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DTXS Silk Road Investment Holdings Company Limited

大唐西市絲路投資控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 620)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board of directors (the “Board”) of DTXS Silk Road Investment Holdings Company Limited (the “Company”) announces the unaudited interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2019, together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Notes	Six months ended 30 June	
		2019 HK\$'000 (unaudited)	2018 HK\$'000 (restated) (unaudited)
Continuing operations			
Revenue			
Goods and services	3	99,400	77,855
Interest	3	17,020	12,073
Total revenue		116,420	89,928
Other income		835	863
Changes in inventories		(64,919)	(63,453)
Auction and related services costs		(2,670)	(1,542)
Staff costs	6(a)	(13,709)	(22,903)
Marine engineering and related services costs	6(b)	(10,624)	(7,645)
Depreciation and amortisation expenses	6(c)	(10,597)	(10,693)
Other operating expenses		(9,652)	(16,384)
Other gains and losses		(89)	21
Profit (loss) from operations		4,995	(31,808)
Finance costs	5	(1,623)	(1,052)

	Notes	Six months ended 30 June	
		2019 HK\$'000 (unaudited)	2018 HK\$'000 (restated) (unaudited)
Profit (loss) before taxation	6	3,372	(32,860)
Taxation	7	<u>(391)</u>	<u>(1,416)</u>
Profit (loss) for the period from continuing operations		<u>2,981</u>	<u>(34,276)</u>
Discontinued operations			
Profit for the period from discontinued operations		<u>—</u>	<u>669</u>
Profit (loss) for the period		<u>2,981</u>	<u>(33,607)</u>
Other comprehensive expense			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<u>(1,568)</u>	<u>(5,665)</u>
Total comprehensive income (expense) for the period		<u>1,413</u>	<u>(39,272)</u>
Profit (loss) for the period attributable to owners of the Company			
— from continuing operations		3,124	(34,134)
— from discontinued operations		<u>—</u>	<u>394</u>
Profit (loss) for the period attributable to owners of the Company		<u>3,124</u>	<u>(33,740)</u>
(Loss) profit for the period attributable to non-controlling interests			
— from continuing operations		(143)	(142)
— from discontinued operations		<u>—</u>	<u>275</u>
(Loss) profit for the period attributable to non-controlling interests		<u>(143)</u>	<u>133</u>
		<u>2,981</u>	<u>(33,607)</u>

		Six months ended 30 June	
		2019	2018
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(restated)
		(unaudited)	(unaudited)
Total comprehensive income (expense)			
for the period attributable to:			
Owners of the Company		3,061	(39,146)
Non-controlling interests		(1,648)	(126)
		<u>1,413</u>	<u>(39,272)</u>
Earnings (loss) per share			
From continuing and discontinued operations			
Basic (HK cents)	<i>9</i>	0.56	(6.07)
Diluted (HK cents)	<i>9</i>	0.56	(6.07)
		<u>0.56</u>	<u>(6.07)</u>
From continuing operations			
Basic (HK cents)	<i>9</i>	0.56	(6.14)
Diluted (HK cents)	<i>9</i>	0.56	(6.14)
		<u>0.56</u>	<u>(6.14)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	<i>Notes</i>	30 June 2019	31 December 2018
		<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(audited)
Non-current Assets			
Property, plant and equipment		180,102	181,422
Intangible assets		86,015	89,578
Other financial asset		—	—
Goodwill		131,065	131,354
Other receivables	<i>10</i>	—	6,726
		397,182	409,080
Current Assets			
Inventories		44,281	43,557
Trade and other receivables	<i>10</i>	309,484	312,903
Loan receivable		4,945	9,719
Bank balances and cash		28,422	54,437
		387,132	420,616
Current Liabilities			
Trade and other payables	<i>11</i>	24,345	78,177
Contract liabilities		—	679
Borrowings		58,634	55,888
Tax liabilities		6,632	6,098
Lease liabilities		1,997	—
		91,608	140,842
Net Current Assets		295,524	279,774
Total Assets Less Current Liabilities		692,706	688,854

	30 June 2019 <i>HK\$'000</i> (unaudited)	31 December 2018 <i>HK\$'000</i> (audited)
Capital and Reserves		
Share capital	277,969	277,969
Reserves	<u>381,736</u>	<u>378,356</u>
Equity attributable to owners of the Company	659,705	656,325
Non-controlling interests	<u>7,889</u>	<u>9,537</u>
Total Equity	<u>667,594</u>	<u>665,862</u>
Non-current Liabilities		
Deferred tax liabilities	22,052	22,992
Lease liabilities	<u>3,060</u>	<u>—</u>
	<u>25,112</u>	<u>22,992</u>
	<u>692,706</u>	<u>688,854</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except certain properties and financial instruments which are measured at revalued amounts or fair value, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the annual financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except for the application of HKFRS 16 *Leases*, the application of these new and amendments to HKFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements. The impact of application of HKFRS 16 is disclosed in the latest condensed consolidated financial statements.

