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Silk Road Logistics Holdings Limited

絲路物流控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 988)

UPDATE ON LISTING STATUS AND SUSPENSION OF TRADING

This announcement is made by Silk Road Logistics Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

References are made to the announcements of the Company dated 28 November 2021, 6 December 2021 and 27 February 2022 (the “**Announcements**”) in respect of, amongst other things, (i) the decision of the Listing Division of the Stock Exchange (the “**Listing Division**”) that the Company had failed to comply with Rule 13.24 of the Listing Rules (the “**LD Decision**”), (ii) the Company’s written request for a review by the Listing Committee of the Stock Exchange (the “**Committee**”) of the LD Decision, (iii) the decision of the Listing Committee of the Stock Exchange (the “**Listing Committee**”) that the Company failed to maintain a sufficient level of operations and assets as required under Rule 13.24 of the Listing Rules to warrant the continued listing of its shares, and the Listing Committee decided to up hold the LD Decision to suspend trading in the Company’s shares under Rule 6.01(3) of the Listing Rules (the “**LC Decision**”); and (iv) the Company’s written request for a review by the Listing Review Committee of the Stock Exchange (the “**Listing Review Committee**”) of the LC Decision, respectively. Unless otherwise specified, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements.

The Board wishes to inform the shareholders and potential investors of the Company that the review hearing was held before the Committee on 11 May 2022. On 23 May 2022, the Company received a letter from the Stock Exchange notifying the Company that the Listing Review Committee, having considered all the submissions presented by the Company and the Listing Division, the Listing Review Committee decided to uphold the Listing Committee's decision to suspend trading in the Company's shares under Rule 6.01(3) of the Listing Rules on the ground that the Company has failed to comply with Rule 13.24 of the Listing Rules.

Set out below the Listing Review Committee's reasons for its decision:

1. The Company's shares were listed on the Main Board since 21 January 1994.
2. The Company was principally engaged in:
 - (a) Trading of commodities, including iron ore powder, cathode copper and coal (the "**Commodities Trading Business**") since 2013;
 - (b) Provision of logistics and warehousing services (the "**Logistics Business**") since 2015; and
 - (c) Exploration and production of oil and provision of oil well drilling services (the "**Oil Business**") since 2014.
3. In 2017, China Huarong Asset Management Co., Ltd became the Company's single largest shareholder upon converting the convertible bonds it held and now holds a 26.6% interest in the Company.
4. The current board of the Company had seven directors (being two executive directors, one non-executive director and four independent non-executive directors). All the directors were appointed in 2021 except for two independent non-executive directors appointed in 2009 and 2016, respectively.
5. On 5 October 2021, the Listing Division issued a show cause letter to the Company expressing its concern that the Company's businesses were not viable and sustainable and/or had no substance, and might have consequently failed to comply with Rule 13.24 of the Listing Rules. On 26 November 2021, the Listing Division, having first sought guidance from the Listing Committee, issued a letter setting out its decision that the Company had failed to comply with Rule 13.24 of the Listing Rules.
6. On 6 December 2021, the Company requested a review of the LD Decision by the Listing Committee. As set out in a letter dated 25 February 2022, the Listing Committee upheld the LD Decision.

7. On 7 March 2022, the Company requested a review of the LC Decision by the Listing Review Committee.

APPLICABLE LISTING RULES AND GUIDANCE

8. Rule 6.01 of the Listing Rules provides that: “Listing is always granted subject to the condition that where the Exchange considers it necessary for the protection of the investor or the maintenance of an orderly market, it may at any time direct a trading halt or suspend dealings in any securities or cancel the listing of any securities in such circumstances and subject to such conditions as it thinks fit”.
9. Rule 6.01(3) of the Listing Rules further provides that the Exchange may direct a trading halt or suspend dealings where “the Exchange considers that the issuer does not carry on a business as required under Rule 13.24 of the Listing Rules”.
10. Rule 13.24(1) of the Listing Rules provides that “An issuer shall carry out, directly or indirectly, a business with a sufficient level of operations and assets of sufficient value to support its operations to warrant the continued listing of the issuer’s securities”.
11. Guidance Letter HKEX-GL 106-19 provides further guidance on sufficiency of operations under Rule 13.24 of the Listing Rules and Rule 17.26 of the GEM Listing Rules.

LISTING COMMITTEE DECISION

12. The Listing Committee was of the view that the Company failed to maintain a sufficient level of operations and assets as required under Rule 13.24 of the Listing Rules to warrant the continued listing of its shares. The Listing Committee therefore upheld the LD Decision to suspend trading in the Company’s shares under Rule 6.01(3) of the Listing Rules.

