



Silk Road Logistics Holdings Limited
絲路物流控股有限公司

(Incorporated in Bermuda with limited liability)

(於百慕達註冊成立之有限公司)

Stock Code 股份代號：00988



INTERIM REPORT
中期報告
2020

Corporate Information

EXECUTIVE DIRECTORS

Wong Kai Ling
Yang Yi
Meng Fanpeng

NON-EXECUTIVE DIRECTOR

Qin Bo

INDEPENDENT NON-EXECUTIVE DIRECTORS

Choy So Yuk, *BBS, JP*
Leung Yuen Wing
Wu Zhao
Liu Wei
Zou Mingwu

AUDIT COMMITTEE

Leung Yuen Wing (*Chairman*)
Choy So Yuk, *BBS, JP*
Wu Zhao

REMUNERATION COMMITTEE

Choy So Yuk, *BBS, JP*
Leung Yuen Wing
Wu Zhao

NOMINATION COMMITTEE

Liu Wei (*Chairman*)
Wong Kai Ling
Choy So Yuk, *BBS, JP*
Leung Yuen Wing
Wu Zhao

EXECUTIVE COMMITTEE

Wong Kai Ling
Yang Yi
Meng Fanpeng

AUTHORISED REPRESENTATIVES

Wong Kai Ling
Chiu Yuk Ching

COMPANY SECRETARY

Chiu Yuk Ching

AUDITORS

CCTH CPA Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
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BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 54, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

Citic Bank International Limited
DBS Bank (Hong Kong) Limited
The Bank of East Asia, Limited
Bank of Communications Co., Ltd.



Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
REVENUE	5	2,957	4,735,794
Cost of sales and services	7	(3,248)	(4,686,236)
Gross (loss) profit		(291)	49,558
Other income and gains	5	954	20,255
Selling and distribution expenses		-	(99)
Administrative expenses		(19,308)	(35,000)
Share of (loss) profit of associates		(4,536)	1,604
Finance costs	6	(23,051)	(15,334)
(LOSS) PROFIT BEFORE TAX	7	(46,232)	20,984
Income tax credit (expense)	8	6,583	(7,673)
(LOSS) PROFIT FOR THE PERIOD		(39,649)	13,311
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		(10,652)	3,711
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		(50,301)	17,022



Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2020

	Note	Six months ended 30 June	
		2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
<hr/>			
(Loss) profit for the period attributable to:			
Owners of the Company		(38,964)	5,640
Non-controlling interests		(685)	7,671
		(39,649)	13,311
<hr/>			
Total comprehensive income for the period attributable to:			
Owners of the Company		(46,020)	9,518
Non-controlling interests		(4,281)	7,504
		(50,301)	17,022
<hr/>			
(LOSS) EARNINGS PER SHARE	10		
– Basic		(0.68) cents	0.10 cents
– Diluted		N/A	N/A



Condensed Consolidated Statement of Financial Position

At 30 June 2020

	Notes	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	169,804	178,618
Right-of-use assets		70,682	74,368
Interests in associates		487,542	492,055
Goodwill		88,738	88,738
Oil properties		67,171	67,017
Total non-current assets		883,937	900,796
CURRENT ASSETS			
Inventories		426	577
Trade receivables	12	–	574
Prepayments, deposits and other receivables		219,252	230,211
Income tax recoverable		10,058	10,149
Cash and cash equivalents		1,581	4,369
Total current assets		231,317	245,880
CURRENT LIABILITIES			
Trade payables	13	78,356	80,281
Other payables and accruals		168,949	150,196
Bank and other borrowings		450,742	394,379
Promissory notes payable		54,133	54,133
Obligations under finance lease		44	86
Total current liabilities		752,224	679,075
NET CURRENT LIABILITIES		(520,907)	(433,195)
TOTAL ASSETS LESS CURRENT LIABILITIES		363,030	467,601



Condensed Consolidated Statement of Financial Position

At 30 June 2020

		30 June 2020	31 December 2019
	Notes	HK\$'000 (unaudited)	HK\$'000 (audited)
NON-CURRENT LIABILITIES			
Other payables and accruals		–	18,778
Bank and other borrowings		295	35,230
Obligations under finance leases		33	110
Lease liabilities		12,796	13,083
Assets retirement obligations		5,755	5,651
Deferred tax liabilities		31,633	31,930
Total non-current liabilities		50,512	104,782
Net assets		312,518	362,819
EQUITY			
Share capital	14	57,036	57,036
Reserves		175,272	221,292
Equity attributable to owners of the Company		232,308	278,328
Non-controlling interests		80,210	84,491
Total equity		312,518	362,819



Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Attributable to owners of the Company							Total	Non-controlling interests	Total
	Share capital	Share premium account	Share option reserve	Exchange fluctuation reserve	Capital reserve	Contribution surplus	Accumulated losses			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 31 December 2019 (audited)	57,036	1,492,097	3,632	(20,664)	178,368	773,090	(2,205,231)	278,328	84,491	362,819
Loss for the period	-	-	-	-	-	-	(38,964)	(38,964)	(685)	(39,649)
Other comprehensive income for the period:										
Exchange differences on transaction of foreign operations	-	-	-	(7,056)	-	-	-	(7,056)	(3,596)	(10,652)
Total comprehensive income for the period	-	-	-	(7,056)	-	-	(38,964)	(46,020)	(4,281)	(50,301)
Balance at 30 June 2020 (unaudited)	57,036	1,492,097	3,632	(27,720)	178,368	773,090	(2,244,195)	232,308	80,210	312,518
Balance at 31 December 2018 (audited)	57,036	1,492,097	3,672	(24,678)	178,168	773,090	(1,822,043)	657,342	81,797	739,139
Loss for the period	-	-	-	-	-	-	5,640	5,640	7,671	13,311
Other comprehensive income for the period:										
Exchange differences on transaction of foreign operations	-	-	-	3,878	-	-	-	3,878	(167)	3,711
Total comprehensive income for the period	-	-	-	3,878	-	-	5,640	9,518	7,504	17,022
Balance at 30 June 2019 (unaudited)	57,036	1,492,097	3,672	(20,800)	178,168	773,090	(1,816,403)	666,860	89,301	756,161



Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from operations	(1,824)	290,075
Income tax paid	-	(3,469)
Net cash (used in)/generated by operating activities	(1,824)	286,606
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	1	1
Additions to property, plant and equipment, and oil property	(689)	-
Net proceeds received from disposal of assets classified as held for sale	-	30,737
Other investing activities	-	(724)
Net cash (used in)/generated by investing activities	(688)	30,014
CASH FLOWS FROM FINANCING ACTIVITIES		
New loans raised	328	-
Repayments of bank loans	-	(14,743)
Repayment of finance leases	(110)	(44)
Repayment of lease liabilities	(1,556)	-
Other financing activities	(670)	(14,014)
Net cash used in financing activities	(2,008)	(28,801)
Net (decrease)/increase in cash and cash equivalents	(4,520)	287,819
Cash and cash equivalents at beginning of the period	4,369	43,579
Effect of foreign exchange rate changes	1,732	(5,062)
Cash and cash equivalents at end of the period	1,581	326,336
Analysis of cash and cash equivalents		
Cash and bank balances included in cash and cash equivalents as stated in the condensed consolidated statement of financial position	1,581	326,336





Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Notwithstanding that the current liabilities of the Group at 30 June 2020 exceed the Group's current assets at that date by HK\$520,907,000, which includes the bank and other borrowings and the promissory notes payable amounted to HK\$450,742,000 and HK\$54,133,000 respectively, and the Group incurred net loss of approximately HK\$39,649,000 for the six months ended 30 June 2020, the directors considered it appropriate for the preparation of the condensed consolidated financial statements on a going concern basis after taking into account of the following circumstances and measures which are in place or to be implemented:

Management of the Group will closely monitor the financial position of the Group and the directors of the Company will make every effort (a) to secure funds as necessary to finance the business operations of the Group for the foreseeable future; and (b) to negotiate with the lender of the bank and other borrowings and the holder of the promissory note payable for the extension of repayments of the borrowings and the promissory note to a date when the Group has adequate working capital to serve the repayments.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to restate the values of assets to their estimated recoverable amounts, to provide further liabilities that might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these potential adjustments have not been reflected in the condensed consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019.

Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies and disclosures

The Group has adopted the following new and revised amendments to the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA for the first time for the current period's financial information.

Amendments to HKFRS 3	Definition of Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Amendments to HKAS 1 and HKAS 8	Definition of Material

The adoption of the above amended standards effective in respect of the current period had not resulted in significant impact on the Group's condensed consolidated interim financial information. The Group has also not applied any new or amended standards that are not yet effective in respect of the current period.

3. ESTIMATES

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31st December 2019.

4. OPERATING SEGMENT INFORMATION

The Directors determine its operating segments based on the regular internal financial information reported to the Group's executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance.

The Group is organised into business units based on their products and services and has four reportable operating segments as follows:

- (a) The commodities trading segment is engaged in the trading of commodities purchased from external parties;
- (b) The oil segment is engaged in exploration and production of oil as well as the provision of well drilling services; and
- (c) The logistics segment is engaged in the provision of transportation and warehousing services.



Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

4. OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2020

	Commodities trading segment HK\$'000 (unaudited)	Oil segment HK\$'000 (unaudited)	Logistics segment HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
Segment revenue				
Sales to external customers	-	970	1,987	2,957
Segment loss	-	(5,955)	(9,559)	(15,514)
Reconciliation:				
Unallocated income and expense, net				(30,718)
Loss before tax				(46,232)
Other segment information				
Capital expenditure	-	687	-	687
Depreciation and amortisation	-	796	6,339	7,135
Unallocated depreciation and amortisation				1,333

Six months ended 30 June 2019

	Commodities trading segment HK\$'000 (unaudited)	Oil segment HK\$'000 (unaudited)	Logistics segment HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
Segment revenue				
Sales to external customers	4,731,506	476	3,812	4,735,794
Segment profit/(loss)	34,091	(3,158)	1,627	32,560
Reconciliation:				
Unallocated income and expense, net				(11,576)
Profit before tax				20,984
Other segment information				
Capital expenditure	-	-	-	-
Depreciation and amortisation	-	1,686	5,927	7,613
Unallocated depreciation and amortisation				1,333

Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

4. OPERATING SEGMENT INFORMATION (continued) At 30 June 2020

	Commodities trading segment HK\$'000 (unaudited)	Oil segment HK\$'000 (unaudited)	Logistics segment HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
Segment assets	207,042	162,001	687,244	1,056,287
Reconciliation: Unallocated assets				58,967
Total assets				1,115,254
Segment liabilities	101,169	9,519	45,654	156,342
Reconciliation: Unallocated liabilities				646,394
Total liabilities				802,736

At 31 December 2019

	Commodities trading segment HK\$'000 (unaudited)	Oil segment HK\$'000 (unaudited)	Logistics segment HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
Segment assets	307,638	187,699	622,253	1,117,590
Reconciliation: Unallocated assets				29,086
Total assets				1,146,676
Segment liabilities	171,725	48,260	48,200	268,185
Reconciliation: Unallocated liabilities				515,672
Total liabilities				783,857



Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	Six months ended	
	30 June 2020 HK\$'000 (unaudited)	30 June 2019 HK\$'000 (unaudited)
PRC	1,987	4,735,318
Other countries	970	476
	2,957	4,735,794

The revenue information above is based on the location of the customers.

