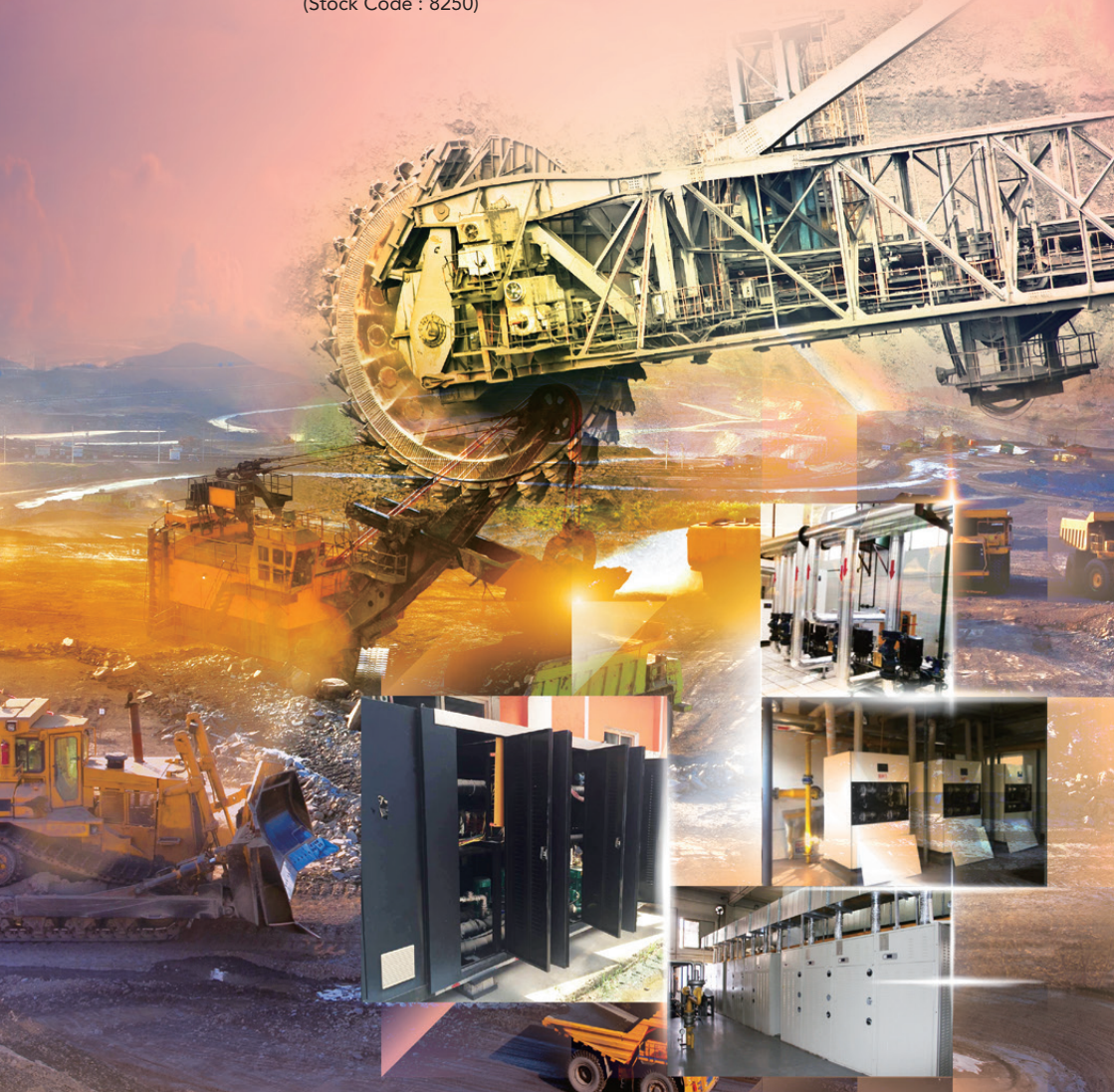




絲路能源服務集團有限公司 Silk Road Energy Services Group Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 8250)