13. The Listing Committee considered that the Company's businesses were not viable and sustainable for the following reasons amongst others:
- (a) The Commodities Trading Business, which had been the Company's major revenue driver since 2016, generated either losses or minimal profits in the past three years. Since the expiry of the Management Agreement in June 2020 between Tewoo Import and Export Trade Co., Ltd ("**Tewoo**") and the Company over Qian'an Logistics ("**Qian'an**"), a major subsidiary of the Company, segment revenue had substantially decreased from HK\$5,513.6 million in FY2019 to HK\$29.1 million in FY2020 and further to HK\$4.2 million in 1H2021. The Company's business plans, including to re-negotiate the Management Agreement with Tewoo and to cooperate with the owner of an iron ore mine in Australia, were preliminary and subject to negotiation. Finally, the Company's revenue projection for the segment was questionable given the minimal revenue generated by Dongguan Logistics and without the support of any concrete business plans or signed contracts with other customers.
 - (b) The Logistics Business operated at a minimal scale. It had a small customer base, had only generated revenue of less than HK\$9 million, and was loss making in the past five years' The Company's plans regarding Mongolia Logistics and the potential investment opportunity in an online logistics platform in Guangxi were preliminary. In any event, the Company's projected segment revenue of HK\$3.9 million in each of FY2022 and FY2023 was minimal.
 - (c) The Oil Business operated at minimal scale, with revenue of less than HK\$6 million since FY2016. Apart from a minimal segment profit of HK\$2.4 million in FY2016 and HK\$2.7 million in 1H2021, the business had been loss making in the past five years. Given the downsizing of the Oil Business, the Listing Committee remained concerned that this business was not viable and sustainable.
 - (d) Notwithstanding the loan of HK\$10 million from the Company's substantial shareholder announced in January 2022, it was doubtful whether the Company would have sufficient financial resources to discharge its debts as well as to support and expand its operations as planned. The Company's auditor had issued a disclaimer of opinion on going concern in respect of the Group's financial statements for the year ended 31 December 2020.

SUBMISSIONS TO THE LISTING REVIEW COMMITTEE

Submissions by the Company

14. The Company submitted overall that it had now gathered enough assets to carry out its business plans, but was hindered by factors over which it had no control, including the pandemic. The Company submitted that these issues were only temporary and can be resolved over the next few months.

Commodities Trading Business

15. The Company provided an update with regard to its relationship with Tewoo in the context to the Commodities Trading Business. The Company outlined that Tewoo's recent restructuring had only been completed in late December 2021. Since then the Company had managed to have an online conference with the representative of Tewoo in around late January 2022 to explore the possibility of re-gearing the cooperation over the commodity trading business of Qian'an. While Tewoo did not turn down the Company's cooperation proposal, it suggested that the parties resolve the legacy issues that arose during the term of the Management Agreement first before commencing negotiations for the new management contract and/or other forms of cooperation. The Company noted that when the Management Agreement was in effect, the Company recorded annual revenues of HK\$5,513.6 million in FY2019, HK\$11,536.9 million in FY2018 and HK\$3,090.3 million in FY2017. The Company submitted that if it is given more time to re-gear the cooperation with Tewoo, its annual revenue will be increased. The Company submitted that Tewoo's restructuring had only just been completed, and that if trading in the Company's shares was suspended, the negotiations would be adversely affected.
16. The Company submitted that, after the disposal of its indirect interest in RockEast, its cash level as at 29 March 2022 was approximately HK\$48 million, and the Company intended to use part of the sales proceeds for the supply of construction material business in Dongguan Logistics. The Company reiterated that in the fourth quarter of 2021, Dongguan Logistics sourced, processed and delivered around 19,000 tons of processed river sand to Guangzhou Changlong for RMB2.897 million, and during the first month in 2022, Dongguan Logistics supplied 20,000 tons of various sand and gravel resources to Guangzhou Changlong for RMB1.435 million. Although its business was affected by the lockdown policy in the PRC since March 2022, the Company expected that Dongguan Logistics would generate not less than RMB20 million of revenue for the Company for FY2022 once it had sufficient funds.