(b) Non-current assets

	Six months ended 30 June 2020 HK\$'000 (unaudited)	Year ended 31 December 2019 HK\$'000 (audited)
	PRC	505,672
USA	77,037	75,987
Other countries	212,490	215,876
	795,199	812,058

The above non-current asset information above is based on the location of the assets and exclude goodwill of approximately HK\$88,738,000 (31 December 2019: HK\$88,738,000).



Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the aggregate of net invoiced value of goods sold, after allowances for returns and trade discounts, and sales of oil, net of royalties, obligations to governments and other mineral interest owners, and income from logistic services rendered, analysed as follows:

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Revenue from:		
Sales of goods	970	4,731,982
Rendering of services	1,987	3,812
	2,957	4,735,794
Revenue recognised		
– point in time	970	4,731,982
– over time	1,987	3,812
	2,957	4,735,794

An analysis of other income and gains is as follows:

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Other income and gains		
Bank interest income	1	1
Gain on disposal of asset held for sale	–	18,049
Government grants	704	1,373
Sundry income	249	832
	954	20,255



Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

6. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest expenses, net of reimbursement on borrowings:		
Bank loans, overdrafts and other loans	877	3,428
Finance lease	–	1
Lease liabilities	501	595
Other borrowings	21,673	11,310
	23,051	15,334

7. (LOSS) PROFIT BEFORE TAX

The Group's (loss) profit before tax is arrived at after charging the following:

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Cost of inventories sold	1,698	4,683,757
Cost of services	1,550	2,479
Staff costs (including directors' remuneration)	5,217	8,772
Depreciation of property, plant and equipment	5,718	5,153
Depreciation of right-of-use assets	2,547	2,414
Amortisation of oil properties	203	1,379
Lease payments under short term leases	69	181



Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

8. INCOME TAX CREDIT (EXPENSE)

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Provision for the period		
Hong Kong profits tax	-	-
PRC corporate income tax	(6)	(8,522)
USA income tax	-	-
	(6)	(8,522)
Over provision in prior periods	6,589	849
Current tax	6,583	(7,673)
Deferred tax	-	-
Total tax credit (expense) for the period	6,583	(7,673)

No provision for Hong Kong profits tax has been made as the entities in the Group have no assessable profits arising in Hong Kong for both of the periods presented. Under the Corporate Income Tax Law of the People's Republic of China (the "PRC"), the PRC corporate income tax is calculated at the rate of 25% (six months ended 30 June 2019: 25%) on the Group's estimated assessable profits arising in the PRC for the six months ended 30 June 2020. Tax on the assessable profits arising in the United States of America ("USA") is calculated at the rate of 21% (six months ended 30 June 2019: 21%), however, no such income tax has been provided for the current period as the Group did not generate any assessable profits arising in the USA.





Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

9. DIVIDENDS

No dividends have been paid or declared by the Company during the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

10. (LOSS) EARNINGS PER SHARE

Basic (loss) earnings per share

The calculation of basic (loss) earnings per share is based on the loss for the period attributable to owners of the Company of approximately HK\$38,964,000 (six months ended 30 June 2019: profit attributable to owners of the Company of approximately HK\$5,640,000) and approximately 5,703,616,000 (six months ended 30 June 2019: 5,703,616,000) ordinary shares in issue for the period.

Diluted (loss) earnings per share

No diluted (loss) earnings per share is presented for the six months ended 30 June 2020 and 30 June 2019, as there were no potential ordinary shares in issue during those periods.

11. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group had not acquired or disposed of any significant items of property, plant and equipment (six months ended 30 June 2019: Nil). Depreciation for items of property, plant and equipment for the period amounted approximately HK\$5,718,000 (six months ended 30 June 2019: approximately HK\$5,153,000).



Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

12. TRADE RECEIVABLES

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Trade receivables	98,998	101,051
Less : Impairment of trade receivables	(98,998)	(100,477)
	-	574

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period granted by the Group to its customers generally ranged from one to three months. Overdue balances are reviewed regularly by senior management.

An aged analysis of the trade receivables as at the end of the reporting period, based on the date of invoice, is as follows:

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Not more than 30 days	-	574
31-60 days	-	13
61-90 days	-	40
91-365 days	53	59
Over one year	98,945	100,365
	98,998	101,051



Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

12. TRADE RECEIVABLES (continued)

The movements in the provision for impairment of trade receivables are as follows:

	Six months ended 30 June 2020 HK\$'000 (unaudited)	Year ended 31 December 2019 HK\$'000 (audited)
At beginning of the period/year	100,477	101,590
Impairment losses recognised	-	-
Write off during the period/year	-	-
Exchange realignment	(1,479)	(1,113)
At end of the period/year	98,998	100,477

The Group seeks to maintain strict control over its outstanding receivables to minimize credit risk. Overdue balances are reviewed regularly by senior management. In view of the management, impairment loss on trade receivables that have been past due has been adequately made in the consolidated financial statements.

The Group does not hold any collateral or other credit enhancements over these balances.

13. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the date of invoice, is as follows:

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Not more than 30 days	-	79,767
31-60 days	-	61
61-90 days	-	1
91-365 days	78,235	340
Over one year	121	112
	78,356	80,281

The trade payables are non-interest-bearing and are normally settled on 90-day terms.



Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

14. SHARE CAPITAL

	Number of ordinary shares of HK\$0.01 each	HK\$'000
<i>Authorised</i>		
At 31 December 2019 and 30 June 2020	200,000,000,000	2,000,000
<i>Issued and fully paid</i>		
At 31 December 2019 and 30 June 2020	5,703,615,592	57,036

15. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group

The remuneration of directors and other members of key management for the period was as follows:

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Short term employee benefits	4,063	2,735
Post-employment benefits	70	20
Total compensation paid to key management personnel	4,133	2,755

The remuneration of directors and key executives is recommended by the remuneration committee of the Company and determined by the Board having regard to the performance of individuals and market trends.





Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments:

(a) Fair value of financial assets and financial liabilities that are not measured at fair value

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values. The fair values are determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant input being the discount rate that reflects the credit risk of counterparties.

(b) Reconciliation of Level 3 fair value measurement

Reconciliation of Level 3 fair value measurement is not presented as the Group had no financial assets or financial liabilities that are measured at fair value at end of the reporting period.

17. LITIGATION

First Civil Complaint

Pursuant to the civil complaint dated 22 November 2019 (the "First Civil Complaint"), filed by 天津浩泰恒遠國際貿易有限公司 (transliterated in English as Tianjin Haotai Hengyuan International Trading Company Limited) (the "First Plaintiff") as plaintiff with Tianjin No. 1 Intermediate People's Court, the First Plaintiff claimed against Qian'an Logistics for (i) repaying the aggregate amount of RMB68,370,454.42, being the purchase price for goods supplied by the First Plaintiff to Qian'an Logistics; and (ii) all the costs in relation to the First Civil Complaint. The amount of RMB68,370,454.42 claimed by the First Plaintiff is included in accounts payables and other payables as at 30 June 2020.

The Directors were informed that Qian'an Logistics has filed an application with the Tianjin No. 1 Intermediate People's Court and an appeal with the Tianjin High People's Court to object the Tianjin No. 1 Intermediate People's Court's jurisdiction over the First Civil Complaint, the application was dismissed by the Tianjin No. 1 Intermediate People's Court and the appeal was dismissed by the Tianjin High People's Court respectively.

The court hearing in respect of the First Civil Complaint has been re-scheduled to 15 October 2020. Qian'an Logistics intends to negotiate with the First Plaintiff for the settlement of the claim and withdrawal of the First Civil Complaint.



Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

17. LITIGATION (continued)

Second Civil Complaint

Pursuant to the civil complaint dated 29 November 2019 (the “Second Civil Complaint”) filed by Haitong UniTrust International Leasing Co., Ltd. (海通恒信國際租賃股份有限公司) (the “Second Plaintiff”) as plaintiff with the Shanghai Financial Court, the Second Plaintiff claimed against Qian’an Logistics for (i) repayment of an aggregate amount of RMB197,754,190.70; and (ii) all the costs in relation to the Second Civil Complaint. The Second Civil Complaint had been accepted by the Shanghai Financial Court.

The Second Civil Complaint was arisen from the dispute under a domestic factoring agreement dated 26 September 2018 (the “Factoring Agreement”) entered into among the Second Plaintiff, 天津物產進出口貿易有限公司 (transliterated in English as Tewoo Import and Export Trade Company Limited) (“Tewoo”) and Qian’an Logistics. Pursuant to the Factoring Agreement, the Second Plaintiff agreed to provide financing to Tewoo which, in return, agreed to assign all its rights under the account receivables in the aggregate amount of RMB223,463,688.00 (the “Account Receivables”) payable by Qian’an Logistics to the Second Plaintiff in connection with five copper cathode contracts supplied by Tewoo to Qian’an. According to the Factoring Agreement, the Second Plaintiff appointed Tewoo to be its collection and receiving agent for the receipt of the Account Receivables payable by Qian’an Logistics.

The Directors were informed that Qian’an Logistics has filed an application with the Shanghai Financial Court and an appeal with the Shanghai High People’s Court in relation to, among others, objection of Shanghai Financial Court’s jurisdiction over the Second Civil Complaint, the application was dismissed by the Shanghai Financial Court and the appeal was dismissed by the Shanghai High People’s Court respectively.

The management of Qian’an Logistics represented that Qian’an Logistics has fully settled the Account Receivables with Tewoo in connection with the five copper cathode contracts. In the premises, Qian’an Logistics has instructed its PRC legal adviser to contest the claim and to handle all other legal issues in connection with the Second Civil Complaint. As the trial has not yet commenced, the effects of the Second Civil Complaint on the Company cannot be assessed at this moment.

18. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform with current period’s presentation.





General Information

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2020, the Group recorded revenue of approximately HK\$2,957,000, compared with that of HK\$4,735,794,000 for the corresponding period in 2019, while the loss attributable to the owners of the Company is approximately HK\$38,964,000 for the period, compared with the profit attributable to the owners of the Company of approximately HK\$5,640,000 for the corresponding period in 2019. The substantial decrease in turnover and resulted in loss was due to the Group having nil commodities trading business in this period.

BUSINESS REVIEW

The first half year of 2020 was the most challenging period for the Group in recent times, as the COVID-19 pandemic wrought havoc across the globe with enormous human and economic costs. Without exception, major economies fell into economic contraction in the first quarter of the year. China suffered the deepest GDP decline of 6.8% y-o-y given its decisive public health actions which included a full-blown lockdown on Hubei province for two months. After the spread of the virus was contained effectively within the country, the Chinese economy achieved a V-shaped rebound with a 3.2% growth in the second quarter, thanks to both significant fiscal stimulus and monetary easing. On the contrary, the impact of COVID-19 was still unfolding in other major economies, leaving their GDP growth in the negative territory in the second quarter.