3. REVENUE

Continuing operations

Disaggregation of revenue

For the period ended 30 June 2019:

Segments	Arts and Cultural Division <i>HK\$'000</i> (unaudited)	Winery Division <i>HK\$'000</i> (unaudited)	e-Commerce Division <i>HK\$'000</i> (unaudited)	Engineering Services Division <i>HK\$'000</i> (unaudited)	Total <i>HK\$'000</i> (unaudited)
Types of goods or services					
Sales of merchandise	—	1,431	65,896	—	67,327
Auction and related services	21,103	—	—	—	21,103
Marine engineering services	—	—	—	13,890	13,890
Tendering technical support services	—	—	—	14,100	14,100
Total	21,103	1,431	65,896	27,990	116,420
Timing of revenue recognition					
A point in time	4,083	1,431	65,896	14,100	85,510
Over time	17,020	—	—	13,890	30,910
Total	21,103	1,431	65,896	27,990	116,420

For the period ended 30 June 2018 (restated):

Segments	Arts and Cultural Division <i>HK\$'000</i> (unaudited)	Winery Division <i>HK\$'000</i> (unaudited)	e-Commerce Division <i>HK\$'000</i> (unaudited)	Engineering Services Division <i>HK\$'000</i> (unaudited)	Total <i>HK\$'000</i> (unaudited)
Types of goods or services					
Sales of merchandise	—	4,170	61,394	—	65,564
Auction and related services	22,417	—	—	—	22,417
Marine engineering services	—	—	—	1,947	1,947
Total	22,417	4,170	61,394	1,947	89,928
Timing of revenue recognition					
A point in time	10,344	4,170	61,394	—	75,908
Over time	12,073	—	—	1,947	14,020
Total	22,417	4,170	61,394	1,947	89,928

4. SEGMENT INFORMATION

The Group manages its businesses by divisions. The Group's segment information is presented on the basis of internal reports that are regularly reviewed by the Group's Chief Operating Decision Maker ("CODM"), being the executive directors of the Company for the purposes of performance assessment and resources allocation.

Thus, the Group has four reportable operating segments as follows:

Arts and Cultural Division	—	mainly represents auction business, sales of antique, art financing business and Art Central Business District business
Winery Division	—	mainly represents operation of vineyard, production and sales of wine and related business
e-Commerce Division	—	mainly represents trading of merchandise (including electronic devices, cosmetics and other consumer products)
Engineering Services Division	—	mainly represents sales of vessels, provision of marine engineering services and tendering technical support services

Fintech Division, which was engaged in financial e-commerce business and provision of financial trading platform and solutions, was separately disclosed in the prior period. The division was disposed of on 28 December 2018 and the operating results was included in profit from discontinued operations. The segment information reported below does not include any amounts for the discontinued operations.

(a) Segment results, assets and liabilities

During the period ended 30 June 2019, for performance assessment and resources allocation, the CODM focused on segment revenue and results attributable to each segment, which is measured by reference to respective segments' results before taxation and adjusted by amortisations of intangible assets resulting from fair value upwards in business combinations ("Adjusted IA Amortisations"). No analysis of the Group's assets and liabilities is regularly provided to the CODM for review.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit/loss represents the profit earned by/loss from each segment without allocation of central administration costs, directors' emoluments and loss arising from changes in fair value of contingent consideration payables.

Continuing operations

For the period ended 30 June 2019:

	Arts and Cultural Division <i>HK\$'000</i> (unaudited)	Winery Division <i>HK\$'000</i> (unaudited)	e-Commerce Division <i>HK\$'000</i> (unaudited)	Engineering Services Division <i>HK\$'000</i> (unaudited)	Eliminations <i>HK\$'000</i> (unaudited)	Consolidated <i>HK\$'000</i> (unaudited)
Reportable segment revenue:						
Revenue from external customers	21,103	1,431	65,896	27,990	—	116,420
Inter-segment sales	—	316	—	—	(316)	—
	<u>21,103</u>	<u>1,747</u>	<u>65,896</u>	<u>27,990</u>	<u>(316)</u>	<u>116,420</u>
Segment results*	<u>1,142</u>	<u>(499)</u>	<u>(173)</u>	<u>11,811</u>	<u>—</u>	<u>12,281</u>
Unallocated corporate expenses						(4,275)
Unallocated depreciation expenses						(875)
Unallocated amortisation expenses						<u>(3,759)</u>
Profit before taxation						<u>3,372</u>

For the period ended 30 June 2018 (restated):

