Silk Road Logistics Holdings Limited
絲路物流控股有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 988)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

Reference is made to the annual report of Silk Road Logistics Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 December 2020 ("**FY2020**") and published on 29 April 2021 (the "**2020 Annual Report**"). Unless otherwise stated, capitalised terms used in this announcement shall have the same meaning as those defined in the 2020 Annual Report.

As disclosed in the 2020 Annual Report, the Company has recorded (i) an impairment in goodwill of approximately HK$32.8 million (the "**Goodwill Impairment**") arising from the cash generating unit in Tianjin Ruiqi Enterprise Management Company Limited ("**Tianjin Ruiqi**") and its subsidiaries (collectively, "**Tianjin Ruiqi Group**") for FY2020; and (ii) an impairment loss on its investments in associates of approximately HK$274.9 million for FY2020 (the "**Investment Impairments**") which comprised of the impairment loss on investments in (a) Inner Mongolia Eurasian Continent Bridge Logistics Limited Liability Company ("**Mongolia Logistics**") of approximately HK$53.4 million; and (b) Wulanchabu Integrated Logistics Park Company Limited ("**Wulanchabu**") of approximately HK$221.5 million. The Board would like to provide further information on the Goodwill Impairment and the Investment Impairments as follows.

REASONS AND EVENTS LEADING TO THE GOODWILL IMPAIRMENT

Since the outbreak of the COVID-19 in early FY2020, various provinces in the PRC implemented lockdown measures to control the spread of the coronavirus. Silk Road Logistics (Qian'an) Company Limited ("**Qian'an Logistics**"), the major operating subsidiary owned as to 70% by Tianjin Ruiqi, only resumed operation after May 2020 and the business of Qian'an Logistics was developed at a much slower pace than expected. In June 2020, the management contract appointing Tewoo as manager for the operation of Qian'an Logistics expired. Since Tewoo was experiencing financial difficulties, the Group did not renew the management contract and took up the management and operation of Qian'an Logistics by itself. In lack of the business network of Tewoo after the expiry of the management contract and due to the slow recovery of the PRC economic conditions under the COVID-19 pandemic, the performance of Qian'an Logistics was unsatisfactory in the second half of FY2020.

Given that the financial performance of Tianjin Ruiqi Group, in particular, Qian'an Logistics, for FY2020 could not meet the cash flow projections under the valuation of cash generating units as at 31 December 2019 (the "**2019 Valuation**"), and anticipating that Qian'an Logistics needs time to operate in full scale, the management considered that it is prudent to adjust the cash flow projections for the five years ending 31 December 2025, which led to an impairment loss of approximately HK$32.8 million for the goodwill of the cash generating unit in Tianjin Ruiqi Group for FY2020, based on the independent valuation of Tianjin Ruiqi Group (the "**2020 TR Valuation**") as at 31 December 2020 (the "**Date of Valuation**"). The Board would like to provide further information on the 2020 TR Valuation as follows:

(a) Details of value of inputs/assumptions adopted in the valuation together with the basis and the assumptions

Revenue

The actual performance of Tianjin Ruiqi Group in 2020 was substantially lower than the expectation set out in 2019 Valuation because of the lockdown measures to curb the spread of the coronavirus, and no substantial improvement of business after the expiry of the management contract with Tewoo as disclosed above. Considering that the economy and business takes time to recover from the COVID-19 pandemic and to build up the business network in order to obtain new business contracts, the management adjusted the projected revenue for the year ending 31 December 2021 and the subsequent four years downwards. However, the management expected that if Qian' an Logistics can independently set up its business networks without the influence of Tewoo, the projected revenue will progressively increase and the revenue growth rate of 30-50% for the three years ending 31 December 2024 were adopted.

Cost of revenue

Given that the projected cost of revenue for Tianjin Ruiqi Group is in proportion to the projected revenue, in line with the decrease in the projected revenue, the projected cost of revenue for Tianjin Ruiqi Group used in the valuation of cash generating units as at 31 December 2020 (the "**2020 Valuation**") was correspondingly decreased as compared to that in 2019 Valuation.

Tax and surcharge

According to the historical audited financial statement and the management record, tax and surcharge amounted to around 4% of gross revenue historically. It is assumed that the tax and surcharge will be maintained at a similar level during the projection period.

Operating expenses

In line with the decrease in the projected revenue, the projected operating expenses were also adjusted downwards in the 2020 Valuation for the five years ending 31 December 2021 to 2025 as compared to that in 2019 Valuation for the five years ending 31 December 2020 to 2024.