2016/2017
Third Quarterly Report

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THIRD 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 (the “**Group**”) for the three months and nine months ended 31 March 2017, together with the comparative unaudited figures for the corresponding periods in 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and nine months ended 31 March 2017

	Notes	Three months ended 31 March		Nine months ended 31 March	
		2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (restated)	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (restated)
Continuing operations					
Revenue	3	99,526	58,925	353,425	229,330
Cost of sales and services provided		(81,002)	(39,973)	(301,840)	(154,036)
Gross profit		18,524	18,952	51,585	75,294
Investment and other income	4	1,960	290	15,501	807
Selling and distribution expenses		–	–	(912)	–
Administrative expenses		(9,815)	(8,412)	(29,238)	(31,443)
Other operating expenses		(2,153)	(4,949)	(9,403)	(10,428)
Amortisation of intangible assets		(5,444)	(7,654)	(16,511)	(20,624)
Loss arising on change in fair value of held-for-trading investments		(4,718)	(5,602)	(32,121)	(4,742)
Impairment loss recognised in respect of available-for-sale investment		(28,212)	–	(42,502)	–
Share of results of associates		–	(14,020)	(415)	(80,790)
Loss from operating activities	5	(29,858)	(21,395)	(64,016)	(71,926)
Finance costs	6	(2,434)	(4,889)	(6,484)	(13,199)
Loss before tax		(32,292)	(26,284)	(70,500)	(85,125)
Income tax credit (expense)	7	150	(1,448)	261	(8,757)
Loss for the period from continuing operations		(32,142)	(27,732)	(70,239)	(93,882)
Discontinued operation					
Profit for the period from discontinued operation	10	–	1,498	19,259	8,881
Loss for the period		(32,142)	(26,234)	(50,980)	(85,001)



	Three months ended 31 March		Nine months ended 31 March	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (restated)	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (restated)
(Loss) profit for the period attributable to owners of the Company				
– from continuing operations	(32,050)	(27,732)	(69,896)	(93,882)
– from discontinued operation	–	900	16,859	7,284
Loss for the period attributable to owners of the Company	(32,050)	(26,832)	(53,037)	(86,598)
(Loss) profit for the period attributable to non-controlling interests				
– from continuing operations	(92)	–	(343)	–
– from discontinued operation	–	598	2,400	1,597
(Loss) profit for the period attributable to non-controlling interests	(92)	598	2,057	1,597
	(32,142)	(26,234)	(50,980)	(85,001)
Loss per share				
From continuing and discontinued operations				
– Basic and diluted (HK cents per share)	(0.47)	(0.46)	(0.77)	(1.49)
From continuing operations				
– Basic and diluted (HK cents per share)	(0.47)	(0.48)	(1.02)	(1.62)

Notes

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	Three months ended 31 March		Nine months ended 31 March	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (restated)	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (restated)
<i>Notes</i>				
Loss for the period	(32,142)	(26,234)	(50,980)	(85,001)
Other comprehensive (expense) income for the period, net of tax				
Item that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	7,488	6,038	(16,588)	(18,399)
Total comprehensive expense for the period, net of income tax:	(24,654)	(20,196)	(67,568)	(103,400)
Total comprehensive expenses for the period attributable to:				
Owners of the Company	(24,562)	(20,794)	(69,104)	(104,997)
Non-controlling interests	(92)	598	1,536	1,597
	(24,654)	(20,196)	(67,568)	(103,400)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 March 2017

	Share capital HK\$'000	Share premium HK\$'000	Foreign currency translation reserve HK\$'000	Other reserve HK\$'000	Accumulated losses HK\$'000	Total equity attributable to owners of the Company HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
Balance at 1 July 2016 (Audited)	342,938	652,901	(27,815)	(3,383)	(257,833)	706,808	10,521	717,329
(Loss) profit for the period	-	-	-	-	(53,037)	(53,037)	2,057	(50,980)
Other comprehensive expense for the period	-	-	(16,067)	-	-	(16,067)	(521)	(16,588)
Total comprehensive (expense) income for the period	-	-	(16,067)	-	(53,037)	(69,104)	1,536	(67,568)
Additional non-controlling interests arising on acquisition of subsidiaries	-	-	-	-	-	-	938	938
Decrease in non-controlling interests arising on disposal of subsidiaries	-	-	-	3,383	-	3,383	(13,226)	(9,843)
Balance at 31 March 2017 (Unaudited)	342,938	652,901	(43,882)	-	(310,870)	641,087	(231)	(640,856)

