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亞洲能源物流
ASIAENERGY
Logistics

ASIA ENERGY LOGISTICS GROUP LIMITED
亞洲能源物流集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 351)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

RESULTS

The board (the "Board") of directors (the "Directors") of Asia Energy Logistics Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries, together with its joint venture, (together, the "Group") for the year ended 31 December 2016, together with the comparative figures for the previous corresponding year, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	**2016** **HK$'000**	2015 HK$'000
Revenue	*4*	**10,392**	21,922
Cost of sales		**(15,228)**	(20,282)
Gross (loss)/profit		**(4,836)**	1,640
Other income and gains		**1,040**	945
Depreciation and amortisation		**(1,687)**	(2,281)
Staff costs		**(19,211)**	(19,118)
Impairment loss on property, plant and equipment		**(2,645)**	(25,000)
Impairment loss on construction in progress	*11*	**(314,015)**	–
Impairment loss on railway construction prepayment	*11*	**(1,641)**	–
Impairment loss on intangible assets		**–**	(18,499)
Change in fair value of contingent consideration payable		**–**	17,836
Change in fair value of derivative component of convertible notes		**882**	11,760
Change in fair value of options/commitment to issue convertible notes		**(2,620)**	(94,847)
Share of results of joint venture		**8,549**	(93,427)
Other operating expenses		**(21,061)**	(22,307)
Finance costs	*6*	**(76,122)**	(100,892)
Loss before income tax	*7*	**(433,367)**	(344,190)
Income tax	*8*	**–**	–
Loss for the year		**(433,367)**	(344,190)

	Notes	**2016** *HK$'000*	2015 *HK$'000*
Other comprehensive income			
Exchange difference arising on translation of financial statements of foreign operations which may be reclassified subsequently to profit or loss		**(5,904)**	(26,215)
Total comprehensive income for the year		**(439,271)**	(370,405)
Loss for the year attributable to:			
Owners of the Company		**(267,385)**	(297,864)
Non-controlling interests		**(165,982)**	(46,326)
		(433,367)	(344,190)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(269,840)**	(314,665)
Non-controlling interests		**(169,431)**	(55,740)
		(439,271)	(370,405)
Loss per share – basic and diluted (HK cents per share)	*10*	**(1.88)**	(2.15)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	**2016** *HK$'000*	2015 *HK$'000*
Non-current assets			
Property, plant and equipment		**37,127**	40,579
Intangible assets		**1,000**	1,000
Construction in progress	*11*	**1,575,512**	2,002,985
Railway construction prepayment	*11*	**8,235**	10,468
Interest in a joint venture		**–**	–
		1,621,874	2,055,032
Current assets			
Other receivables and prepayments	*12*	**41,742**	51,522
Cash and cash equivalents		**7,154**	30,512
		48,896	82,034
Current liabilities			
Trade and other payables	*13*	**148,781**	154,512
Bank loans and other borrowings		**468,582**	617,662
Convertible notes	*14*	**3,278**	364
Amount due to a joint venture		**128,420**	137,060
Amounts due to minority equity owners of subsidiaries		**8,177**	8,731
		757,238	918,329
Net current liabilities		**(708,342)**	(836,295)
Total assets less current liabilities		**913,532**	1,218,737
Non-current liabilities			
Bank loans		**1,015,070**	889,846
Contingent consideration payable		**–**	–
		1,015,070	889,846
NET (LIABILITIES)/ASSETS		**(101,538)**	328,891
Capital and reserves attributable to owners of the Company			
Share capital	*15*	**1,595,221**	1,586,379
Other reserves		**(1,633,060)**	(1,363,220)
Equity attributable to owners of the Company		**(37,839)**	223,159
Non-controlling interests		**(63,699)**	105,732
TOTAL EQUITY		**(101,538)**	328,891

NOTES

1. GENERAL INFORMATION

Asia Energy Logistics Group Limited (the "Company") is a limited liability company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office and its principal place of business is located at Room 2404, 24/F., Wing On Centre, 111 Connaught Road Central, Hong Kong.

The Group, comprising the Company and its subsidiaries, together with its joint venture, is engaged in (i) railway construction and operations and (ii) shipping and logistics.