Corporate income tax rate

The statutory corporate tax rate in China of 25% was consistently adopted in the 2019 Valuation and 2020 Valuation.

Capital expenditure

With reference to actual capital expenditure incurred, projection of capital expenditure of Tianjin Ruiqi Group is slightly adjusted from minimally at less than 0.5% to minimally at less than 0.2% of the revenue during the projection period.

Working capital requirements

The working capital requirements are trade receivables, other receivables, prepayment, trade payable and other current liabilities including salary and tax payable. Trade receivables turnover days, trade payable turnover days, other receivables to revenue ratio, prepayment to revenue ratio and other current liabilities to total cost and operation expenses ratio remain the same in the 2020 Valuation for the five years ending 31 December 2021 to 2025 as compared to that in 2019 Valuation for the five years ending 31 December 2020 to 2024.

Non-operating assets/liabilities

As at the Date of Valuation, there was excess cash of approximately RMB0.2 million in financial account of Tianjin Ruiqi Group which were non-operational related. Thus, these items were excluded in calculation of working capital and considered them separately in the calculation of the fair value of the Tianjin Ruiqi Group.

Long term sustainable growth rate

The long term sustainable growth rate remains the same as 3.0% in the 2020 Valuation for the period after 2025.

Discount rate

The discount rate of 19.28%, which is based on the estimated weighted average cost of capital after taking consideration of relevant risk free rate and certain risk premium, was applied to the cash flow projections of the Tianjin Ruiqi Group as at the Date of Valuation.

Major assumptions

The major assumptions adopted by in the 2020 TR Valuation are, among others, as follows:

- there would be no material change in the existing political, legal, fiscal, foreign trade and economic conditions in the countries where Tianjin Ruiqi Group is carrying on its businesses;

- there would be no significant deviation in the industry trends and market conditions from the current market expectation;
- there would be no material change in interest rates or foreign currency exchange rates from those currently prevailing;
- there would be no major change in the current taxation law in the country where Tianjin Ruiqi Group and the comparable companies were operated;
- all relevant legal approvals, business certificates or licenses for the normal course of operation are formally obtained, in good standing and that no additional costs or fees are needed to procure such during the application;
- future revenue stream and growth for Tianjin Ruiqi Group would not deviate significantly from its industry;
- Tianjin Ruiqi Group would retain competent management, key personnel, and technical staff to support the ongoing business operations;
- Tianjin Ruiqi Group would secure the certificate of land use right of the remaining land parcel in the logistics park for the operations; and
- Tianjin Ruiqi Group would develop adequate fixed assets for the operations so that no finance lease will be required in long term.

(b) reasons for any significant changes in the value of the inputs and assumptions from those previously adopted

As disclosed above, the financial performance of Qian'an Logistics for FY2020 did not perform as good as expected in the 2019 Valuation, since (i) the outbreak of COVID-19 and the corresponding lockdown measures in the PRC until May 2020 has significantly affected the operations of Qian'an Logistics; (ii) the management contract of Tewoo to operate Qian'an Logistics expired in June 2020, and no business contracts were referred to Qian'an Logistics; and (iii) Qian'an Logistics needs time to establish new business networks and enter into new contracts.

As a result, the revenue projections for Tianjin Ruiqi Group, in particular Qian'an Logistics, were substantially decreased. The management then revised the financial forecast of Qian'an Logistics as at the Date of Valuation in arriving at a more conservative estimate which better reflect the business prospect of Qian'an Logistics. As a result of the decrease in revenue projection of Qian'an Logistics, the cost of goods sold, operating expenses in respect of the Qian'an Logistics have been reduced accordingly.

(c) The valuation method and the reasons for using the valuation method

The independent external valuer (the "**Valuer**") has referenced to Hong Kong Accounting Standard 36 – Impairment of Assets and adopted the income based approach in valuing the value in use of Tianjin Ruiqi Group as at the Date of Valuation, based on five-year financial forecasts provided by the management. Under the income-based approach, the Valuer has adopted the discounted cash flow method, which is based on a simple reversal calculation to restate all future cash flows in present terms.

The Company has been adopting the income based approach in arriving at the value in use of Tianjin Ruiqi Group since the completion of the acquisition in 2016. Hence, the valuation methodology adopted was consistent with the previous valuation.

