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 2019

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 2019 ("**FY2019**") and published on 5 June 2020 (the "**2019 Annual Report**"). Unless otherwise stated, capitalised terms used in this announcement shall have the same meaning as those defined in the 2019 Annual Report.

As disclosed in the 2019 Annual Report, the Company has recorded impairment loss (the "**2019 Impairment**") on its investment in associates of approximately HK$242 million for FY2019 based on business valuation conducted by an independent external valuer (the "**Valuer**"). Such impairment represents approximately 21% of the Company's total assets as at 31 December 2019. The board (the "**Board**") of directors (the "**Directors**") of the Company wishes to inform the shareholders and investors, that the 2019 Impairment comprised of the impairment loss on investments in (i) Inner Mongolia Eurasian Continent Bridge Logistics Limited Liability Company ("**Mongolia Logistics**") of approximately HK$46 million; and (ii) Wulanchabu Integrated Logistics Park Company Limited ("**Wulanchabu**" together with Mongolia Logistics, the "**Cash Generating Units**") of approximately HK$196 million, based on the independent valuation of the Cash Generating Units as at 31 December 2019 (the "**Date of Valuation**"). The Board would like to provide further information on the independent valuation as follows:

(i) details of the value of inputs used for the valuation together with the basis and assumptions

(a) Value of inputs used for the valuation of Mongolia Logistics

Discount rate

The discount rate adopted for Mongolia Logistics valuation decreased from 18.39% in the valuation as at 31 December 2018 to 16.89% in the valuation as at the Date of Valuation. With the set of comparable companies, the decrease in discount rate was mainly due to the increase in comparable companies' debt to equity ratio and the decrease in comparable companies' beta coefficient as extracted from Bloomberg.

The market expected return decreased from 14.11% as at 31 December 2018 to 11.92% as at the Date of Valuation. The cost of equity decreased from 24.96% as at 31 December 2018 to 22.89% as at the Date of Valuation.

Revenue

The actual performance of Mongolia Logistics in 2019 was substantially lower than the expectation as at 2018 valuation (the "**2018 Valuation**") because the Company was optimistically expected the business generated from the PRC new economic area policy (where Inner Mongolia Autonomy Region forms part of it) while its pace of development is slower than as expected. Further in light of that the economic activities in Inner Mongolia Autonomy Region was on halt or retarded in the first half year of 2020 due to the outbreak of COVID-19, the projected revenue for Mongolia Logistics for the year ending December 2020, was substantially adjusted downwards. The projected revenue for Mongolia Logistics for the four years were also decreased accordingly. The growth rate of 110% was adopted for year 2020 to 2021 due to the growth in the business scale. The annual growth rate would be 10.00% for year 2022 to 2024. It was assumed to be growing at China inflation rate of 3.00% since year 2025.

Cost of goods sold

As a result of decrease in the revenue, the projected cost of goods sold for Mongolia Logistics used in 2019 Valuation were corresponding decreased as compared to that in 2018 Valuation. The annual growth rate was consistent with the revenue growth rate from years ending December 2021 to 2024. It was assumed to be growing at China inflation rate of 3.00% since year 2025.

Management expense

The projected management expense for Mongolia Logistics were adjusted downwards in 2019 Valuation as compared to that in 2018 Valuation for the five years ending December 2024. The annual growth rate of 34% was based on the growth in scale of Mongolia Logistics.

Business tax and surcharge

The projected business tax and surcharge for Mongolia Logistics were adjusted downwards in 2019 Valuation as compared to that in 2018 Valuation for the five years ending December 2024. The annual growth rate of 34% was referenced to the growth in management expenses.

Staff expenses

The projected staff expenses were adjusted downwards in 2019 Valuation as compared to that in 2018 Valuation for the five years ending December 2020 to 2024. The annual growth rate of 34% was referenced to the growth in management expenses.

