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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)

SUPPLEMENTAL ANNOUNCEMENT TO ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2022

References is made to the annual report of Silk Road Energy Services Group Limited (the “**Company**”, together with its subsidiaries as the “**Group**”) for the year ended 30 June 2022 (the “**Annual Report**”). Unless otherwise defined, terms used in this announcement shall have the same meanings as those defined in the Annual Report.

In respect of the money lending business of the Company disclosed in the Annual Report, the Board would like to provide the following supplemental information to the Shareholders.

1. MONEY LENDING BUSINESS

As disclosed in the Annual Report, the Group operates its money lending business in Hong Kong through Great Wall Credit Limited (“**Great Wall**”), an indirect wholly-owned subsidiary of the Company and a licensed money lender under the Money Lenders Ordinance (Cap. 163 of the laws of Hong Kong), and in PRC through Smart City (Shenzhen) Investment Company Limited (“**Smart City**”), an indirect wholly-owned subsidiary of the Company. Loan financing is the only money lending service provided by the Group, and the Group’s customers principally include individuals introduced to the directors of Great Wall and Smart City through business or personal networks or referral from business counterparts of the Group. The majority of the loans granted by the Group are short-term with maturity date within one year. The Group does not have a specific target loan size but assesses each application on the basis of its merit and will determine whether security in the form of legal charge on property or personal guarantee provided by independent third party would be required.

As at 30 June 2022, the Group had 25 borrowers, of which 21 were individual borrowers and 4 were corporate borrowers, and a total of 25 outstanding loans (“**Outstanding Loans**”). A breakdown of Outstanding Loans granted by the relevant subsidiary is as follows:

1. A total of 23 Outstanding Loans were respectively granted by Smart City to 20 individual borrowers and 3 corporate borrowers. Amongst the 23 Outstanding Loans, 13 were respectively secured by personal guarantee provided by independent third party guarantor while the remaining Outstanding Loans were unsecured.
2. 1 Outstanding Loan was granted by Great Wall to an individual borrower and the Outstanding Loan was secured by a second charge on a property situated in Hong Kong.
3. 1 Outstanding Loan was granted by 鄂爾多斯市泰普礦業工程有限責任公司 (Ordos City Tai Pu Mining Engineering Company Limited*) (“**Tai Pu Mining**”), an indirect wholly-owned subsidiary of the Company which is principally engaged in provision of mining and construction services, to a corporate borrower during the course of its mining business. The said outstanding loan was a one-off unsecured lending made by Tai Pu Mining which accounts for 0.35% of the total outstanding balances of the Outstanding Loans and money lending does not constitute a principal business of Tai Pu Mining. However, for accounting purpose, the said loan has been booked as a loan receivable and grouped under the loan portfolio of the Group and is accordingly disclosed for the purpose of this announcement.

The outstanding balances (including interest receivables) of the Outstanding Loans ranged from approximately HK\$300,000 to HK\$6,800,000 with interest rate ranging from 5.0% – 18.0% per annum. The loan portfolio of the Group fell within the following bands:

Outstanding balances of Outstanding Loans	Number of Outstanding Loans within the band
HK\$6,000,001 to HK\$7,000,000	7
HK\$4,500,001 to HK\$6,000,000	6
HK\$3,000,001 to HK\$4,500,000	5
HK\$1,500,001 to HK\$3,000,000	4
HK\$0 to HK\$1,500,000	3
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	<hr style="border-top: 3px double black;"/>
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As at 30 June 2022, the top five borrowers of the Group constituted 30.47% of the total principal amount of the Group's loan portfolio and 30.90% of the Group's loan receivables (including interest receivables).

The board of directors of Great Wall, which members include Mr. Cai Da (“**Mr. Cai**”), an executive Director, are responsible for the management and operation of Great Wall and its money lending business, and is supported by employees who are qualified accountants. The directors of Great Wall, who have valuable experience in the management of money lending business, oversee Great Wall's money lending business and ensure that the relevant internal control procedures are performed properly. Their expertise has given a competitive advantage to Great Wall.

In particular, Mr. Cai has extensive experience in financial management and corporate finance. He was a director of several listed companies in Hong Kong during the past ten years. He is also the vice president of the Shenzhen General Chamber of Commerce since June 2012.

The sole director of Smart City who is also its financial controller is responsible for the management and operation of Smart City, and together with Mr. Cai, oversee the money lending business. Each loan granted by Smart City must be approved by both the director and Mr. Cai. The director has solid experience in the management of money lending business and in managing roles in listed companies and other financial corporations and have thus accumulated valuable experience in this sector.