	Arts and Cultural Division <i>HK\$'000</i> (unaudited)	Winery Division <i>HK\$'000</i> (unaudited)	e-Commerce Division <i>HK\$'000</i> (unaudited)	Engineering Services Division <i>HK\$'000</i> (unaudited)	Eliminations <i>HK\$'000</i> (unaudited)	Consolidated <i>HK\$'000</i> (unaudited)
Reportable segment revenue:						
Revenue from external customers	22,417	4,170	61,394	1,947	—	89,928
Inter-segment sales	—	—	198	—	(198)	—
	<u>22,417</u>	<u>4,170</u>	<u>61,592</u>	<u>1,947</u>	<u>(198)</u>	<u>89,928</u>
Segment results*	<u>8,671</u>	<u>336</u>	<u>(152)</u>	<u>(11,850)</u>	<u>—</u>	<u>(2,995)</u>
Unallocated other income						7
Unallocated loss arising from changes in fair value of contingent consideration payables						(180)
Unallocated corporate expenses						(25,094)
Unallocated depreciation expenses						(597)
Unallocated amortisation expenses						<u>(4,001)</u>
Loss before taxation						<u>(32,860)</u>

* Segment results are before taxation and Adjusted IA Amortisations.

Inter-segment sales are charged at prevailing market rates.

(b) Geographical information

The Group's operations are located in Hong Kong, the People's Republic of China (the "PRC") and France.

The following table sets out information about the geographical locations of (i) the Group's revenue from external customers for the six months ended 30 June 2019 and 2018 and (ii) the Group's property, plant and equipment, intangible assets and goodwill ("Specified non-current assets") as at 30 June 2019 and 31 December 2018. The geographical location of property, plant and equipment is based on the physical location of the assets and the geographical location of goodwill and intangible assets are based on location of respective business operations.

	Revenue from external customers		Specified non-current assets	
	Six months ended		As at	
	30 June 2019 <i>HK\$'000</i>	30 June 2018 <i>HK\$'000</i> (restated)	30 June 2019 <i>HK\$'000</i>	31 December 2018 <i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(audited)
Hong Kong	106,432	78,508	108,592	111,832
PRC	9,977	11,420	260,226	261,387
France	11	—	28,364	29,135
	<u>116,420</u>	<u>89,928</u>	<u>397,182</u>	<u>402,354</u>

5. FINANCE COSTS

	Six months ended 30 June	
	2019 <i>HK\$'000</i> (unaudited)	2018 <i>HK\$'000</i> (unaudited)
Continuing operations		
Interest on loans	1,435	1,052
Interest on lease liabilities	188	—
	<u>1,623</u>	<u>1,052</u>

6. PROFIT (LOSS) BEFORE TAXATION

Profit (loss) before taxation has been arrived at after charging:

	Six months ended 30 June	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(restated) (unaudited)
Continuing operations		
(a) Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	13,040	18,999
Contributions to defined contribution retirement plans	350	197
Share-based payment expenses	319	3,707
	<u>13,709</u>	<u>22,903</u>
(b) Marine engineering and related services costs		
Subcontracting, direct engineering and material costs	4,782	5,384
Direct overheads	123	249
Repairs, maintenance and vessel security costs	5,719	2,012
	<u>10,624</u>	<u>7,645</u>
(c) Depreciation and amortisation expenses		
Depreciation of property, plant and equipment	6,621	6,700
Amortisation of intangible assets	3,976	3,993
	<u>10,597</u>	<u>10,693</u>
(d) Other items (included in other operating expenses)		
Legal and professional fees	2,157	1,335
Secretarial and registration fees	238	397
Short-term lease payments	4,375	8,268
	<u>4,375</u>	<u>8,268</u>

7. TAXATION

	Six months ended 30 June	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(restated) (unaudited)
Continuing operations		
Current tax:		
Hong Kong	547	1,232
PRC	784	1,182
	<u>1,331</u>	<u>2,414</u>
Deferred tax	(940)	(998)
	<u>391</u>	<u>1,416</u>
Income tax expense	<u>391</u>	<u>1,416</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both current and prior periods. The PRC subsidiaries of the Group are subject to the PRC Enterprises Income Tax rate of 25% for both current and prior periods.

8. DIVIDENDS

No dividend was paid, declared or proposed during the period ended 30 June 2019 (2018: nil). The directors of the Company have determined that no dividend will be paid in respect of the current interim period.

9. EARNINGS (LOSS) PER SHARE

From continuing operations

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

	Six months ended 30 June	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(restated) (unaudited)
Profit (loss) for the period attributable to owners of the Company	3,124	(33,740)
Adjust for:		
Profit for the period from discontinued operations	—	(394)
	<u>3,124</u>	<u>(34,134)</u>
Earnings (loss) for the purpose of basic and diluted earnings (loss) per share from continuing operations	<u>3,124</u>	<u>(34,134)</u>

	Six months ended 30 June	
	2019	2018
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	555,938	555,718
Effect of dilutive potential ordinary shares:		
Share options	<u>2,509</u>	<u>—</u>
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	<u>558,447</u>	<u>555,718</u>

For the six months ended 30 June 2018, the computation of diluted loss per share does not assume the conversion of the Company's outstanding share options since their exercise would result in a decrease in loss per share.