For the nine months ended 31 March 2016

	Share capital HK\$'000	Share premium HK\$'000	Foreign currency translation reserve HK\$'000	Unlisted warrants reserve HK\$'000	Other reserve HK\$'000	Accumulated losses HK\$'000	Total equity attributable to owners of the Company HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
Balance at 1 July 2015 (Audited)	290,625	503,759	(1,461)	3,686	-	(131,476)	665,133	-	665,133
Loss for the period	-	-	-	-	-	(86,598)	(86,598)	1,597	(85,001)
Exchange differences on translation of foreign operations	-	-	(18,399)	-	-	-	(18,399)	-	(18,399)
Loss and total comprehensive (expense) income for the period	-	-	(18,399)	-	-	(86,598)	(104,997)	1,597	(103,400)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	(6,000)	(6,000)
Lapse of unlisted warrants	-	-	-	(3,686)	-	3,686	-	-	-
Additional non-controlling interests arising on partial disposal of a subsidiary (Note 8)	-	-	-	-	(3,383)	-	(3,383)	16,383	13,000
Balance at 31 March 2016 (Unaudited)	290,625	503,759	(19,860)	-	(3,383)	(214,388)	556,753	11,980	568,733



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENT

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 are principally engaged in the (i) provision of coal mining services; (ii) provision for heating supply services; (iii) trading of other mineral product; (iv) processing and trading of fluorite products and (v) provision of money lending services.

2. BASIS OF PREPARATION

The unaudited condensed consolidated results 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 used in the preparation of the unaudited condensed consolidated results are consistent with those adopted in preparing the Group's audited financial statements for the year ended 30 June 2016.

3. REVENUE

The Group's revenue represents revenue arising on (i) provision of coal mining services, (ii) provision for heating supply services, (iii) trading of other mineral products, (iv) processing and trading of fluorite products and (v) provision of money lending services. An analysis of the Group's revenue for the period is as follows:

	Three months ended 31 March		Nine months ended 31 March	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (restated)	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (restated)
	Continuing operations			
Provision of coal mining services	89,338	55,923	237,756	220,906
Provision of heating supply services	5,430	–	6,279	–
Trading of other mineral products	(512)	–	95,814	–
Processing and trading of fluorite products	(8)	–	418	–
Provision of money lending services	5,278	3,002	13,158	8,424
	99,526	58,925	353,425	229,330

4. INVESTMENT AND OTHER INCOME

	Three months ended 31 March		Nine months ended 31 March	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (restated)	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (restated)
	Continuing operations			
Interest income on bank deposits	102	15	148	345
Gain on disposal of held-for-trading investments	–	–	13,396	–
Gain on early redemption of promissory notes	628	–	628	–
Sundry income	1,230	275	1,329	462
	1,960	290	15,501	807

5. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

	Three months ended 31 March		Nine months ended 31 March	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (restated)	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (restated)
Continuing operations				
Depreciation of property, plant and equipment	1,931	2,444	6,259	6,858
Cost of inventories sold	75,919	39,862	294,518	153,925
Amortisation of intangible assets	5,444	7,654	16,511	20,624

6. FINANCE COSTS

	Three months ended 31 March		Nine months ended 31 March	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (restated)	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (restated)
Continuing operations				
Interest expenses on bank borrowing	-	-	-	13
Interest expenses on discounted bills	21	6	433	165
Imputed interest on promissory notes	2,413	3,600	6,051	9,599
Imputed interest on contingent consideration payable	-	1,283	-	3,422
	2,434	4,889	6,484	13,199

7. INCOME TAX (CREDIT) EXPENSE

	Three months ended 31 March		Nine months ended 31 March	
	2017	2016	2017	2016
	(Unaudited) HK\$'000	(Unaudited) HK\$'000 (restated)	(Unaudited) HK\$'000	(Unaudited) HK\$'000 (restated)
Continuing operations				
Current profits tax:				
– Hong Kong	494	283	1,504	806
– People's Republic of China ("PRC")	815	3,228	2,662	13,548
Deferred tax credit	(1,459)	(2,063)	(4,427)	(5,597)
	(150)	1,448	(261)	8,757

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for both periods.

