



2019/20

FIRST QUARTERLY REPORT



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)

CHARACTERISTICS OF THE GEM (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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*This report, for which the directors (the “**Directors**”) of Silk Road Energy Services Group Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (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: (i) the information contained in this report is accurate and complete in all material respects and not misleading or deceptive; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

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 2019, together with the comparative unaudited figures for the corresponding period in 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 30 September 2019

		Three months ended 30 September	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
	Notes		
Revenue	3	83,246	87,388
Cost of services rendered		(67,524)	(66,056)
Gross profit		15,722	21,332
Other income	4	2,988	1,504
Fair value changes on financial assets at FVTPL/held-for-trading investments		8,116	(5,120)
Administrative and other operating expenses		(12,805)	(14,623)
Finance costs	6	(1,766)	(1,775)
Profit before taxation		12,255	1,318
Income tax expense	7	(2,083)	(2,633)
Profit (loss) for the period	5	10,172	(1,315)

		Three months ended	
		30 September	
		2019	2018
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
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Profit (loss) for the period attributable to:			
– Owners of the Company		10,232	(1,233)
– Non-controlling interests		(60)	(82)
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		10,172	(1,315)
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Earning (loss) per share			
– Basic and diluted (HK cents per share)	9	0.14	(0.02)
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Profit (loss) for the period		10,172	(1,315)
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Other comprehensive expense for the period, net of tax			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(15,220)	(17,872)
Fair value changes on available-for-sale investment		–	(474)
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		(15,220)	(18,346)
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Total comprehensive expense for the period, net of income tax:		(5,048)	(19,661)
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Total comprehensive expense for the period attributable to:			
Owners of the Company		(4,987)	(19,579)
Non-controlling interests		(61)	(82)
		<hr/>	<hr/>
		(5,048)	(19,661)
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 30 September 2019

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

For the three months ended 30 September 2018

	Attributable to owners of the Company							
	Share capital HK\$'000	Share premium HK\$'000	Foreign currency translation reserve HK\$'000	Other reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
Balance at 1 July 2018 (Audited)	374,628	651,897	(16,909)	-	(477,165)	532,451	(59)	532,392
Loss for the period	-	-	-	-	(1,233)	(1,233)	(82)	(1,315)
Exchange differences on translating foreign operations	-	-	(17,872)	-	-	(17,872)	-	(17,872)
Fair value changes on available-for-sale investment	-	-	-	(474)	-	(474)	-	(474)
Total comprehensive expense for the period	-	-	(17,872)	(474)	-	(18,346)	-	(18,346)
Balance at 30 September 2018 (Unaudited)	374,628	651,897	(34,781)	(474)	(478,398)	(512,872)	(141)	512,731

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 services; (ii) provision for heating supply services; (iii) trading of mineral products and (iv) 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 2019 are consistent with those adopted in preparing the Group's audited financial statements for the year ended 30 June 2019.

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	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15		
– Provision of coal production and technical services	77,478	83,573
– Provision for heating supply services	–	–
	77,478	83,573
Revenue from other source		
– Interest income from money lending business	5,768	3,815
	83,246	87,388

4. OTHER INCOME

	Three months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income on bank deposits	150	177
Dividend income from held-for-trading investments	–	144
Leasing income from machinery	1,746	1,183
Sundry income	1,092	–
	2,988	1,504

5. PROFIT (LOSS) FOR THE PERIOD

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

	Three months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation and amortisation	4,795	4,585

6. FINANCE COSTS

	Three months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest expenses on discounted bills	–	92
Imputed interest on promissory notes	1,766	1,683
	1,766	1,775

7. INCOME TAX EXPENSE

	Three months ended	
	30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax:		
– Hong Kong Profits Tax	203	212
– People's Republic of China ("PRC") Enterprise Income Tax	2,373	2,959
Deferred tax credit	(493)	(538)
	2,083	2,633

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.

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 2019 (2018: Nil).

9. PROFIT (LOSS) PER SHARE

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

	Three months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit (loss)		
Profit (loss) for the purpose of basic and diluted earning (loss) per share (for the period attributable to owners of the Company)	10,232	(1,233)
	Number of Shares '000	Number of Shares '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earning (loss) per share	7,492,562	7,492,562

Diluted earning (loss) per share was the same as the basic earning (loss) per share as there were no potential dilutive ordinary shares outstanding for the three months ended 30 September 2019 and 30 September 2018.

10. CAPITAL COMMITMENT

As at 30 September 2019, the Group's capital commitment are as follow:

	As at 30 September 2019 (Unaudited) HK\$'000	As at 30 June 2019 (Audited) HK\$'000
Capital injection in respect of an investee	19,762	20,473

MANAGEMENT DISCUSSION AND ANALYSIS

Business and financial review

For the three months ended 30 September 2019 (the “**Period**”), the Group recorded a revenue of approximately HK\$83.25 million (2018: HK\$87.39 million), representing a decrease of 4.74% as compared with that of the corresponding period in 2018. The decrease in revenue was mainly due to the operation of a mine being terminated in January 2019, which contributed a revenue of approximately HK\$3.93 million during the corresponding period. The Group’s gross profit for the Period decreased by 26.30% to approximately HK\$15.72 million (2018: HK\$21.33 million) and the gross profit margin decreased from 24.41% to 18.89% for the Period. The decreases in gross profit and gross profit margin were due to higher costs, particularly rental expenses incurred for the coal mining services segment.