17. The Company submitted that it had been proactively negotiating with Cockatoo Island Mining Pty Limited (“**CIM**”) for a legally binding business cooperation agreement, and the parties have preliminarily agreed on the major terms of the cooperation. In order to commence the iron ore mining, CIM would have to carry out further preparatory works in West Australia, which is its principal place of business. As border controls in West Australia were only lifted on 3 March 2022, certain managerial staff from CIM were unable to enter West Australia before that. Since preparatory works have not been carried out, and the supply of the iron ore was expected to start from the second half of 2022, CIM took the view that there was no urgency to sign a written agreement. The Company submitted that as border controls are removed, CIM’s preparatory works would be sped up and the formal cooperation agreement will be entered into soon.

Logistics Business

18. The Company submitted that the minority shareholder of Qian’an had made a proposal in respect of cooperation with Qian’an. However, the Company made a counter proposal to extend the cooperation beyond logistics and to also cover commodities trading, in the knowledge that the minority shareholder is a large enterprise in Qian’an county (with a registered capital of RMB 170 million) and that the minor shareholder also had two subsidiaries which are engaged in iron ore mining and coal processing, The Company believed that this counter proposal would help to boost the Commodities Trading Business. The minority shareholder provided a revised business proposal in March 2022, but that was not agreeable to the Company. The Company noted that it would continue further negotiations with the minority shareholder, and that it was also prudently considering the proposal as a back-up plan for the joint operation with Tewoo.

Oil Business

19. The Company noted the disposal of its interest in RockEast, which was completed in February 2022. The Company submitted that the consideration received would provide further working capital and help develop the Commodities Trading Business.

Level of assets

20. The Company submitted that the loan agreement dated 27 January 2022 was entered into only for the purpose of obtaining immediately available liquidity to discharge the outstanding debt with bill, the professional fees incurred and the recurring expenditure of the Company, and not for the improvement of the Company’s financial position. The Company submitted that the loan agreement will improve the cash flow of the Company for re-gearing its Commodities Trading Business and Logistics Business.

Submissions by the Listing Division

21. The Listing Division submitted that the Company had failed to maintain a sufficient level of operations and assets under Rule 13.24 of the Listing Rules. The Listing Division noted that the Company sought to rely on the Commodities Trading Business and Logistics Business to meet Rule 13.24 of the Listing Rules.

Commodities Trading Business

22. The Listing Division submitted that the Commodities Trading Business maintained a low level of operations. For FY2021, the Commodities Trading Business recorded a revenue of HK\$7.3 million and a segment loss of around HK\$65.6 million. In 2020, the Commodities Trading Business only had one customer and one supplier. In light of the segment revenue recorded in 2021, the customer base did not appear to have been expanded. The Listing Division further submitted that it was questionable whether the Company's revenue projection for Dongguan Logistics was achievable, given the minimal revenue generated by the business so far and the absence of concrete business plans or signed contracts with customers. The Listing Division noted that the business plans regarding CIM and Qian'an were preliminary and generic, subject to further negotiation and the signing of legally binding agreements. There was uncertainty surrounding whether and when these business plans would materialise, but even if they did, the Company did not demonstrate the extent to which they would improve its scale of operation and financial performance.

Logistics Business

23. The Listing Division submitted that the Logistics Business operated at a minimal scale. In the past six years, the segment reported revenue of less than HK\$9 million and was loss making. The Listing Division also noted that the Logistics Business had a small customer base: the number of customers was reduced from 22 in FY2018 to 5 in FY2020. The Listing Division submitted that the Company's plans regarding the potential investment opportunity in the online logistics platform in Guangxi and Mongolia Logistics were preliminary and generic. In any event, the Company's projected revenue of HK\$3.9 million for the Logistics Business in each of FY2022 and FY2023 was minimal.

Oil Business

24. The Listing Division submitted that the Oil Business operated at a minimal scale. The Listing Division also noted the Company's admission that the Oil Business was downsizing. The Listing Division therefore was of the view that the Oil Business was not viable and sustainable as the Company would focus its resources on the Commodities Trading Business and the Logistics Business.

Financial forecast and sufficiency of assets

25. The Listing Division submitted that the Company neither provided a clear basis for its projected revenues, nor did the Company provide a projection of its profits. In any event, the Listing Division noted that the Company's revenue for FY2021 was HK\$13.6 million, which was 85% below what the Company had forecasted. The Listing Division submitted that given the Company's level of operation and financial position as canvassed above, the Company did not demonstrate that it had sufficient assets to maintain a business which was of substance, viable and sustainable. In this regard, the Listing Division noted that for each of FY2020 and FY2021, the Company's independent auditor issued a disclaimer of opinion related to going concern given the Company's substantial net losses (HK\$382 million in FY2020 and around HK\$303 million in FY2021) and net current liabilities (HK\$550 million as at 31 December 2020 and HK\$563 million as at 31 December 2021).