Working capital

As Mongolia Logistics has a fluctuated turnover history, the working capital of Mongolia Logistics as at the Date of Valuation might not reflect the future working capital required by Mongolia Logistics. Hence, the Valuer has made reference to the median account receivables turnover days, inventory turnover days and account payables turnover days of comparable companies to estimate the future working capital required by Mongolia Logistics.

(b) *Value of inputs used for the valuation of Wulanchabu*

Discount rate

The discount rate adopted for Wulanchabu valuation decreased from 16.00% in the valuation as at 31 December 2018 to 14.14% in the valuation as at the Date of Valuation. With the set of comparable companies, the decrease in discount rate was mainly due to the increase in comparable companies' debt to equity ratio as extracted from Bloomberg.

The market expected return decreased from 14.11% as at 31 December 2018 to 11.92% as at the Date of Valuation. The cost of equity decreased from 21.29% as at 31 December 2018 to 18.89% as at the Date of Valuation.

Revenue

The operation of Wulanchabu has been delayed due to lack of funding. The actual performance of Wulanchabu in 2019 was substantially lower than the expectation as in 2018 Valuation. Further in light of that the economic activities in Inner Mongolia Autonomy Region was on halt or retarded in the first half year of 2020 due to the outbreak of COVID-19, the projected revenue for Wulanchabu for the year ending December 2020 was substantially adjusted downwards. The projected revenue for Walanchabu for the four years were also decreased accordingly. The growth rate of 110% was adopted for year 2020 to 2021 due to the growth in business scale. The annual growth rate would be 10% for the years ending December 2022 to 2024. It was assumed to be growing at China inflation rate of 3.00% since year 2025.

Cost of goods sold

The projected cost of goods sold for Wulanchabu included the operating cost for the transportation and the salary for the workers. As a result of decrease in the revenue, the projected cost of goods sold used in 2019 Valuation were corresponding decreased as compared to that in 2018 Valuation. The annual growth rate for costs of goods sold would be 10% for the years ending December 2021 to 2024. It was assumed to be growing at China inflation rate of 3.00% since year 2025.

Business tax and surcharge

The projected business tax and surcharge for Wulanchabu were adjusted downwards in 2019 Valuation as compared to that in 2018 Valuation for the five years ending December 2020 to 2024. The annual growth rate would be consistent with the revenue growth rate from the years ending December 2022 to 2024.

Administrative Expense

The projected administrative expense for Wulanchabu were adjusted downwards in 2019 Valuation as compared to that in 2018 Valuation for the five years ending December 2020 to 2024. The annual growth rate was consistent with the cost of goods sold growth rate. It was assumed to be growing at China inflation rate of 3.00% since year 2025.

Working capital

As Wulanchabu has limited operation as at the Date of Valuation, the working capital of it as at the Date of Valuation might not reflect the future working capital required by Wulanchabu. Hence, the Valuer has made reference to the median account receivables turnover days, inventory turnover days and account payables turnover days of comparable companies to estimate the future working capital required by Wulanchabu.

(c) Major assumptions

Set out below are the major assumptions adopted by in the 2019 Valuation:

- the valuation was mainly based on the projections of the future cash flows as provided by the management of the Group (the "**Management**"). The projections outlined in the financial information provided are reasonable, reflecting market conditions and economic fundamentals, and will be materialized;

- the projection adopted in the valuation was relied on the information provided by the Management, which included but not limited to revenue, cost of sales, business tax and surcharge, administrative expense and capital expenditure;

- as advised by the Management, the operation of Mongolia Logistics has been delayed by 4 years from 31 December 2015, therefore the financial projection adopted has been delayed by 4 years;

- as advised by the Management, the operation of Wulanchabu has been delayed by 3 years from 31 December 2016, therefore the financial projection adopted has been delayed by 3 years;

- as advised by the Management and based on the contracts in respect of Wulanchabu provided, there will be a total of RMB4,000,000 income from coal trading in year 2020, the Management expected that the coal trading income would not be recurred after year 2020;