From continuing and discontinued operations

The calculation of the basic and diluted earnings (loss) per share from continuing and discontinued operations attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(restated) (unaudited)
Earnings (loss)		
Earnings (loss) for the purpose of basic and diluted earnings (loss) per share (Profit (loss) for the period attributable to owners of the Company)	<u>3,124</u>	<u>(33,740)</u>

The denominators used are the same as those detailed above for both basic and diluted earnings (loss) per share.

10. TRADE AND OTHER RECEIVABLES

	30 June 2019 HK\$'000 (unaudited)	31 December 2018 HK\$'000 (audited)
Trade receivables	61,317	31,075
Less: Allowance for credit loss	<u>(1,209)</u>	<u>(1,143)</u>
	<u>60,108</u>	<u>29,932</u>
Other receivables (<i>note a</i>)		
— Non-current portion	—	6,726
— Current portion	254,950	288,545
Less: Impairment losses	<u>(5,574)</u>	<u>(5,574)</u>
	<u>249,376</u>	<u>289,697</u>
	<u>309,484</u>	<u>319,629</u>

The aging analysis of trade receivables of the Group, net of allowance for credit loss, presented based on the invoice date, at the end of the reporting period is as follows:

	30 June 2019 HK\$'000 (unaudited)	31 December 2018 HK\$'000 (audited)
0 – 30 days	27,477	9,379
31 – 90 days	10,387	7,558
91 – 180 days	10,459	2,505
181 – 360 days	8,510	5,975
Over 360 days	<u>4,484</u>	<u>5,658</u>
	61,317	31,075
Less: Allowance for credit loss	<u>(1,209)</u>	<u>(1,143)</u>
	<u>60,108</u>	<u>29,932</u>

Credit terms granted by the Group to customers generally range from 30 to 90 days.

Note a:

As at 30 June 2019, advances to consignors for auction business amounted to approximately HK\$224,943,000 (31 December 2018: HK\$259,944,000). The balance is secured by pledged auction items (high valued Chinese art collectibles and antiques) from consignors which will be offset from sales proceeds of auction items, and with fixed interest rates from 11% to 21.6% per annum. These advances to consignors for art financing business are either repayable upon the pledged auction items dealt through auction successfully or repayable within 12 months from date of advance in accordance with the respective agreements. As part of the Group's risk management policy, the amount advanced to consignors is less than 40% of the fair value of their pledged auction items.

11. TRADE AND OTHER PAYABLES

	30 June 2019	31 December 2018
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Trade creditors	3,989	4,354
Accruals	4,933	8,953
Other payables	15,423	64,870*
	<u>24,345</u>	<u>78,177</u>

* As at 31 December 2018, included in the balance are other payables with carrying amount HK\$35,000,000 that the Group received from a third party to purchase target arts and cultural collectibles on behalf of a third party. The amount has been settled during the six months ended 30 June 2019.

The aging analysis of trade creditors, presented based on the invoice date, at the end of the reporting period is as follows:

	30 June 2019	31 December 2018
	HK\$'000	HK\$'000
	(unaudited)	(audited)
0 – 30 days	434	1,014
31 – 90 days	276	307
91 – 180 days	675	642
181 – 360 days	558	235
Over 360 days	2,046	2,156
	<u>3,989</u>	<u>4,354</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL AND BUSINESS REVIEW

The Group recorded a revenue from continuing operations of approximately HK\$116.4 million (30 June 2018: HK\$89.9 million) with a profit of approximately HK\$3.0 million (30 June 2018: loss of HK\$34.3 million) for the six months ended 30 June 2019.

Arts and Cultural Division

This division, comprising the auction business and the Art Central Business District business (“ACBD Business”), contributed a segment revenue of approximately HK\$21.1 million (30 June 2018: HK\$22.4 million), and the segment profit before taxation, certain allocated corporate expenses and amortisation of intangible assets resulting from fair value upwards in business combination (“Segment Profit”) of approximately HK\$9.0 million (30 June 2018: HK\$8.7 million) for the six months ended 30 June 2019.

Auction Business

The auction business contributed a Segment Profit of approximately HK\$14.4 million (30 June 2018: HK\$14.2 million) for the six months ended 30 June 2019. The decrease in segment revenue was mainly due to only one large scale auction held in Beijing during the period under review while two auctions were held in Hong Kong and Xi’an respectively in the first half of 2018.