Subsidiaries operating in the PRC are subject to PRC Enterprise Income Tax at 25% for both periods.

Profits of the subsidiary established in Mongolia are subject to Mongolian Economic Entity Income Tax ("EEIT"). Under the law of Mongolia EEIT, the tax rate of the Mongolian subsidiary was 10% for both periods.

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

8. PARTIAL DISPOSAL OF INTERESTS IN SUBSIDIARIES

Material Changes in Ownership Interests in Subsidiaries without Change of Control

On 23 October 2015, the Group completed the disposal of 40% equity interest in PR ASIA Investment Holdings Limited ("PR ASIA"), a company incorporated in the British Virgin Islands ("BVI") with limited liability, an indirectly non-wholly owned subsidiary of the Company, at a consideration of HK\$13,000,000 to Mr. Ling Yee Fai ("Mr. Ling"), a connected person of the Group. Upon the completion of the transaction, the beneficial interest of the Group in PR ASIA decreased from 100% to 60%. An amount of approximately HK\$16,383,000, being the proportionate share of the carrying amount of the net assets of PR ASIA and PR ASIA Consultants Limited ("PR ASIA Consultants"), a wholly owned subsidiary of PR ASIA, as at the date of completion have been adjusted to the non-controlling interests. The net difference recognised by the Group between (i) the fair value of consideration received by the Group and (ii) the aggregate of the increase in non-controlling interest of approximately HK\$3,383,000 is recognised in other reserve.

9. DISPOSAL OF SUBSIDIARIES

Disposal of PR Asia Investment Holdings Limited

On 17 October 2016, the Company announced that a sale and purchase agreement (the “**S&P Agreement**”) was entered into between Intelligent Way Limited (the “**Purchaser**”), and Chemosino International Limited (“**Chemosino**”) (a wholly-owned subsidiary of the Company), as vendor. Pursuant to the S&P Agreement, Chemosino has conditionally agreed to sell and the Purchaser have conditionally agreed to acquire the 60% of the issued share capital of PR ASIA, a company incorporate in the BVI with limited liability, a company directly owned by Chemosino and its subsidiaries (“**PR ASIA Group**”), at a cash consideration of HK\$36,300,000. PR ASIA Group is principally engaged in provision of advertising and public relations services. The disposal of PR ASIA Group constituted a discloseable transaction of the Company under the GEM Listing Rules, and was completed on 2 November 2016.

	PR ASIA Group HK\$'000
Total cash consideration	36,300
Analysis of asset and liabilities which control was lost:	
Property, plant and equipment	193
Trade receivables	6,957
Deposits, other receivables and prepayments	2,981
Deferred tax assets	156
Cash and cash equivalents	7,997
Trade payable	(545)
Other payables	(1,376)
Income tax payables	(541)
	15,822
Goodwill	17,062
Non-controlling interests	(13,226)
Other reserve	3,383
	23,041
Net gain on disposal of the subsidiaries (<i>Note 10</i>)	13,259
Net cash inflow arising on disposal:	
Cash consideration	36,300
Less: cash and cash equivalents disposed of	7,997
	28,303

10. DISCONTINUED OPERATION

The profit for the period from the discontinued operation is set out below.

	Three months ended 31 March		Nine months ended 31 March	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (restated)	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (restated)
Profit for the period from discontinued operation	-	1,498	6,000	8,881
Gain on disposal of discontinued operation (Note 9)	-	-	13,259	-
	-	1,498	19,259	8,881

The results of the discontinued operation included in the condensed consolidated statement of profit or loss and other comprehensive income are set out below.