Against this background, all the business segments of the Group were severely affected in the first half of 2020. During this period, our trading segment recorded close to nil activities. This is because, although the second quarter saw a gradual resumption of factory production in the wider economy, the demand of raw material only started to recover toward the end of the second quarter. Revenue from trading segment was nil for the six months ended 30 June 2020, compared with HK\$4,731,982,000 for the six months ended 30 June 2019.

Our management team has worked endlessly with our customers and business partners to hasten the resumption of our trading activities. Our core subsidiary Silk Road Logistics (Qian'an) Company Limited ("Qian'an Logistics"), which has been the primary source of revenue of the Group's operation in recent years, is expected to have gradual improvement in its trading volume over the course of the second half of the year.

Chaos struck the oil market when the pandemic crippled oil demand amid an ongoing price war between OPEC and Russia. The oil price dipped to historically low levels with near-term oil contracts turning negative in April, before it stabilized to a level around US\$40. As a result, the oil segment of the Group decided to suspend oil production between April and May to avoid financial losses. RockEast Energy Corporation ("RockEast") of which the Group owns about 28.19% equity interest recorded a loss of approximately HK\$3,386,000. However, due to the relatively higher operational cost, the Group's US oil operation reported a loss of HK\$2,570,000 in the first half of 2020. The Group will keep closely monitoring the profitability of these oil assets and manage the production scale accordingly.

The debtor's turnover day of the Group for the six months ended 30 June 2020 was nil, as all debtors were settled before period ended, compared with 25 days for the six months ended 30 June 2018. It is in line with the credit period of the Group assign to the customers. In future, the Group will maintain its strict credit policy to customers with more emphasis on repayment quality. If there are any irregularities in repayment, credit terms granted to debtors will be adjusted accordingly. For the adoption of new HKFRS 9, the Group has measured the expected credit losses, receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance. The management will continue to closely monitor the credit qualities and the collectability of the trade receivables.



General Information

OUTLOOK

The COVID-19 pandemic has had a more negative impact on the world economy in the first half of 2020 than anticipated. Therefore, global recovery is expected to be gradual because of persistent social distancing and workplace hygiene practices into the second half of this year. The recent IMF forecast predicted recession for most countries in 2020, with the weakness of advanced economies spilling over to the outlook for emerging markets. In contrast, the situation is more optimistic for China after its successful containment of COVID-19. China has become one of the first countries to restart economic activity with stimulative measures, which have paved the path for a balanced economic recovery with improvement in industrial output, investment and retail sales.

In the coming months, the Group will concentrate our efforts on business resumption and growth in our existing business segments. We will also upgrade our preparedness of our business for the scenario of intermittent hindrance caused by COVID-19 and its prevention measures for a prolonged period. More importantly, our business units will take this opportunity to forge stronger connection and cooperation with our customers and business partners for mutual benefits in the volatile business environment.

Aside from causing disruptions, the pandemic has deepened two crucial trends in the economic landscape – more digital and less global. “More digital” covers all areas ranging from government and corporate expenditure to individual consumption. The economy has become further digitalised with flourishing new business models such as working from home, online education and intelligent construction. “Less global” means the move towards deglobalization in the post-pandemic world, in which countries loosen their ties with trading partners and become more self-reliant. In particular, China has promoted the concept of “internal circulation” to highlight the importance of domestic consumption and domestic supply chains in economic development. This is in part a response to the shifts in the global supply networks and a possible escalation of Sino-US trade and geopolitical tensions.

In light of the above trends, the Group will continue our quest of operational excellence with technology adoption. We aim to provide our clients a higher visibility of their supply chains for forecasting, planning, manufacturing and distribution operations. The Group will take advantage of the many innovations being pioneered in China in the areas of Internet of Things (IoT) and big data, which allow the logistics industry to improve efficiency and costs in a significant way.

For business development, the Group will utilize the strength of our logistics network covering Hebei and Inner Mongolia as well as our expertise in commodity trading. A more domestically focused Chinese economy will present new opportunities in raw material trade for the Group to diversify our revenue stream and business portfolio. As always, the Group will act in the best interests of the shareholders by exercising diligence in project appraisal for potential investments.





General Information

CAPITAL STRUCTURE, LIQUIDITY, FINANCIAL RESOURCES AND DEBT MATURITY PROFILE

As at 30 June 2020, the Group had total interest bearing bank and other borrowings and promissory notes payable in the amount of approximately HK\$450,742,000 and HK\$54,133,000 (31 December 2019: HK\$429,609,000 and HK\$54,133,000 respectively), representing an increase of HK\$21,133,000 and HK\$nil respectively. Both are repayable within one year.

The Group's total interest bearing bank and other borrowings of approximately HK\$27,425,000 are denominated in Renminbi ("RMB") is charged at floating interest rates, and HK\$423,317,000 denominated in HK\$ is charge at fixed rate. The Group's cash and bank balances of approximately HK\$1,581,000 were 70% denominated in RMB, 19% in USD and 11% in HK\$. The promissory notes payable is denominated in HK\$.

As at 30 June 2020 and 31 December 2019, the convertible bonds with the aggregate principal amount of HK\$300,000,000 was matured and become an other borrowing as it is not redeemed at maturity date. Combining the unsettled interests, the total amount of other borrowings was HK\$388,086,000 (31 December 2019: HK\$366,413,000). It is denominated in HK\$ and bear interest at fixed interest rate of 6% per annum, with an overdue penalty rate of 5% per annum.

TREASURY POLICY

The Group adopts a conservative approach towards its treasury policy. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluation of the financial condition of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

MATERIAL ACQUISITION OR DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the period under review, there was no material acquisition or disposal of subsidiaries and affiliated companies.