The director of Smart City and Mr. Cai are supported by the finance department of Smart City and the risk management manager. The risk management manager is responsible for conducting preliminary assessment and creditworthiness assessment for each loan application, drafting and preparing the relevant loan agreement, seeking opinions from the external legal advisor of Smart City, monitoring the loan repayments and taking action to recover delinquent loans. The risk management manager undergoes director's training in respect of compliance with Listing Rules and other listed companies related matters. She has also been assigned to other companies to shadow the entire procedure of due diligence, loan application assessment and monitoring process of loan repayment. The risk management manager is experienced in each procedure of the operation of the money lending business. The finance department of Smart City is responsible for determining the appropriate interest payment of each loan based on factors including but not limited to the principal amount, prevailing interest rate, the term of the loan and keeping accounting record of the repayments made in respect of each loan. Smart City engages qualified PRC lawyers as its external legal advisor and also arranges training for its staff on the proper conduct and risk management of money lending business, such as property valuation, client due diligence, property mortgage, share pledge and enforcement of security.

2. INTERNAL CONTROL PROCEDURES

The Group has put in place internal control procedures for its money lending business and has tailor-made such procedures for each of Great Wall and Smart City according to each of their business needs, operation model and regulatory requirement in the relevant jurisdiction. As Tai Pu Mining does not principally engage in money lending, the following internal control procedures are not applicable to Tai Pu Mining.

Approval process for granting loan

Great Wall

The established process of assessing loan applications of Great Wall is as follows:

1. Document collection – loan applicants are required to submit a number of supporting documents and information in order for Great Wall to assess their applications, including but not limited to application form, identification documents, address proof, marital status documents, business registration certificate (for corporate applicant), income proof, employment status proof, bank statements for the past year, a list of assets and liabilities of the applicants. If the applicants own any real property or have mortgage(s) on their property(ies), Great Wall will also conduct land search and online valuation of such property.
2. Assessment of repayment ability and creditworthiness – The finance department of Great Wall will have a preliminary assessment of the applicants' background and their repayment ability based on the supporting documents provided and the results of legal and financial due diligence. The finance department and/or director(s) of Great Wall will conduct face-to-face interviews to make further in-depth enquiries in the applicants' background and repayment ability.
3. Board discussion – If the finance department of Great Wall and its director(s) responsible are of the view that the relevant applicant has sufficient repayment ability and creditworthiness, the company secretary of Great Wall will report the assessment result of the applicants to the board of directors of Great Wall for their internal discussion as to the maximum allowed principal amount and interest rate for the relevant applicants. The board of directors will hold a board meeting to approve the terms of the loan agreement and the loan thereunder.

4. Signing of loan agreement – The terms and conditions of the loan agreement will be prepared by the finance department of Great Wall after the board of directors has granted the relevant approval. Before signing the loan agreement, the company secretary or a director of Great Wall will explain the terms and conditions of the loan agreement and the relevant complications to the applicant. It will be put on record that the applicant has been properly advised of the terms and conditions of the loan agreement and the parties may sign the loan agreement thereafter.

Smart City

The established process of assessing loan applications of Smart City is as follows:

1. Document collection – loan applicants are required to submit a number of supporting documents and information to facilitate Smart City’s preliminary assessment of the background of the applicants, including but not limited to application form, identification documents, address proof, marital status documents, income proof, employment status proof, bank statements for the past year, a list of assets and liabilities of the applicants, existing loan agreement(s) (if any), business license (for corporate applicant), memorandum and articles of association (for corporate applicant), recent financial statements (for corporate applicant), identification documents of the legal representative and majority shareholder(s) (for corporate applicant) and the corporate creditworthiness report (for corporate client).
2. Assessment of repayment ability and creditworthiness – The risk management manager of the finance department of Smart City is responsible for conducting a preliminary assessment of the applicants’ background, their creditworthiness and repayment ability based on the supporting documents provided and will report to the director of Smart City. The director of Smart City and Mr. Cai will together determine whether to approve the loan application, the terms of the loan agreement (including but not limited to the principal amount, interest rate, maturity date, whether security is needed) based on the assessment result.
3. Signing of loan agreement – The officer of Smart City will explain the terms and conditions of the loan agreement and the relevant complications to the applicant prior to the signing of the agreement. Then the parties may sign the loan agreement thereafter.

Credit risk assessment policy

Great Wall

As part of the approval process of loan applications, Great Wall will carry out credit risk assessment on each applicant which includes but is not limited to client identification, financial and legal due diligence, repayment ability assessment and creditworthiness assessment. Through the above procedures, Great Wall assesses its credit exposure and compliance risk in so far as anti-money laundering or anti-terrorist financing laws and regulations are concerned.