	Three months ended 31 March		Nine months ended 31 March	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (restated)	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (restated)
Loss for the period from discontinued operation				
Revenue	-	9,301	19,490	32,290
Cost of sales and services provided	-	(1,047)	(7,599)	(5,530)
Investment and other income	-	-	2	18
Administrative expenses	-	(5,983)	(4,670)	(14,693)
Other operating expenses	-	(477)	(229)	(1,441)
Profit before tax	-	1,794	6,994	10,644
Income tax expense	-	(296)	(994)	(1,763)
Profit for the period from discontinued operation	-	1,498	6,000	8,881

Three months ended 31 March		Nine months ended 31 March	
2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (restated)	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (restated)

Profit for the period from discontinued operation has been arrived at after charging:

Depreciation of property,
plant and equipment

-	117	43	351
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11. DIVIDENDS

The Board does not recommend the payment of a dividend for the nine months ended 31 March 2017 (2016: Nil).

12. LOSS PER SHARE

From continuing and discontinued operations

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 31 March		Nine months ended 31 March	
2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (restated)	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (restated)

Loss

Loss for the purpose of basic
and diluted loss per share
(loss for the period attributable
to owners of the Company)

(32,050)	(26,832)	(53,037)	(86,598)
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	Number of Shares '000	Number of Shares '000	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	6,858,722	5,812,502	6,858,716	5,812,502

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 and nine months ended 31 March 2016 and 31 March 2017.

From continuing operations

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

	Three months ended 31 March		Nine months ended 31 March	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (restated)	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (restated)
Loss				
Loss for the period attributable to owners of the Company	(32,050)	(26,832)	(53,037)	(86,598)
Less: profit for the period from discontinued operation	-	900	16,859	7,284
Loss for the purpose of basic and diluted loss per share from continuing operations	(32,050)	(27,732)	(69,896)	(93,882)

The denominators used are same as those detailed above for both basic and diluted loss per share.

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 and nine months ended 31 March 2016 and 31 March 2017.

From discontinued operation

The calculation of the basic and diluted earnings per share from discontinued operation of the Company is based on the following data:

	Three months ended 31 March		Nine months ended 31 March	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (restated)	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (restated)
Profit				
Profit for the purpose of basic and diluted loss per share from discontinued operation	-	900	16,859	7,284

The denominator used are the same as those above for both basic and diluted loss per share.

Diluted earnings per share was the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding for the three months and nine months ended 31 March 2016 and 31 March 2017.

13. CAPITAL COMMITMENTS

The Group's capital commitments as at 31 March 2017 are as follow:

	As at 31 March 2017 (Unaudited) HK\$'000	As at 30 June 2016 (Audited) HK\$'000
Contracted but not yet paid	4,174	-


14. COMPARATIVE FIGURES

As a result of the discontinued operation as set out in note 10, certain comparative figures have been adjusted to conform to current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in the current period.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and financial review

For the nine months ended 31 March 2017 (the “**Period**”), the Group recorded a revenue of approximately HK\$353.43 million (2016: HK\$229.33 million), representing an increase of 54.11% as compared with that of the corresponding period in 2016. The increase in revenue was primarily due to the resumption of the operations in trading of other mineral products which contributed approximately HK\$95.81 million (2016: Nil) or approximately 27.11% of revenues. The gross profit for the Period was approximately HK\$51.59 million (2016: HK\$75.29 million), representing a decrease of 31.49% as compared with that of the corresponding period last year. The decrease in gross profit for the Period was mainly due to the trading business with a relatively low gross profit ratio as compared to the other business segments. Furthermore, the major customer and the Group reached a consensus to decrease the service rate for the year 2016 so that the provision of mining services also recorded a lower margin. The investment and other income increased from HK\$0.81 million to HK\$15.50 million, primarily due to a gain of HK\$13.40 million on disposal of securities during the Period. The administrative expense was approximately HK\$29.24 million (2016: HK\$31.44 million). The Group recorded a loss on change in fair value of the listed securities amounted to HK\$32.12 million (2016: HK\$4.74 million) from the investment in held-for-trading securities and recognized an impairment loss amounted to HK\$42.50 million from the available-for-sale investment which represented listed securities in Hong Kong held for long term investment purpose. The losses were mainly as a result of the volatility of the securities market. The group also recorded a share of loss of approximately HK\$0.42 million (2016: HK\$80.79 million) from the investment in the associated companies. The significant decrease was primarily due to the absence of share of loss on investment. The finance costs were decreased from HK\$13.20 million to HK\$6.48 million mainly due to the absence of imputed interests on the contingent consideration payable. During the Period, the Group disposed subsidiaries that carrying advertising and public relations services, resulting in gains of approximately HK\$13.26 million. The Group considered that the disposal represents a good opportunity for the Group to realise its investments in the provision of advertising and public relations services in order to focus more resources for the development of its other principal business segments and to strengthen the capital base of the Group.