REASONS AND EVENTS LEADING TO THE INVESTMENT IMPAIRMENTS

Mongolia Logistics

As disclosed in the announcement of the Company dated 16 August 2019, new environmental protection policy was implemented in Inner Mongolia Autonomy Region by the Government of Inner Mongolia Autonomy Region in 2018. However, since the One Belt-One Road Policy was not yet run in full speed, the existing shareholders of Mongolia Logistics were unwilling to inject further capital, and Mongolia Logistics has been in lack of funds to upgrade its facilities in compliance with the new environmental protection policy. As a result, the scale of operation of Mongolia Logistics was limited to approximately 500,000 tonnes per year (even though the maximum capacity can reach 10 million tonnes per year).

In January 2021, the maintenance company of the railway system used by Mongolia Logistic informed that (i) certain parts of the railway were worn out and posed severe dangers to the safety of railway operation; and (ii) no maintenance services would be rendered by it as the maintenance contract was expired and the contract was not renewed by Mongolia Logistics. Given that no repairs nor replacement was or would be carried out, it is uncertain whether Mongolia Logistics can continue its railway transportation safely, and the operation may be put on halt anytime.

Further, Mongolia Logistics has incurred significant borrowings from independent third parties for the construction of its infrastructure. Nevertheless, as disclosed above, due to the new environmental protection policy, its capacity could not be fully utilised and it was unable to repay the loans in full. Coupled with the adverse impact of the COVID-19 pandemic to the PRC economy, Mongolia Logistics encountered difficulties in obtaining funds to repay the loans. To repay the debt, the borrowers proposed loan capitalization, which may result in vast dilution impact to the existing shareholding interests of the Group and a State-owned enterprise shareholder (the "**SOE Shareholder**"). The SOE shareholder has indicated that it will withdraw from being the existing operator of Mongolia Logistics, if the loan capitalization takes place. Therefore, the operating right of Mongolia Logistics will be transferred to the borrowers, i.e. the new majority shareholders.

As the new majority shareholders of Mongolia Logistics are lacking of track record on the operation of logistics business, it casts uncertainties on the business prospect of Mongolia Logistics. Hence, the management is not optimistic with the business prospect of Mongolia Logistics and considered the impairment of approximately HK$53.4 million on the investments in Mongolia Logistics for FY2020 is fair and reasonable.

Wulanchabu

The operation of Wulanchabu has been delayed due to lack of funding. Additional investments are required for commencement of its operations of logistics business. In November 2019, the then executive Director and chairman of the Company (the "**Former Director**"), who was also the managing director of Wulanchabu, advised the Company that he intended to negotiate with the local government of Wulanchabu and other investors, who are the developers of the other part of the railway and ancillary warehouses for the logistic system to be operated by Wulanchabu (the "**Wulanchabu Logistic System**"), so as to consolidate the rights in Wulanchabu Logistic System and to commence the operation of logistics business of Wulanchabu.

As a result of the outbreak of COVID-19 and travel restriction in first half of 2020, the negotiation of the Former Director with the local government and the other investors was postponed. Despite the Former Director visited Inner Mongolia a few times in the second half of 2020, there is no update with the negotiation with the local government and other investors. As the Former Director resigned as the executive Director and chairman of the Company in June 2020, the Company has difficulty to follow up with the Former Director in relation to the negotiation outcome. Since late December 2020, the Company did not receive any further update on the negotiation.

Taking into account that (i) the negotiation for the commencement of the operation of logistics business of Wulanchabu has no progress, (ii) the Company has no control on the business of Wulanchabu (as it is only an associate of the Company), and (iii) the operation of logistics business of Wulanchabu may continuously and indefinitely be delayed as Wulanchabu is lack of funds under current economic conditions and the slow recoverability of the business environment in the PRC from the COVID-19 pandemic, the Board considered that the recognition of an impairment of approximately HK$221.5 million, being the full value of the investments in Wulanchabu for FY2020 is fair and reasonable.

The above additional information does not affect other information contained in the 2020 Annual Report and save for those disclosed above, all other information contained in 2020 Annual Report remains unchanged.

By order of the Board
Silk Road Logistics Holdings Limited
Cheung Ngai Lam
Executive Director

Hong Kong, 7 September 2021

As at the date of this announcement, the Board comprises two executive Directors, namely Mr. Cheung Ngai Lam, Mr. Chung Wai Man; one non-executive Director, namely Mr. Choi Wai Hong Clifford and two independent non-executive Directors, namely Ms. Choy So Yuk and Mr. Wu Zhao.