EMPLOYEES

As at 30 June 2020, the total number of employees of the Group was approximately 35 (31 December 2019: 40). Apart from the basic remuneration, discretionary bonus may be granted to eligible employees by reference to the Group's performance as well as the individual's performance. For the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation, the Group adopted the existing share option scheme in June 2017 (the "Share Option Scheme"). As at 30 June 2020 and 31 December 2019, there were no outstanding share options granted under the Share Option Scheme.



General Information

CHARGE OF GROUP ASSETS

As at 30 June 2020 and 31 December 2019, there were no charge of assets for the Group.

GEARING RATIO

As at 30 June 2020, the gearing ratio of the Group (being the ratio of net debt divided by total capital plus net debt) was approximately 68.6% (31 December 2019: approximately 63.3%). Net debt represents the aggregate amount of the Group's interest-bearing bank and other borrowings, the liability component of convertible bonds, the non-current portion of the amount loans due to related parties and promissory note less cash and cash equivalents of the Group. Total capital represents total equity attributable to the owners of the Company.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The Group's reporting currency is denominated in HK\$. The Group's monetary assets, loans and transactions were principally denominated in RMB, USD and HK\$. The Group had a net exchange exposure to RMB as the Group's assets were principally located in the PRC and the revenues were in RMB. The Group does not have any derivative financial instruments or hedging instruments. The Group will constantly review the economic situation and its foreign currency risk profile, and will consider appropriate hedging measures in future as may be necessary.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2020 (2019: Nil).

LITIGATION

The board (the "Board") of directors (the "Directors") of the Company has recently been aware that two civil complaints (collectively, the "Civil Complaints") had been filed in the courts in the People's Republic of China against 絲路物流(遷安)有限公司 (transliterated in English as Silk Road Logistics (Qian'an) Company Limited, "Qian'an Logistics"), an indirect non wholly-owned subsidiary of the Company, as defendant.

First Civil Complaint

Pursuant to the civil complaint dated 22 November 2019 (the "First Civil Complaint"), filed by 天津浩泰恒遠國際貿易有限公司 (transliterated in English as Tianjin Haotai Hengyuan International Trading Company Limited) (the "First Plaintiff") as plaintiff with Tianjin No. 1 Intermediate People's Court, the First Plaintiff claimed against Qian'an Logistics for (i) repaying the aggregate amount of RMB68,370,454.42, being the purchase price for goods supplied by the First Plaintiff to Qian'an Logistics; and (ii) all the costs in relation to the First Civil Complaint. The amount of RMB68,370,454.42 claimed by the First Plaintiff is included in accounts payables and other payables as at 30 June 2020.





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The Directors were informed that Qian'an Logistics has filed an application with the Tianjin No. 1 Intermediate People's Court and an appeal with the Tianjin High People's Court to object the Tianjin No. 1 Intermediate People's Court's jurisdiction over the First Civil Complaint, the application was dismissed by the Tianjin No. 1 Intermediate People's Court and the appeal was dismissed by the Tianjin High People's Court respectively.

The court hearing in respect of the First Civil Complaint has been re-scheduled to 15 October 2020. Qian'an Logistics intends to negotiate with the First Plaintiff for the settlement of the claim and withdrawal of the First Civil Complaint.

Second Civil Complaint

Pursuant to the civil complaint dated 29 November 2019 (the "Second Civil Complaint") filed by Haitong UniTrust International Leasing Co., Ltd. (海通恒信國際租賃股份有限公司) (the "Second Plaintiff") as plaintiff with the Shanghai Financial Court, the Second Plaintiff claimed against Qian'an Logistics for (i) repayment of an aggregate amount of RMB197,754,190.70; and (ii) all the costs in relation to the Second Civil Complaint. The Second Civil Complaint had been accepted by the Shanghai Financial Court.

The Second Civil Complaint was arisen from the dispute under a domestic factoring agreement dated 26 September 2018 (the "Factoring Agreement") entered into among the Second Plaintiff, 天津物產進出口貿易有限公司 (transliterated in English as Tewoo Import and Export Trade Co., Limited) ("Tewoo") and Qian'an Logistics. Pursuant to the Factoring Agreement, the Second Plaintiff agreed to provide financing to Tewoo which, in return, agreed to assign all its rights under the account receivables in the aggregate amount of RMB223,463,688.00 (the "Account Receivables") payable by Qian'an Logistics to the Second Plaintiff in connection with five copper cathode contracts supplied by Tewoo to Qian'an. According to the Factoring Agreement, the Second Plaintiff appointed Tewoo to be its collection and receiving agent for the receipt of the Account Receivables payable by Qian'an Logistics.

The Directors were informed that Qian'an Logistics has filed an application with the Shanghai Financial Court and an appeal with the Shanghai High People's Court in relation to, among others, objection of Shanghai Financial Court's jurisdiction over the Second Civil Complaint, the application was dismissed by the Shanghai Financial Court and the appeal was dismissed by the Shanghai High People's Court respectively.

The management of Qian'an Logistics represented that Qian'an Logistics has fully settled the Account Receivables with Tewoo in connection with the five copper cathode contracts. In the premises, Qian'an Logistics has instructed its PRC legal adviser to contest the claim and to handle all other legal issues in connection with the Second Civil Complaint. As the trial has not yet commenced, the effects of the Second Civil Complaint on the Company cannot be assessed at this moment.