In conclusion, loss attributable to owners of the Company for the Period amounted to approximately HK\$50.98 million (2016: HK\$85.00 million). The decrease in loss was mainly due to the decrease in share of the loss of investment in associates.

Provision of coal mining services

The Group provided coal mining services to six coal mines during the Period under the terms of the respective management contracts signed between the Group and the mine owners. The major revenue of this segment composes of service incomes from coal production and excavation works. During the nine months ended 31 March 2017, approximately 14.71 million tonnes of coal had been produced and approximately 20.41 kilometres of tunnels had been excavated by the Group.

During the Period, the Group's provision of coal mining services recorded a revenue of approximately HK\$237.76 million (2016: HK\$220.91 million) which accounted for 67.27% of the Group's total revenue from continuing operations.

Fluorite processing and trading business

At 31 March 2017, the Group owns a fluorite powder processing factory and a mining licence to exploit fluorites at a mine located in Mongolia. The fluorite product segment has been suspended since 2015 due to the continued loss-making of the business as a result of the unfavourable market condition in recent years. There was an insignificant revenue generated from the sales of inventory during the Period. Even the market prices of fluorite products recorded an increase in February 2017 but the future market condition of fluorite industry remains uncertain. Accordingly, on 21 April 2017, the Group entered into a sale and purchase agreement with an independent third party to dispose the entire issued share capital of the company which carried out the business of fluorite product segment at a consideration of RMB9.5 million. The directors of the Company considered that the disposal will enable the Company to focus its resources on business that can generate a higher return to create value for the shareholders. The disposal was completed on 8 May 2017.

Trading of other mineral products


The Group resumed the operation of its trading of other mineral products (other than fluorites products) in the PRC. This segment recorded a revenue of approximately HK\$95.81 million (2016: Nil) which accounted for 27.11% of the Group's total revenue. Even though the gross profit margin is low because the market conditions for mineral products have not been improved much, the Group resumed this segment for maintaining its business networks.

Money lending business

The Group operates its money lending business mainly through an indirectly wholly-owned subsidiary of the Company, which obtained a money lenders licence under the Money Lenders Ordinance (Cap. 163, Laws of Hong Kong). The Group also made short term loans to the individuals in the PRC through its subsidiaries in Mainland China. During the Period, the revenue from loan interest income was approximately HK\$13.16 million (2016: HK\$8.42 million) which accounted for 3.72% of the Group's total revenue. The interest rate charged by the Group ranged from 9.6% to 25% per annum. The loans were unsecured, with credit terms less than one year.

Provision for heating supply

On 10 August 2016, the Group has acquired 51% of a company engaged in the operation of energy saving and environmentally friendly heating system and provision of related services which through a company (the "**Project Company**") owns a heating system project in Heze City (the "**Project**") of Shandong Province of the PRC. Upon completion of the acquisition of the Project Company, in order to commence operation of the Project, the Group has acquired electric thermal storage heating machineries (the "**Machineries**"). However, during trial operation, it was discovered that the electricity consumption of the Machineries was significantly higher than the specifications provided by the suppliers of the Machineries ("**Suppliers**"). As a result of such discrepancy, the cost of supplying heat was substantially greater than the expected production cost which was calculated based on the level of electricity consumption claimed by the Suppliers. In view of the greater-than-expected production cost which adversely affects the expected profitability of the Project, the Group would like to opt out of operations



with low profitability in order to better utilise and divert the Group's resources to more profitable business thereby creating greater value for the shareholders of the Company. Accordingly, on 18 January 2017, the Group entered into an equity transfer agreement as vendor with an independent third party as purchaser to dispose of 100% equity interest in the Project Company at a consideration of RMB19.46 million. Completion of the disposal took place on 22 January 2017.