- the unaudited management accounts of the Cash Generating Units as at the Date of Valuation can reasonably represent its financial position since an audited financial account was not available;

- the forecast adopted in the valuation of Wulanchabu has received the verbal consent from the auditor;

- the Cash Generating Units will be operated and developed as planned by the Management;

- all relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Cash Generating Units operate or intend to operate would be officially obtained and renewable upon expiry;

- there will be sufficient supply of technical staff in the industry in which the Cash Generating Units operate, and the Cash Generating Units will retain competent management, key personnel and technical staff to support its ongoing operations and developments;

- there will be no major changes in the current taxation laws in the localities in which the Cash Generating Units operate or intend to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;

- there will be no major change in the political, legal, economic or financial conditions in the localities in which the Cash Generating Units operate or intend to operate, which would adversely affect the revenues attributable to and profitability of the Cash Generating Units; and

- interest rates and exchange rates in the localities for the operation of the Cash Generating Units will not differ materially from those presently prevailing.

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

The 2019 Impairment was mainly attributable to the following factors:

- some uncertainties which may affect the financial forecast of the Cash Generating Units, including but not limited to

  (i) the outbreak of COVID-19 and its impact on the economic growth in the PRC;

  (ii) the Sino-US trade war;

  (iii) the potential slowdown of railway transportation industry, which affects the financial forecast for the Cash Generating Units; and

  (iv) the economic growth in China and the development stage of the Cash Generating Units.

- The current operations of the two Mongolia projects are not as expected, thus it needs time for them to operate in full scale. Combining the above reasons and the expected downtrend of the economic growth in the PRC, the financial projections were further downward adjusted.

Based on the above reasons, the financial projections, in particular, the revenue projections for the Cash Generating Units have been delayed and the revenue projection decreased as compared the 2019 Valuation with the 2018 Valuation, the Management have then revised the financial forecast of the Cash Generating Units as at the Date of Valuation in arriving at a more conservative estimate which better reflect the industry outlook. As a result of the decrease in revenue projection of the Cash Generating Units, the cost of goods sold, management expense, business tax and surcharge and staff expense in respect of the Cash Generating Units have been reduced accordingly.

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

In the process of valuing the value in use of the Cash Generating Units, the Valuer has taken into account the operation and financial information of the Cash Generating Units and conducted discussions with the Management to understand the status and prospect of the Cash Generating Units, the logistics and transportation industry it is participating. Also, the Valuer has considered the accessibility to available data and relevant market transactions in choosing among the valuation approaches.

The Valuer has referenced to Hong Kong Accounting Standard 36 – Impairment of Assets and adopted income based approach in valuing the value in use of the Cash Generating Units, in which five-year financial forecasts were adopted in measuring the value in use of the Cash Generating Units as at the Date of Valuation.

The Market-Based Approach was not adopted because most of the important assumptions of the comparable transactions, such as discount or premium on the transaction prices or considerations, were not unavailable. The Asset-Based Approach was also not adopted because it could not capture the future earning potential of the Cash Generating Units. The Company therefore agreed with the Valuer to adopt the Income Based Approach in arriving at the value in use of the Cash Generating Units. 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 valuation methodology adopted was consistent with the previous valuation.

Save as supplemented above, the contents in the 2019 Annual Report remain unchanged.

By order of the Board
Silk Road Logistics Holdings Limited
Meng Fanpeng
Executive Director

Hong Kong, 6 August 2020

As at the date of this announcement, the Board comprises three executive Directors, namely Ms. Wong Kai Ling, Ms. Yang Yi and Mr. Meng Fanpeng; one non-executive Director, namely Mr. Qin Bo; and five independent non-executive Directors, namely Ms. Choy So Yuk, Mr. Leung Yuen Wing, Mr. Wu Zhao, Mr. Liu Wei and Mr. Zou Mingwu.