The Group recorded other income in the amount of approximately HK\$2.99 million (2018: HK\$1.50 million) for the Period. The Group recorded a gain of HK\$8.12 million (2018: loss of 5.12 million) of fair value change on financial assets at fair value through profit or loss (the “**FVTPL**”)/held-for-trading investments, which represented a profit on investments in securities listed in Hong Kong. The Group recorded administrative and other operating expenses in the amount of HK\$12.81 million (2018: HK\$14.62 million), the decrease was mainly due to the exchange rate effect. The Group recorded finance costs in the amount of HK\$1.77 million (2018: HK\$1.78 million). The Group recorded income tax expense in the amount of HK\$2.08 million (2018: HK\$2.63 million), the decrease in taxation is in line with the operating profit excluding the gain of fair value change on financial assets at FVTPL/held-for-trading investments.

In conclusion, profit attributable to owners of the Company for the Period amounted to approximately HK\$10.23 million (2018: loss of HK\$1.23 million). The turnaround from loss to profit was mainly due to a gain of HK\$8.12 million (2018: loss of 5.12 million) of fair value change on financial assets at FVTPL/held-for-trading investments.

Provision of coal mining services

During the Period, the Group provided coal mining services under the terms of the respective management contracts signed between the Group and the mine owners. The major revenue of this segment comprises of service incomes from coal production and excavation works. During the Period, approximately 2.58 million tonnes of coal had been produced and approximately 9.54 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\$77.48 million (2018: HK\$83.57 million) which accounted for 93.07% of the Group's total revenue.

Money lending business

The Group operates its money lending business 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 third parties in the PRC through its subsidiaries in Mainland China. During the Period, the revenue from loan interest income was approximately HK\$5.77 million (2018: HK\$3.82 million) which accounted for 6.93% of the Group's total revenue. The increase in revenue was mainly attributable to the growth in loan balances. The interest rate charged by the Group ranged from 5% to 20% per annum. The loans were unsecured, with credit terms 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/held-for-trading investments)

As at 30 September 2019, the Company invested in certain securities listed in Hong Kong (i.e. Financial assets at FVTPL/held-for-trading investments), the financial assets at FVTPL amounted to approximately HK\$35.66 million (30 June 2019: HK\$28.66 million). During the Period, the Group recorded a gain of fair value change on financial assets at FVTPL/held-for-trading of approximately HK\$8.12 million (2018: loss of HK\$5.12 million). Save as the disposal of 256,000 shares of Ri Ying Holdings Limited, the investment portfolio of the Group did not materially change during the Period.

Outlook

The provision of coal mining services remains the major source of revenue for the Group. It faces the increase in production costs and the intense market competition. As the project had finished, no leasing income from machinery would be generated in coming months.

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. The Group will cooperate with business partners in the relevant area, which will enable the Group to expand heat supply business by utilising the resources and strengths of each parties with an aim to expand the business scope and market share on heat supply business.

In view of trade conflict between China and America may have impact on the economics of China and Hong Kong, the Group will continue to enhance the control over the making of loans as well as monitoring its outstanding loans receivable to minimise credit risk thereon.

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 has been considering venturing into new business areas, to broaden its source of revenue thereby creating greater value for its shareholders.

SHARE CAPITAL

As at 1 July 2019 and 30 September 2019, the authorized share capital of the Company was HK\$1,500,000,000 divided into 30,000,000,000 shares of the Company of HK\$0.05 each ("**Share(s)**"). As at 1 July 2018, the issued share capital of the Company was approximately HK\$374,628,117 divided into 7,492,562,338 Shares. There was no movement in the issued share capital of the Company during the Period.

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 2019, 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. At 30 September 2019, the Group temporarily advanced of approximately HK\$18 million to third parties for earning interests, which enable the Group to invest its cash resources and generate a better return before the proceeds used in the intended purpose. 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 2019, 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 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 2019, 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
陳朝暉	Beneficial owner	806,960,000	10.77%
Zhou Jiao (Note 1)	Held by controlled entity	511,320,000	6.82%
159 Anti-Aging Health Group Ltd. (Note 1)	Beneficial owner	511,320,000	6.82%
XU, Gongming (Note 2)	Held by controlled entities	660,060,000	8.81%
XU, Gongming	Beneficial owner	12,000,000	0.16%
魏凱	Beneficial owner	491,380,000	6.56%

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 336,000,000 shares held by Hondex Investments Limited and 324,060,000 shares held by Zheng He Industrial Group Limited respectively. Both entities are a company incorporated in the British Virgin Islands, which is wholly and beneficially owned by XU, Gongming.

Save as disclosed above, as at 30 September 2019, 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 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.

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, 6 November 2019

As at the date of this report, the Board of the Company, comprises (i) six executive Directors namely, Mr. Cai Da, Mr. Li Xianghong, Mr. Chen Youhua, Mr. Hu Guoan, 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.