In view of the inaccurate specifications of the Machineries provided by the Suppliers, as at the date of this report, the Group has received RMB7.00 million from the Supplier and was still negotiating with the Suppliers for a settlement plan in respect of the remaining down payment of approximately RMB24.44 million paid by the Group. In light of the repayment progress, the directors considered that no provision for impairment on down payment was made at 31 March 2017.

On 11 August 2016, the Group entered into a cooperation agreement (the **"Cooperation Agreement"**) with the People's Government of Wang Wen Zhuang, Xiqing District, Tianjin City* (**"Wang Wen Zhuang Government"**) to set out the framework for the parties' cooperation in transforming the existing coal-fired heating systems in Wang Wen Zhuang, Tianjin City, the PRC to those powered by natural gas. Pursuant to the Cooperation Agreement, the cooperation includes transformation of coal-fired heating systems in three villages in Wang Wen Zhuang Town with heat supply area of approximately 323,000 square meter. Furthermore, the Group shall be given priority to operate the heating project with a preliminary estimated heat supply area of four million square meter proposed to be launched in the second phase demonstration town in Wang Wen Zhuang, on the same terms as offered by other heat suppliers. Definitive agreement in relation to the transformation project in three villages in Wang Wen Zhuang Town has been entered into among the village representatives, the Group and Wang Wen Zhuang Government. The Group has started to provide the heat supply service from November 2016. During the Period, the provision of heating segment recorded a revenue of approximately HK\$6.28 million (2016: Nil), which accounted for 1.78% of the Group's total revenue, and a loss of approximately HK\$4.50 million (2016: Nil).

Investment in available-for-sale investment and held-for-trading securities

As at 31 March 2017, the Company had available-for-sale investment and held-for-trading investments in certain securities listed in Hong Kong, the fair value amounted to approximately HK\$15.41 million (30 June 2016: Nil) and HK\$42.54 million (30 June 2016:HK\$69.62 million) respectively. During the Period, a loss arising on change in fair value of the listed securities of approximately HK\$32.12 million was recorded and the impairment loss of HK\$42.50 million was recognized.

Investment in associates

The Group holds 30% equity interest in Asset Management International Limited (together with its subsidiaries, the “**Asset Management Group**”). Asset Management Group engages principally in security investments. During the Period, the Group recorded a share of loss of approximately HK\$0.42 million (2016: HK\$80.79 million) from the investment in Asset Management Group.

Outlook

The coal industry was suffered by various factors such as the slowdown in domestic macro-economic growth, control of total energy consumption and optimization of energy structure. There was a sustained oversupply in the coal industry, resulting in descending coal price. In 2016, the Chinese government implemented policy of limiting coal production to prop up prices, the coal price gradually recovered and had shown a sign of recovery. The Group take the view that the recovery of the coal industries market was cautiously optimistic.

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 in the PRC. Furthermore, as various government policies have been implemented to encourage development of environmental friendly heating systems to replace those powered by coal energy thereby reducing emissions, the Group can also take advantage of the favourable policies to develop its clean energy heating business in the PRC. The Group views its new heat supply operation as a promising prospect. In line with the Group’s strategy to develop its environmental friendly heating business, the Group established certain subsidiaries in Shandong, Tianjin and Jiangsu for the operation of heat supply business.



Looking ahead, the Company will continue to look for potential investment opportunities. Subject to the financial resources, and should suitable investment or business opportunities arise, the Company may consider acquisition of assets and/or business in the heating supply industries in order to enhance its financial performance as well as value to the shareholders of the Company in the long run.

Exchange Exposure

Most of the trading transactions, assets and liabilities of the Group were denominated either in Hong Kong dollars, Renminbi or U.S. dollars. It is the Group's policy for its operating entities to operate in their corresponding local currencies to minimize currency risks.