Smart City

As part of Smart City's standard procedure, various credit risk assessments, which include but are not limited to client identification, financial and legal due diligence, repayment ability assessment and creditworthiness assessment will be conducted on each applicant. Through the above procedures, Smart City considers that its exposure to default is minimized.

Mechanism in determining loan terms to ensure they are fair and reasonable

Great Wall

To ensure the terms of the loan agreements are fair and reasonable, Great Wall determines the terms with regard to factors including but not limited to the creditworthiness of the borrower, the principal amount of the loan, the predicted recoverability of the loan and the prevailing market interest rate. Also, the terms of the loan agreement in each case will be fine-tuned and tailored to the specific circumstances of the particular borrower and will be reviewed by the board of directors of Great Wall before they approve the loan agreement for signing with the borrower.

Smart City

The risk management manager of Smart City drafts the terms of each loan agreement with regard to factors including but not limited to the creditworthiness of the borrower, the principal amount of the loan, the recoverability of the loan, the prevailing market interest rate and whether the borrower has provided any asset as security to ensure they are fair and reasonable. The board of directors of Smart City ensures that the interest rate of each loan granted is in compliance with the loan policy of the People's Bank of China and not exceeding 400% of the China one-year loan prime rate. Also, the terms of the loan agreement in each case will be fine-tuned and tailored to the specific circumstances of the particular borrower and will be reviewed by the board of directors before they approve the signing of the loan agreement with the borrowers.

Monitoring loan repayment and recovery

Great Wall

Employees of the finance department of Great Wall are responsible for monitoring the status of loan repayment and keeping accounting records for monthly audit of the loan balance to ensure that all borrowers have made repayment on time in accordance with the terms of the relevant loan agreement. The employees and directors of Great Wall are also in regular communication with borrowers regarding their financial positions and credit profile to have an up-to-date understanding of their repayment ability and creditworthiness. The relevant employees will alert directors of Great Wall in the event of late repayment, material change to the repayment ability or creditworthiness of borrowers or any other events which indicate the recovery of the loan may be at risk. Additionally, the management gives quarterly report, a summary of overdue loans in respect of the status of the money lending business to the Board.

Smart City

The risk management manager of Smart City is responsible for monitoring status of the loan repayment. Creditworthiness of borrowers is continuously monitored by the risk management manager through monthly credit check and litigation search in respect of the borrowers. Regarding borrowers who have history of default, such checks will be conducted more frequently. Alerts will be sent to the finance department and the board of directors in the event of late repayment, material change to the repayment ability or creditworthiness of borrowers or any other events which indicate that the borrowers may not be able to repay the loan in accordance with the terms of the loan agreement. Additionally, the management gives quarterly report, a summary of overdue loans in respect of the money lending business to the Board.

Taking actions on delinquent loans

Great Wall

If a borrower does not make any repayment in accordance with the loan agreement, the finance department will promptly report to the board of directors of Great Wall. A director or the finance department will make inquiry with the relevant borrower as to the reason of the late payment and the estimated repayment schedule. The board of directors of Great Wall will review the proposed repayment schedule of such borrower to determine the necessary actions to be done to recover the outstanding loan. If the settlement proposal of the outstanding loan of the borrower is not satisfactory to the board, then the board may decide to commence legal proceedings against such borrower to recover the loan principal and outstanding interest.

Smart City

If a borrower does not make any repayment in accordance with the loan agreement, the risk management manager will make inquiry with the relevant borrower as to the reason of the late payment and the estimated repayment schedule and will report the same to the board of directors of Smart City. The board of directors of Smart City will review the proposed repayment schedule of such borrower, the proposed treatment of the delinquent loan as recommended by the risk management manager and discuss necessary actions to be done to recover the outstanding loan. If the settlement proposal of the outstanding loan of the borrower is not satisfactory to the board, then the board may decide to commence legal proceedings against such borrower to recover the loan principal and outstanding interest.

The above supplemental information does not affect other information contained in the Annual Report and saves as disclosed above, all other information in the Annual Report remains unchanged.

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

Hong Kong, 26 October 2022

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 Ms. Chen Xier.

This announcement, for which all the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this announcement misleading.

This announcement will remain on the “Latest Company Announcements” page of the GEM website at <http://www.hkgem.com> for at least seven (7) days from the date of its publication and is available for reference on the website of the Company at <http://www.silkroadenergy.com.hk>.