LISTING REVIEW COMMITTEE'S VIEWS

26. Having considered all the submissions and evidence presented, the Listing Review Committee considered that, as at the time of the review hearing, the Company had not demonstrated to the Listing Review Committee's satisfaction that the Company maintained a sufficient level of operations and assets under Rule 13.24 of the Listing Rules to warrant a continued listing of its shares.
27. The Listing Review Committee was not satisfied that the Company had demonstrated a sufficient level of operations and assets so as to comply with Rule 13.24 of the Listing Rules for the following reasons. among others:
- (a) The Commodities Trading Business of the Company maintained a low level of operations. Despite the fact that the Commodities Trading Business had been the Company's biggest revenue driver since 2016, the segment recorded a revenue of HK\$7.3 million and a loss of approximately HK\$65.6 million for FY2021. The Listing Review Committee noted that its key business partner, Tewoo, had come out of restructuring in late December 2021 and that the Company had had an

online conference with Tewoo in late January 2022. However, there was no guarantee that such negotiations would lead to a legally binding agreement, as the Company itself had admitted that Tewoo had wanted certain legacy issues to be resolved before proceeding to negotiate a new Management Agreement and/or other forms of cooperation. The Listing Review Committee considered that it was questionable whether the Company's revenue projection for Dongguan Logistics was achievable, given the minimal revenue generated by the business so far and the lack of specific details. Notwithstanding that the Company and CIM had preliminarily agreed on the major terms of their cooperation, the fact remained that both parties had not entered into a legally binding agreement. In fact, by the Company's own admission, it appeared that CIM had taken the view that there was "no urgency to sign a written agreement".

- (b) The Logistics Business operated at a minimal scale and had a small customer base. In the past six years, the segment reported revenue of less than HK\$9 million and was loss making. Additionally, the various business initiatives of the Company in this segment appeared to lack details and/or were in their early stages. The Listing Review Committee also considered that the negotiations with the minority shareholder of Qian'an for the cooperation over the Logistics Business were in an early stage as the proposal by the minority shareholder was not agreeable to the Company. In any event, it was apparent the Company's projected revenue of HK\$3.9 million for the Logistics Business in each of FY2022 and FY2023 remained minimal.
- (c) The Listing Review Committee noted the Company's submission that the Oil Business was no longer its focus going forward. In this regard, the Listing Review Committee also noted that the Company had already disposed of its interest in RockEast, and indicated that it would dispose of its America oil wells in the future should a suitable offer be received.
- (d) In addition, the Company had not demonstrated that it had sufficient assets to maintain a business which was of substance, viable and sustainable. Among other things, the Listing Review Committee noted that for FY2020 and FY2021, the Company's independent auditor had issued a disclaimer of opinion related to going concern in view of the Company's net losses (HK\$382 million in FY2020 and around HK\$303 million in FY2021) and net current liabilities (HK\$550 million as at 31 December 2020 and HK\$563 million as at 31 December 2021). Further, the Company had not provided a clear basis or reasons to support its financial forecast.

28. Overall, the Listing Review Committee was of the view that the Company had not demonstrated that it was carrying out a business with a sufficient level of operations and assets as required under Rule 13.24 of the Listing Rules. The Listing Review Committee noted that the new board members of the Company had recently been appointed in 2021 and there were plans to improve the Company's overall performance. The Listing Review Committee noted that the Company would still have a remedial period of 18 months to implement its business plans and to improve its operations and financial position so as to re-comply with Rule 13.24 of the Listing Rules.

SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on Tuesday, 24 May 2022. Further announcement(s) will be made by the Company as and when appropriate and in accordance with the requirements of the Listing Rules.

Dealing in the shares of the Company on the Stock Exchange has been suspended since 9:00 a.m. on Tuesday, 24 May 2022 and will remain suspended until further notice. There is no guarantee that the resumption of trading in the shares of the Company on the Stock Exchange will take place. Shareholders who have any queries about the implications of the Listing Review Committee Decision are advised to seek appropriate professional advice.

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

Hong Kong, 24 May 2022

As at the date of this announcement, the Board comprises two executive Directors, namely Mr. Cheung Ngai Lam and Mr. Chung Wai Man; a non-executive Director, namely Mr. Ouyang Nong; and four independent non-executive Directors, namely Ms. Choy So Yuk, Mr. Wu Zhao, Mr. Chen Wai Chung Edmund and Ms. Ang Mei Lee Mary.