The auction prepayments and art financing business provides flexibility to our auction participants and derives additional income source for the Group. We are going to further develop our auction business by utilizing the proceeds of approximately HK\$200.0 million from the subscription of shares with reference to the circular of the Company dated 7 August 2019 to expand the art financing business.

ACBD Business

The Company has established two Art Central Business District centers (“ACBD Centers”) located in Xi’an and in Hong Kong respectively. The main business functions of these centers are to provide integrated functions of storage, exhibition, auction, promotion and trading of arts and collections. The center aims to create a strong network with other art and culture partners to host events and networking. As disclosed in the announcement of the Company dated 28 June 2019, the ACBD Centers is expected to create a synergy effect with the operations of Silk Road International Culture Center.

Winery Division

This division contributed a segment revenue of approximately HK\$1.4 million (30 June 2018: HK\$4.2 million), and with a segment loss before taxation of approximately HK\$0.5 million (30 June 2018: profit of HK\$0.3 million) for the six months ended 30 June 2019.

Through our continuous efforts to expand different sales channels, we have partnered with a Hong Kong celebrity to develop a wine label and distribute the wine through distributors and our online marketplace to customers located in Hong Kong and China. Also, we have strengthened the wine-making process and eventually increased the quality of our vintage for 2018. It received an outstanding 92 points from James Suckling's 2019 tasting report, representing a substantial improvement in the quality of our wine.

E-Commerce Division

This division contributed a segment revenue of approximately HK\$65.9 million (30 June 2018: HK\$61.4 million), and a Segment Profit of approximately HK\$0.4 million (30 June 2018: loss of HK\$0.2 million) for the six months ended 30 June 2019.

The divisional performance has continued to improve and achieve a segment profit during the period under review. Such improvement is mainly due to an additional airline which has been engaged as our inflight sales provider in the first half of 2019. We have also expanded the number and range of our licensed brands and products.

Engineering Services Division

This division contributed a segment revenue of approximately HK\$28.0 million (30 June 2018: HK\$1.9 million), and a Segment Profit of approximately HK\$11.8 million (30 June 2018: loss of HK\$11.9 million) for the six months ended 30 June 2019.

As mentioned in our 2018 Annual Report, the management has completed the review of strategic positioning, business operations and financial prospect of this division with an aim of establishing a sustainable long-term business development. Based on its financial performance and the competitive strength of the parent company, we have concluded that this division should not be included in our long-term business strategy.

Discontinued Operations

As the disposal of Fintech Division was completed on 28 December 2018, there was no further results from discontinued operations during the six months ended 30 June 2019 (2018: profit of HK\$669,000).

OUTLOOK

In the second half of 2019, we will continue to refine our operations and business structure and promote our business development in a prudent manner. With reference to the announcement of the Company dated 28 June 2019, the participation in the construction of a comprehensive Silk Road International Cultural Center that features all-round cultural artworks operations, cultural artwork financing and Silk Road international cultural entertainment complex will allow the Group to capture the historic opportunities arising from the booming development of the cultural industries in the PRC. It is expected that the project will generate stable revenue upon its completion, providing strong and sustainable development for the Group.

The Group has been endeavouring to explore any means of cooperation, focusing on development in the cultural industry by leveraging on the business network and resources of the parent company, and to develop businesses around the cultural industries and business relating to financing, including operations and auction of cultural artworks, participation in the international artwork trading platform, investment in cultural industrial parks and the development of experience in cultural tourism.

LIQUIDITY AND FINANCIAL RESOURCES

During the period under review, the Group's operations and acquisition activities were mainly financed by funds raised through open offer of new shares of the Company in the fourth quarter of 2015.

As at 30 June 2019, the Group's total bank balances and cash amounted to approximately HK\$28.4 million, which was denominated mainly in Hong Kong Dollars (25.6%) and Renminbi (73.6%), representing a decrease of approximately HK\$26.0 million as compared with the bank balances and cash of approximately HK\$54.4 million as at 31 December 2018. The change was mainly attributable to the improvement in operating cash flows coupled with settlement of payables during the period under review.

As at 30 June 2019, the Group had outstanding secured borrowings of approximately HK\$0.6 million and unsecured borrowings of approximately HK\$58.0 million (31 December 2018: approximately HK\$0.6 million and approximately HK\$55.3 million respectively). The total amount of borrowings of approximately HK\$58.6 million (31 December 2018: approximately HK\$55.9 million) is repayable within one year.

GEARING

The gearing ratio of the Group (expressed as a percentage of total borrowings over the equity attributable to owners of the Company as at the end of the reporting period) was 8.9% as at 30 June 2019 (31 December 2018: 8.5%).