General Information

DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 30 June 2020, the following Directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein (the "Register"); or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules, to be notified to the Company and the Stock Exchange:

Long and short positions in the shares and underlying shares of the Company

Name of Director	Number of ordinary shares	Nature of Interest	Total	Approximate percentage of the issued share capital
Mr. Meng Fanpeng	480,000(L)	Personal interests	480,000(L)	0.01%
Ms. Choy So Yuk	271,908(L)	Personal interests	271,908(L)	0.01%
Mr. Leung Yuen Wing	224,213(L)	Personal interests	224,213(L)	0.01%

L – Long position

S – Short position

Save as disclosed above, as at 30 June 2020, none of the Directors and chief executive of the Company was interested, or was deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation which were required to be notified to the Company and the Stock Exchange or recorded in the Register as aforesaid.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "Interests of Directors and chief executive" and "Share Options Scheme" in this report, at no time during the period under review, was the Company or any of its subsidiaries a party to any arrangement to enable a director of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.



General Information

SHARE OPTIONS SCHEME

The Company adopted the Share Option Scheme for the purpose of providing incentives to Participants (as defined in the Share Option Scheme) to contribute to the Group and/or to enable the Group to recruit high-calibre employees and attract resources that are valuable to the Group and the shareholders of the Company as a whole.

As at 1 January 2020 and 30 June 2020, there was no outstanding share option. During the period, no share options were granted, cancelled, lapsed or exercised.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

Save as disclosed under the section headed "Interests of Directors and chief executive" above, as at 30 June 2020, the following persons had an interest in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Long and short positions in the shares/underlying shares of the Company

Name	Capacity	Nature of Interest	No. of shares/ underlying shares	Approximate percentage of the issued share capital
Huarong Overseas Chinese Asset Management Co., Ltd. ("Huarong Overseas Chinese") 華融華僑資產管理股份有限公司	Interest of controlled corporation	Corporate interests	1,703,728,222(L and S) (Notes 1 and 2)	29.87%
China Huarong Asset Management Co., Ltd. ("Huarong Asset Management") 中國華融資產管理股份有限公司	Interest of controlled corporation	Corporate interests	1,703,728,222(L and S) (Notes 1 and 2)	29.87%
Cai Jianjun ("Mr. Cai")	Interest of controlled corporation	Corporate interests	1,703,728,222(L) (Note 2)	29.87%
	Family Interest	Personal interests	10,000,000(L) (Note 3)	0.18%
			Total: 1,713,728,222(L)	30.05%
Yuan Jing	Beneficial owner	Personal interests	10,000,000(L)	0.18%
	Family Interest	Corporate interests	1,703,728,222(L) (Note 4)	29.87%
			Total: 1,713,728,222(L)	30.05%



General Information

Long and short positions in the shares/underlying shares of the Company

Name	Capacity	Nature of Interest	No. of shares/ underlying shares	Approximate percentage of the issued share capital
China Yangtze River Petrochemical Group Limited ("Yangtze River")	Beneficial owner	Corporate interests	1,703,728,222(L) (Note 2)	29.87%
Xinya Global Limited 新亞環球有限公司	Beneficial owner	Corporate interests	438,224,120(L) (Note 5)	7.68%
Tewoo Import & Export (HK) Limited	Interest of controlled corporation	Corporate interests	438,224,120(L) (Note 5)	7.68%
Tianjin Tian Yuen Investment Limited* 天津天源投資有限公司	Interest of controlled corporation	Corporate interests	438,224,120(L) (Note 5)	7.68%
Tewoo Import and Export Trade Co., Limited* 天津物產進出口貿易有限公司	Interest of controlled corporation	Corporate interests	438,224,120(L) (Note 5)	7.68%
Tewoo Group (Hong Kong) Limited	Interest of controlled corporation	Corporate interests	438,224,120(L) (Note 5)	7.68%
Tewoo Group Co., Ltd.* 天津物產集團有限公司	Interest of controlled corporation	Corporate interests	438,224,120(L) (Note 5)	7.68%
Tianjin Guo Xiang Asset Management Limited* 天津國翔資產管理有限公司	Interest of controlled corporation	Corporate interests	438,224,120(L) (Note 5)	7.68%
Tianjin Guo Xing Asset Operation Limited* 天津國興資本運營有限公司	Interest of controlled corporation	Corporate interests	438,224,120(L) (Note 5)	7.68%
Tianjin Yi Qing Asset Management Limited* 天津一輕資產經營管理 有限公司	Interest of controlled corporation	Corporate interests	438,224,120(L) (Note 5)	7.68%



General Information

Long and short positions in the shares/underlying shares of the Company

Name	Capacity	Nature of Interest	No. of shares/ underlying shares	Approximate percentage of the issued share capital
Tianjin Yi Qing Group Holdings Limited* 天津市一輕集團(控股)有限公司	Interest of controlled corporation	Corporate interests	438,224,120(L) (Note 5)	7.68%

L – Long position

S – Short position

Notes:

- China Huarong Investment Management Limited (“Huarong Investment Management”) is interested in these 1,703,728,222 shares. Pure Virtue Enterprises Limited owns 100% of Huarong Investment Management and is wholly-owned by China Huarong Overseas Investment Holdings Co., Limited. China Huarong Overseas Investment Holdings Co., Limited is owned 100% by Huarong Overseas Chinese which is owned 91% by Huarong Zhiyuan Investment & Management Co., Ltd. Huarong Asset Management owns 100% of Huarong Zhiyuan Investment & Management Co., Ltd.
- Pursuant to a put option deed entered into between Yangtze River, a company wholly-owned by Mr. Cai, and Huarong Investment Management, Huarong Investment Management may put any or all of these 1,703,728,222 shares to Yangtze River. Huarong Investment Management has exercised the put option on 24 June 2020 and Yangtze River is under an obligation to purchase these 1,703,728,222 shares.
- Ms. Yuan Jing holds these 10,000,000 shares; Mr. Cai is the spouse of Ms. Yuan Jing, accordingly, Mr. Cai is deemed to have interest in these 10,000,000 shares.
- Ms. Yuan Jing is the spouse of Mr. Cai, accordingly, she is deemed to have interest in the shares held by Yangtze River referred to Note 2 above.
- These shares is beneficially owned by Xinya Global Limited. Xinya Global Limited is wholly owned by Tewoo Import & Export (HK) Limited. Tewoo Import & Export (HK) Limited is owned as to 49% by Tewoo Import And Export Trade Co., Limited and 51% by Tewoo Group (Hong Kong) Limited. Tewoo Import and Export Trade Co., Limited is owned as to 17.47% by Tianjin Tian Yuen Investment Limited and 53.43% by Tewoo Group Co., Limited. Tianjin Tian Yuen Investment Limited is wholly owned by Tianjin Guo Xiang Asset Management Limited. Each of Tianjin Yi Qing Asset Management Limited and Tianjin Guo Xing Asset Operation Limited owns 50% of Tianjin Guo Xiang Asset Management Limited. Tianjin Yi Qing Asset Management Limited is wholly owned by Tianjin Yi Qing Group (Holdings) Limited. Tewoo Group (Hong Kong) Limited is wholly owned by Tewoo Group Co., Limited.

* The Chinese name of these companies are translated into English for reference purposes only.

Save as disclosed above, the Directors are not aware of any other persons who, at 30 June 2020, had interests or short positions in the shares or underlying shares of the Company which are recorded in the register and required to be kept under Section 336 of the SFO.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is committed to raising the standard of corporate governance within the Group in order to enhance the transparency in disclosure of material information. In the opinion of the Directors, the Company has complied with the code provisions of the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2020, except the following deviations:

General Information

Code provision A.1.3

Under code provision A.1.3, notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. During the period, a regular Board meeting was convened with less than 14 days' notice due to the practical reasons. Although the Company had not notified the Directors of the meeting date 14 days in advance, most of the Directors attended the meeting. The Company will use its best endeavor to give 14 days' advanced notifications of regular Board meeting to the extent practicable.

Code provisions A2

Code provision A2 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual, and the roles of the chairman of the Board. The chairman and the chief executive of the Company was performed by two separate individuals, with Mr. Cai Jianjun ("Mr. Cai") acted as the chairman and Mr. Fang Gang (Mr. Fang") acted as the chief executive until Mr. Cai resigned as executive Director and chairman of the Board on 5 June 2020. Following the resignation of Mr. Cai, the Company does not have the chairman of the Board and hence does not comply with code provision A2. Mr. Fang resigned as the chief executive on 15 July 2020. The Company will identify appropriate persons to fill in the vacancies.

Code Provision A.4.1

Under code provision A.4.1, non-executive directors should be appointed for a specific term and be subject to re-election. Two independent non-executive Directors namely, Ms. Choy So Yuk and Mr. Leung Yuen Wing were not appointed for a specific term. However, all Directors are subject to the retirement provisions in the Bye-laws of the Company which provides that one-third of the Directors for the time being shall retire from office by rotation and every Director shall be subject to retirement at least once every three years.

Code Provision A.6.7 and E.1.2

Under code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of the shareholders. In addition, code provision E.1.2 provides that the chairman of the board should attend the annual general meeting. The independent non-executive directors, Mr. Leung Yuen Wing, Mr. Wu Zhao, Mr. Zhu Dengkai, Mr. Liu Wei and Mr. Zou Mingwu had not attended the annual general meeting held on 10 July 2020 ("2020 AGM") as they were not in Hong Kong or due to other commitments which must be attended to by them. As no chairman was appointed after the resignation of Mr. Cai on 5 June 2020, the 2020 AGM did not have chairman to attend, however, the executive Directors, Ms. Yang Yi and Mr. Meng Fanpeng, the non-executive Director, Mr. Qin Bo and the independent non-executive Director and also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee, Mr. Choy So Yuk attended the 2020 AGM.

Code Provision A.7.1

Under code provision A.7.1, for regular board meetings, and as far as practicable in all other cases, an agenda and accompanying board papers should be sent, in full, to all directors at least 3 days before the intended date of a board meeting or board committee meeting (or other agreed period). As additional time was required to prepare the board papers, the board papers were not sent to all Directors 3 days before the regular board meeting. The Company will arrange the board papers at the earliest possible time in future.





General Information

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding directors' securities transactions set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules (the "Model Code"). Following specific enquiry by the Company, all Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2020.

CHANGE OF INFORMATION OF DIRECTORS

On 13 May 2020, Mr. Wang Xiusong resigned as executive Director and Ms. Wong Kai Ling was appointed as an executive Director.

On 2 June 2020, Mr. Zhou Hao resigned as non-executive Director and Mr. Qin Bo was appointed as non-executive Director.

On 5 June 2020, Mr. Cai Jianjun resigned as executive Director and chairman of the Company.

On 22 June 2020, Ms. Zhang Rui resigned as executive Director, and Ms. Yang Yi and Mr. Meng Fanpeng were appointed as executive Directors.

On 10 July 2020, Mr. Zhu Dengkai retired as independent non-executive Director at the 2020 AGM.

REVIEW BY THE AUDIT COMMITTEE

The Audit Committee currently comprises three independent non-executive Directors, namely, Mr. Leung Yuen Wing (chairman), Ms. Choy So Yuk and Mr. Wu Zhao. The interim results of the Group for the six months ended 30 June 2020 has not been audited or reviewed by the Company's auditors but has been reviewed by the Audit Committee.

On behalf of the Board

Meng Fanpeng

Executive Director

Hong Kong, 28 August 2020

