Note 2</i>)	Held by controlled entity	424,720,000	5.67%
Star Link Technology Limited (<i>Note 2</i>)	Beneficial owner	424,720,000	5.67%

Note 1: XU, Gongming is deemed to be interested in 1,037,980,000 shares held by Redwood Bay Investment Group International Company Limited (formerly known as Zheng He Industrial Group Limited), the company is incorporated in the British Virgin Islands, which is wholly and beneficially owned by XU, Gongming.

Note 2: WEI, Kai is deemed to be interested in 424,720,000 shares held by Star Link Technology Limited, the company is incorporated in the British Virgin Islands, which is wholly and beneficially owned by WEI, Kai.

Save as disclosed above, as at 30 September 2021, 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

The Company has adopted a share options scheme as approved by the shareholders of the Company at the annual general meeting of the Company held on 12 December 2014 (the “**2014 AGM**”), pursuant to which the Company may grant options to subscribe for 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 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 share options scheme since its adoption.

Competing interests

During the Period, none of the Directors, substantial shareholders, and their respective associates (as defined in the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group or any conflicts of interest which had or might have 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 with 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. Pursuant to code provision A.2.1 of the Code on Corporate Governance (“**Corporate Governance Code**”) as set out in Appendix 15 to the GEM Listing Rules, the roles of the chairman and chief executive should be separate and should not be performed by the same individual. Currently, each of Mr. Cai Da and Mr. Li Xianghong is the co-chairman of the Company. Mr. Cai Da as the Co-Chairman was responsible for providing leadership to and overseeing the management of the Board, and performing the roles of the chairman for the purposes of the articles of association of the Company, the Corporate Governance Code and the Rules Governing the Listing of Securities on the GEM, while Mr. Li Xianghong as the Co-chairman was primarily

responsible for overall leadership in the strategic development of the business of the Group. Further, following the resignation of Mr. Chen Youhua from the positions of executive director and CEO of the Company on 1 January 2021, the board has not yet appointed a new chief executive of the Company. Accordingly, the duties of the chief executive have since then been undertaken by the executive directors. The Board will keep reviewing the current structure of the Board and the need of appointment of a suitable candidate to perform the role of chief executive. Appointment will be made to fill the post to comply with code provision A.2.1 of the Corporate Governance Code if necessary. Save as disclosed above, 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 Corporate Governance Code during the Period.

Audit Committee

The Company has established an audit committee (the “**Audit Committee**”) with written terms of reference in compliance with the Corporate Governance 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, 8 November 2021

As at the date of this announcement, the Board of the Company, comprises (i) four executive directors namely, Mr. Cai Da, Mr. Li Xianghong, 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.