FOREIGN EXCHANGE EXPOSURE

The Group's assets and liabilities are mainly denominated in Hong Kong Dollars and Renminbi, representing the functional currency of respective group companies. Income and expenses derived from the operations in the PRC are mainly denominated in Renminbi.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong Dollars) using exchange rates prevailing at 30 June 2019. Income and expense items are translated at the average exchange rates for the period ended 30 June 2019. Exchange loss arising on the translation of foreign operations of approximately HK\$1.6 million (30 June 2018: HK\$5.7 million) for the interim period are recognised in other comprehensive expense and accumulated in equity under the heading of "exchange differences arising on translation of foreign operations".

On the disposal of a foreign operation involving loss of control over a subsidiary that includes a foreign operation, the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

HUMAN RESOURCES

As at 30 June 2019, other than outsourcing vendors but including contract workers, the Group has approximately 84 employees (31 December 2018: 84) in Hong Kong and the Mainland China. The Group encourages high productivity and remunerates its employees based on their qualification, work experiences, prevailing market prices and contribution to the Group. Incentives in the form of bonuses and share options may also be offered to eligible employees based on individual performance.

CONTINGENT LIABILITIES

As at 30 June 2019, the Group did not have significant contingent liabilities.

CAPITAL COMMITMENT

As at 30 June 2019, the Group did not have material capital commitment.

SUBSEQUENT EVENT

On 16 July 2019, the Company and Ion Tech Limited (the "Subscriber") entered into the subscription agreement (the "Subscription Agreement") under which the Company conditionally agreed to allot and issue and the Subscriber conditionally agreed to subscribe for 111,187,538 new shares (the "Subscription Shares") at the subscription price of HK\$5.3873 per Subscription Share (the "Subscription").

In connection with the Subscription Agreement, on 16 July 2019, Da Tang Xi Shi International Holdings Limited, the controlling shareholder of the Company, as the grantor (the “Grantor”), the Subscriber as the grantee and Mr. Lu Jianzhong as the guarantor entered into the put option deed (the “Put Option Deed”) pursuant to which the Grantor has granted the put option to the Subscriber. The Grantor irrevocably grants to the Subscriber an option, but not the obligation, to require the Grantor to purchase or procure the purchase of all or part of the option shares in accordance with the terms set out in the Put Option Deed.

Since 373,596,736 shares, representing approximately 67.20% of the issued share capital of the Company as at 16 July 2019, was owned by the Grantor. As such, the Grantor and Mr. Lu Jianzhong, the ultimate controlling shareholder of the Company, were connected persons of the Company under Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”). Therefore, the Subscription Agreement, the Put Option Deed and the transactions contemplated thereunder as a whole may constitute as a connected transaction of the Company, which is subject to the announcement, reporting and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

As mentioned in the circular of the Company dated 7 August 2019, the gross proceeds from the Subscription were approximately HK\$599.0 million. The net proceeds from the Subscription (after deducting related professional fees and related expenses) were approximately HK\$597.0 million. The Company currently intends to use the net proceeds from the Subscription in the following manner:

- (i) approximately HK\$327.8 million to jointly invest in development of the Xi’an Cultural Project with the controlling shareholders of the Company. As mentioned in the announcement of the Company dated 28 June 2019, the Xi’an Cultural Project has been planned to develop into the Silk Road International Culture Center with comprehensive cultural artworks operations, cultural artwork financing and Silk Road international cultural entertainment complex. The Silk Road International Culture Center is made up of three major areas, namely (i) the headquarter of Silk Road Chamber of International Commerce Tower in western China; (ii) Artwork Central Business District; and (iii) the European section of Silk Road Culture Street, with a total gross floor area of approximately 260,000 square meters. The Company considers that the investment in the Xi’an Cultural Project will serve as a driving force for the development of the Group’s business in relevant cultural industry. The Company intends to allocate (i) up to approximately HK\$113.6 million for the payment of the consideration for acquisition of the entire issued share capital of HK DTXS Enterprise Holdings (BVI) Limited; and (ii) the remaining balance to further invest in the Xi’an Cultural Project for its construction and development;
- (ii) approximately HK\$200.0 million to further develop and expand the auction business of the Group in the PRC and Hong Kong which is a part of cultural industry and a key segment of the Group; and

(iii) the remaining balance of approximately HK\$69.2 million will be used for general working capital of the Group and any other investment opportunities which may arise in the foreseeable future.

The Subscription was completed on 28 August 2019.