The financial information relating to the years ended 31 December 2015 and 2016 included in this preliminary announcement of annual results for the year ended 31 December 2016 do not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) ("Hong Kong Companies Ordinance") is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the consolidated financial statements for the year ended 31 December 2016 in due course. The Company's auditor has reported on the consolidated financial statements of the Company for both years. The auditor's report for the years ended 31 December 2015 and 2016 both with a disclaimer of opinion was given by an independent auditor, the details of basis for disclaimer opinion for the year ended 31 December 2016 are set out in this announcement under "Extract of the Independent Auditor's Report" and contains a statement under section 407(3) of the Hong Kong Companies Ordinance.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of amendments to Hong Kong Financial Reporting Standards ("HKFRSs") that are first effective for the current accounting period of the Group, but do not have material impact on the consolidated financial statements.

The HKICPA has issued a number of amendments, new standards and new interpretations which are not yet effective for the year ended 31 December 2016 and which have not been early adopted in the consolidated financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application and the directors of the Company are not yet in a position to quantify the effects on the Group's financial statements.

3. BASIS OF MEASUREMENT AND GOING CONCERN BASIS

(a) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain financial instruments which have been measured at fair value.

(b) Going concern basis

As at 31 December 2016, the Group had net current liabilities of HK$708,342,000 and incurred a loss of HK$433,367,000 for the year ended 31 December 2016. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The Group's net current liabilities as at 31 December 2016 are mainly attributable to its three non-wholly owned subsidiaries, 承德寬平鐵路有限公司 (Chengde Kuanping Railway Limited*) ("Kuanping Company"), 承德遵小鐵路有限公司 (Chengde Zunxiao Railway Limited*) ("Zunxiao Company") and 唐山唐承鐵路運輸有限責任公司 (Tangshan Tangcheng Railway Transportation Company Limited*) ("Tangcheng Company") (collectively the "Railway Companies") which are principally engaged in the construction and operations of a railway connecting Tangshan City (唐山市) and Chengde City (承德市), Hebei Province (河北省), the People's Republic of China (the "PRC"), (the "Zunxiao Railway").

The Directors expect that the Railway Companies will continue to rely on the financial support from certain companies (the "Lenders"), one of which is a guarantor (the "Guarantor"), Golden Concord Holdings Limited ("Golden Concord"), of their entire bank loans of HK$1,071,000,000 as at 31 December 2016 and all of them are beneficially owned by a director of certain subsidiaries of the Company including the Railway Companies who is a beneficiary of a discretionary trust which in turn is a substantial shareholder of the Company, in order to meet their financial obligations including payment of interests on bank loans, construction cost payables and other operating expenses.

In this connection, the Guarantor which is also the holding company of the other companies comprising the Lenders has confirmed that it will continue to provide such financial support to the Railway Companies and will not demand them for repayment of the Lenders' loans, which amounted to HK$404,301,000 as at 31 December 2016, and related interests until the operation of Zunxiao Railway records a breakeven point according to the loan renewal agreement duly signed by the Company and Golden Concord.

The Group will discuss with its joint venture partner in order to reach an agreement to withhold enforcement of or otherwise discharge the Group's financial obligations under a shareholders' agreement.

* *English name for identification purposes only*

In addition, as detailed in the circular of the Company dated 8 March 2017, the Company has entered into the placing agreement with the placing agent, pursuant to which the placing agent has conditionally agreed to procure not less than six placees, on a best effort basis, to subscribe for, and the Company has conditionally agreed to issue, a total of 4,000 million placing shares at the placing price of HK$0.10 per placing share. The estimated net proceeds from the placing are HK$384 million. The Company intends to apply the net proceeds for the acquisition of a heavy lift vessel with the remaining of HK$46 million for the general working capital of the Group.