Use of proceeds from placing

The Company completed the placing of an aggregate of 1,046,260,000 new shares of HK\$0.05 each in the Company on 21 April 2016. The net proceeds from the placing was of approximately HK\$201.28 million. The Group intend 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 the date of this report, the Group had utilized approximately HK\$80.44 million for the investment in the joint ventures for the provision of heat services and purchasing heat supply equipment, and approximately HK\$40.00 million for general working capital. The Group also advanced HK\$63.30 million to independent third parties for earning interests. The provision of short term loans to third parties would enable the Company to invest its cash resources and generate a better return before the proceeds used in the intended purposes. The remaining balance was deposited into the banks.

Material acquisitions and disposals

On 16 October 2016, the Group, as vendor, entered into a sales and purchase agreement with an independent third party, as purchaser, pursuant to which the Group conditionally agreed to sell, and the vendor conditionally agreed to acquire, 60% of the issued share capital of the PR ASIA, a subsidiary of the Company, and which directly holds 100% equity interest of PR ASIA Consultants, at a total consideration of HK\$36.30 million with a gain of approximately HK\$13.26 million. Upon the completion of the disposal on 2 November 2016, PR ASIA Consultants was no longer a subsidiary of the Company and the Group ceased to hold any equity interest in each member of the PR ASIA Group.

The Group provided advertising and public relations services through PR ASIA Consultants which offers strategic consulting services in corporate communications, media relations, investor relations, issue/crisis management, media training and event management to a wide range of listed and non-listed companies in both Hong Kong and China up to the end of October 2016. During the Period, the advertising and public relations segment recorded a revenue of approximately HK\$19.49 million up to the date of the completion of disposal (2016: HK\$32.29 million).

The acquisition and disposal of investments relating to the provision of heating supply has been disclosed in the above of this report.



OTHER INFORMATION


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

As at 31 March 2017, the interests and short positions of the Directors and chief executives of the Company (the "**Chief Executives**") in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("**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, were as follows:

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

Name of Directors	Capacity	Percentage of	
		Number of Shares Held	Shares in issue (Approximate)
Mr. Hu Zhixiong	Beneficial owner	38,400,000	0.56%
	Held by controlled entity (<i>Note</i>)	1,300,000,000	18.95%

Note: The shares are held by Tai Pu Mining International Co., Ltd, whereas Tai Pu Mining International Co., Ltd is a company incorporated in BVI, which is wholly and beneficially owned by Mr. Hu Zhixiong.



Save as disclosed above, 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

Save as disclosed under the section heading "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" in this report, 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 corporate.

Substantial shareholders' interests and short positions in shares and underlying shares

As at 31 March 2017, so far as is known to the Directors and the Chief Executives, the interests and short positions of the persons or corporations (other than the interests of the Directors and the chief executives as disclosed above) 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.



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 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 report.

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.

Directors’ interests in contracts of significance

No contract of significance to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the Period.

Purchase, sale or redemption of the Company’s listed securities

On 29 March 2017, the Company repurchased 4,200,000 ordinary shares on The Stock Exchange of Hong Kong Limited at an aggregate price of HK\$428,000. The bought-back shares had been cancelled on 8 May 2017.

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, internal control procedures and risk management systems. The Audit Committee comprises three independent non-executive Directors, namely Ms. Wong Na Na (committee chairman), Mr. Wang Zhixiang and Ms. Feng Jibei.



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.

Change in Information of Director

Pursuant to Rule 17.50A(1) of the GEM Listing Rules, the change in information of the Directors since the date of interim report of the Company for the six months ended 31 December 2016 are set out below:

Name of Director	Details of Change
Mr. Liu Baoyu	Appointed as the independent non-executive director of Hengdian Group DMEGC Magnetic Limited (SZEX: 002056) with effect from 7 April 2017

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 17.50A (1) of the GEM Listing Rules.

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

Hong Kong, 12 May 2017

As at the date of this report, the Board of the Company, comprises (i) six executive Directors namely, Mr. Cai Da, Mr. Zhou, Francis Bingrong, Mr. Chen Youhua, Mr. Hu Zhixiong, Mr. Li Wai Hung and Mr. Liu Baoyu; and (ii) three independent non-executive Directors namely, Ms. Wong Na Na, Mr. Wang Zhixiang, and Ms. Feng Jibei.