USE OF PROCEEDS

The net proceeds raised from the issuance of the Company's shares on an open offer on 9 December 2015 (the "Open Offer") was HK\$420.3 million. The original allocation of proceeds from the Open Offer, the utilisation and remaining balance of the proceeds as at 31 December 2018 and 30 June 2019 summarised below:

Uses	As at		As at		For the year ended		For the six months ended	
	31 December 2016	31 December 2017	31 December 2017	31 December 2018	31 December 2018	31 December 2018	30 June 2019	30 June 2019
	Original allocation	Remaining balance	Remaining balance	Utilised	Remaining balance	Utilised	Remaining balance	Remaining balance
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Repayment of loans	48.0	7.1	—	—	—	—	—	—
Development of online marketplace for arts and collections	80.0	38.0	12.0	4.0	8.0 ^(Note)	—	8.0 ^(Note)	—
Acquisition of inventories for the online marketplace platform	107.4	8.4	—	—	—	—	—	—
Expansion of the operation scale of the Group	36.0	5.4	—	—	—	—	—	—
Acquisitions for arts and cultural related business	148.9	—	—	—	—	—	—	—
Total	420.3	58.9	12.0	4.0	8.0	—	8.0	—

Note:

On 23 May 2016, the Company announced that the Group had entered into a memorandum of understanding to acquire 85% interest in a financial e-commerce company (the "E-commerce Acquisition") with well-established information technology personnel and proven technological capacity in order to develop its online marketplace for arts and collections. The cash consideration for the E-commerce Acquisition is HK\$40.8 million (subject to profit guarantee adjustments). The E-commerce Acquisition was subsequently completed on 26 August 2016 and the Group paid HK\$28.8 million as the down payment. Since the E-commerce Acquisition has only met its first profit guarantee for the period ended 31 December 2017, the Company paid HK\$4.0 million in the second half of 2018. The Group intends to apply the remaining balance of approximately HK\$8.0 million for the development of online marketplace for arts and collections.

PROFIT GUARANTEE

Acquisition of China King Sing Lun Fung Auction Holdings Company Limited

As disclosed in the announcement of the Company dated 20 June 2016 regarding the acquisition of the entire issued share capital of China King Sing Lun Fung Auction Holdings Company Limited (the “CKSLF”), the vendors (the “Auction Vendors”) of CKSLF and its subsidiaries (the “Target Group”) have guaranteed to the Company that the audited consolidated net profit after tax of the Target Group (the “Net Profit”) for each of the financial period/years ended 30 June 2017, 30 June 2018 and 30 June 2019 (the “Original Schedule”) shall not be less than RMB25.0 million, RMB35.0 million and RMB45.0 million respectively.

On 26 June 2019, the Auction Vendors and DTXS Auction Limited, the purchaser of the Target Group, entered into a supplemental agreement, pursuant to which the Auction Vendors and DTXS Auction Limited clarified and confirmed that the Original Schedule being the three financial years ended 30 June 2019 be postponed and shifted forward by six months. The guarantee period under the supplemental agreement would be the three financial years from 1 January 2017 to 31 December 2019 (the “New Schedule”). The New Schedule was in line with the timing of the reactivation of the Target Group’s critical aspects of the operations after the integration of the Target Group into the internal control system and standard of the Group.

Under the New Schedule, the consolidated net profit arising from the operating business after tax for the first two financial years were approximately RMB22.0 million and RMB21.0 million respectively. The actual shortfall, which has not been confirmed, will be based on the average Net Profit for the three financial years ending 31 December 2019 where the average profit guarantee will reflect the overall business performance of the Target Group. Further announcement(s) will be made by the Company in relation to the Profit Guarantee as and when appropriate.

Acquisition of m-Finance Limited

As disclosed in the announcement of the Company dated 22 July 2016 in relation to the acquisition of 85% interests in m-Finance Limited (the “m-Finance”) (the “m-Finance Acquisition”), the vendor of m-Finance (the “m-Finance Vendor”) has guaranteed to the Company, among others, that the audited consolidated profit after tax of m-Finance for the period from 26 August 2016 to 31 December 2017 (the “2017 Guaranteed Period”) shall not be less than HK\$10,000,000 (the “2017 Profit Guarantee”), the period from 1 January 2018 to 31 December 2018 (the “2018 Guaranteed Period”) shall not be less than HK\$9,000,000 (the “2018 Profit Guarantee”) and the period from 1 January 2019 to 30 June 2019 (the “2019 Guaranteed Period”) shall not be less than HK\$5,000,000 (the “2019 Profit Guarantee”).

On 28 December 2018, the Company completed the disposal (the “Completion”) of 100% equity interests in m-Finance to the m-Finance Vendor (the “m-Finance Disposal”) at a total maximum consideration of HK\$48,000,000 (the “Disposal’s Consideration”) (subject to reductions (the “Reductions”)) of which total net Disposal’s Consideration (after Reductions) shall in no event be less than HK\$40,000,000, which includes the portion shared by the non-controlling interest holder of m-Finance. HK\$31,757,000 was settled on Completion and the remaining consideration of m-Finance Disposal would be subject to the Reductions.