In view of the above circumstances, the Directors have prepared a cash flow forecast of the Group covering a period up to 31 March 2018 on the basis that the Group will successfully implement the aforementioned plans and measures and are satisfied that the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the twelve months from 31 December 2016. Accordingly, the Directors consider that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether the Group will be able to successfully implement its plans and measures as mentioned above. The appropriateness of preparation of the consolidated financial statements on the going concern basis depends on whether (i) the Lenders which have been providing financial support to the Railway Companies to meet their financial obligations have agreed to continue and would be able to do so and will not demand repayment of their loans made to the Railway Companies and related interests during the forecast period; (ii) the Group will be able to reach an agreement with the joint venture partner to withhold enforcement of or otherwise discharge the Group's financial obligations under a shareholders' agreement; (iii) the Group would be able to reach an agreement with the Mine Owner on the amount of compensation payable to the Miner Owner as planned so that the Group would be able to resume and complete the construction of the Zuanxiao Railway; and (iv) the remaining balance of approximately HK$46 million from the successful placing of shares of the Company after payments of the related acquisition of a heavy lift vessel will be available for general working capital purposes of the Group.

There is material uncertainty related to the outcomes of the above events or conditions that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Should the use of the going concern basis in preparation of the consolidated financial statements be determined to be not appropriate, adjustments would have to be made to write down the carrying amounts of the Group's assets to their realisable values, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

(c) Functional and presentation currency

The functional currency of the Company is Renminbi ("RMB") while the consolidated financial statements and the Company's financial statements are presented in Hong Kong dollars ("HK$"). As the shares of the Company are listed on the Main Board of the Stock Exchange, the Directors consider that it will be more appropriate to adopt HK$ as the Group's and the Company's presentation currency.

4. REVENUE

Revenue represents the amount received and receivable for time charters:

	2016	2015
	HK$'000	*HK$'000*
Charter-hire income	**10,392**	21,922

5. SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' results that are used by the chief operating decision-maker for assessment of segment performance.

The Group has two reportable segments which are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

– Railway construction and operations

– Shipping and logistics

The following tables present information regarding revenue, profit or loss, assets and liabilities for each reportable segment:

Year ended 31 December 2016	**Railway construction and operations** *HK$'000*	**Shipping and logistics** *HK$'000*	**Total** *HK$'000*
Segment revenue from external customers	**–**	**10,392**	**10,392**
Segment loss	**(401,787)**	**(1,225)**	**(403,012)**
Other segment information:			
Interest revenue	**7**	**–**	**7**
Interest expenses	**(75,389)**	**–**	**(75,389)**
Other income	**–**	**16**	**16**
Depreciation of property, plant and equipment	**(882)**	**(2,827)**	**(3,709)**
Gain on disposal of property, plant and equipment	**235**	**–**	**235**
Impairment loss on property, plant and equipment	**(645)**	**(2,000)**	**(2,645)**
Impairment loss on construction in progress	**(314,015)**	**–**	**(314,015)**
Impairment loss on construction payment	**(1,641)**	**–**	**(1,641)**
Share of results of joint venture	**–**	**8,549**	**8,549**
Operating lease payments	**(305)**	**–**	**(305)**
Additions to non-current assets	**–**	**4,194**	**4,194**

Year ended 31 December 2015	Railway construction and operations *HK$'000*	Shipping and logistics *HK$'000*	Total *HK$'000*
Segment revenue from external customers	–	21,922	21,922
Segment loss	(113,050)	(135,832)	(248,882)
Other segment information:			
Interest revenue	91	–	91
Interest expenses	(100,129)	–	(100,129)
Depreciation of property, plant and equipment	(1,120)	(5,329)	(6,449)
Amortisation of intangible assets	–	(457)	(457)
Impairment loss on property, plant and equipment	–	(25,000)	(25,000)
Impairment loss on intangible assets	–	(18,499)	(18,499)
Share of results of joint venture	–	(93,427)	(93,427)
Operating lease payments	(494)	–	(494)

The following tables present the reconciliations of segment profit or loss, assets and liabilities:

	2016	2015
	HK$'000	*HK$'000*
Loss		
Segment loss	**(403,012)**	(248,882)
Other income	**688**	821
Gain on disposal of plant, property and equipment	**94**	–
Change in fair value of contingent consideration payable	**–**	17,836
Change in fair value of derivative component of convertible notes	**882**	11,760
Change in fair value of options/commitment to issue convertible notes	**(2,620)**	(94,847)
Other unallocated corporate expenses *(Note a)*	**(29,399)**	(30,878)
Consolidated loss before income tax	**(433,367)**	(344,190)