Based on the financial results of m-Finance commencing from 26 August 2016 to 31 December 2016 reflected in the audited consolidated financial statements of the Company for the year ended 31 December 2016 and the financial results of m-Finance for the year ended 31 December 2017, the consolidated profit after tax for 2017 Guaranteed Period has exceeded HK\$10,000,000 and therefore the 2017 Profit Guarantee was met. The first adjusted consideration payment of HK\$4,000,000 has been settled with the m-Finance Vendor in 2018.

Based on the financial results of m-Finance for the year ended 31 December 2018, the consolidated profit after tax for the 2018 Guaranteed Period was lower than HK\$9,000,000 and therefore the 2018 Profit Guarantee was not met. As such, the Company did not pay the second adjusted consideration payment of HK\$4,000,000 to the m-Finance Vendor.

Based on the preliminary financial results of m-Finance for the period from 1 January 2019 to 30 June 2019, the consolidated profit after tax for the 2019 Guaranteed Period was lower than HK\$5,000,000 and therefore the 2019 Profit Guarantee would not be met. The Company is expected not to pay HK\$4,000,000, being the final adjusted consideration payment to the m-Finance Vendor and the Disposal’s Consideration would thus be reduced. However, for the purpose of adjusting the Disposal’s Consideration, the Reductions has yet to be ascertained until the release of audited accounts of m-Finance for the period ended 30 June 2019, which is expected to be available on or before 31 December 2019. Further announcement(s) will be made by the Company when appropriate.

INTERIM DIVIDEND

The Board does not recommend payment of an interim dividend for the six months ended 30 June 2019 (30 June 2018: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2019, the Company and its subsidiaries had not purchased, sold or redeemed any of the listed securities of the Company.

CORPORATE GOVERNANCE

The Board is committed to establish and maintain good corporate governance standards. The Board believes that maintaining good standard of corporate governance practices are essential in providing a framework for the Company to enhance corporate value and accountability to all shareholders of the Company.

During the six months ended 30 June 2019, the Company has applied the principles and complied with code provisions (the “Code”) of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Listing Rules except for Code A.6.7 of the CG Code and Rule 3.10A of the Listing Rules.

Code A.6.7 requires the independent non-executive directors and other non-executive directors should attend general meetings. Due to other pre-arranged business commitments which had to be attended, one non-executive Director was absent from the annual general meeting of the Company held on 30 May 2019 (the “AGM”). However, the other executive Directors and non-executive Directors (including independent non-executive Directors) had attended the AGM to ensure effective communication with the shareholders of the Company.

Pursuant to Rule 3.10A of the Listing Rules, the Company must appoint independent non-executive directors representing at least one-third of the Board. Following the appointment of Dr. Cheng Kar-Shun, Henry as a Non-executive Director of the Company with effect from 28 August 2019, the number of Independent Non-executive Directors on the Board will represent less than one-third of the Board as required under Rule 3.10A of the Listing Rules. During the transitional period, the Board believes that there is still a sufficient independent element on the Board, which can effectively exercise independent judgment. The Company will appoint an Independent Non-executive Director within three months commencing from 28 August 2019 in compliance with Rule 3.11 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by the Directors and senior management of the Company. Having made specific enquiries to all the Directors, who confirmed their compliance with the requirements as set out in the Model Code during the six months ended 30 June 2019.

Senior management who, because of their offices in the Company, are likely to be in possession of inside information in relation to the Company’s securities, have also been represented to comply with the provision of the Model Code when dealing in the securities of the Company.

REVIEW OF INTERIM RESULTS

The audit committee of the Company, comprising all independent non-executive Directors, has reviewed the interim report, including the interim financial report, for the six months ended 30 June 2019.

The condensed consolidated financial statements for the six months ended 30 June 2019 are unaudited, but have been reviewed by Deloitte Touche Tohmatsu, the auditor of the Company, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”.

2019 INTERIM REPORT

The 2019 interim report of the Company containing all the information required by the Listing Rules will be published on the websites of the Company (www.dtxs.com) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and despatched to the shareholders of the Company in due course.

By Order of the Board
DTXS Silk Road Investment Holdings Company Limited
Lai Kim Fung
Executive Director and Chief Executive Officer

Hong Kong, 30 August 2019

As at the date of this announcement, the Board comprises four Executive Directors, namely Mr. Lu Jianzhong (Chairman), Mr. Yang Xingwen, Mr. Lai Kim Fung (Chief Executive Officer) and Mr. Wong Kwok Tung Gordon Allan (Deputy Chief Executive Officer); three Non-executive Directors, namely Mr. Wang Shi, Mr. Jean-Guy Carrier and Dr. Cheng Kar-Shun, Henry; and three Independent Non-executive Directors, namely Mr. Cheng Yuk Wo, Mr. Tsui Yiu Wa, Alec and Mr. Tse Yung Hoi.