	2016	2015
	HK$'000	*HK$'000*
Assets		
Railway construction and operations	**1,609,904**	2,047,743
Shipping and logistics	**36,858**	46,994
Segment assets	**1,646,762**	2,094,737
Intangible assets	**1,000**	1,000
Other unallocated corporate assets *(Note b)*	**23,008**	41,329
Consolidated total assets	**1,670,770**	2,137,066
Liabilities		
Railway construction and operations	**1,626,100**	1,656,857
Shipping and logistics	**130,170**	139,310
Segment liabilities	**1,756,270**	1,796,167
Contingent consideration payable	**–**	–
Convertible notes	**3,278**	364
Other unallocated corporate liabilities	**12,760**	11,644
Consolidated total liabilities	**1,772,308**	1,808,175

Notes:

(a) Unallocated corporate expenses for the years ended 31 December 2015 and 2016 mainly included staff costs, director remuneration and rental expenses of the head office in Hong Kong.

(b) Unallocated corporate assets mainly included cash and bank balances amounting to HK$4,217,000 (2015: HK$18,092,000).

Geographical information

The Group's non-current assets are principally located in the PRC.

Geographical segment information of the Group's revenue is not presented as the Directors consider that the nature of the provision of shipping services, which are carried out internationally, preclude a meaningful allocation of operating profit to specific geographical segments.

Major customers

Revenue from the Group's major customers of shipping and logistics segment which contribute 10% or more of the Group's revenues are listed as below:

	2016	2015
	HK$'000	*HK$'000*
Customer A	**–**	18,251
Customer B	**2,822**	–
Customer C	**2,159**	–
Customer D	**1,520**	–
Customer E	**1,401**	–
	7,902	18,251

6. FINANCE COSTS

	2016	2015
	HK$'000	*HK$'000*
Interest on bank loans	**68,897**	85,406
Interest on other borrowings	**7,207**	15,470
Interest on convertible notes	**18**	16
	76,122	100,892

7. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging/(crediting):

	2016	2015
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment		
– Recognised in cost of sales	**2,827**	5,329
– Recognised in administrative expenses	**1,687**	1,824
Amortisation of intangible assets	**–**	457
	4,514	7,610
Staff costs (included directors' remuneration)		
– Salaries, wages and other benefits	**18,871**	18,803
– Contributions to defined contribution retirement scheme	**340**	315
	19,211	19,118
Auditor's remuneration	**1,070**	1,160
Impairment loss on intangible assets	**–**	18,499
Gain on disposal of property, plant and equipment	**(329)**	(13)
Written off of property, plant and equipment	**2,837**	–
Operating lease rentals in respect of land and buildings	**2,458**	3,779
Net exchange loss	**1,038**	–

8. INCOME TAX

The income tax expense for the year can be reconciled to the accounting loss as follows:

	2016	2015
	HK$'000	*HK$'000*
Loss before income tax	**(433,367)**	(344,190)
Taxation calculated at PRC Enterprise Income Tax rate of 25% (2015: 25%)	**(108,342)**	(86,047)
Tax effect of differential tax rate	**2,871**	19,949
Tax effect of expenses not deductible for taxation purpose	**101,816**	64,283
Tax effect of non-taxable items	**–**	(1,989)
Tax effect of unrecognised tax losses and temporary differences	**3,655**	3,804
Income tax expense for the year	**–**	–

Hong Kong profits tax, if any, is calculated at 16.5% (2015: 16.5%) on the estimated assessable profits for the year. PRC subsidiaries are subjected to PRC Enterprise Income Tax at 25% (2015: 25%). No provision for income tax has been made as the Group has no estimated assessable profits for both years.

9. DIVIDENDS

No dividend was paid or declared by the Company during the year ended 31 December 2016 (2015: Nil).

The Directors do not recommend the payment of any dividend for the year ended 31 December 2016 (2015: Nil).

10. LOSS PER SHARE

(a) The calculation of basic loss per share is based on the following data:

	2016	2015
	HK$'000	*HK$'000*
(i) Loss for the year attributable to owners of the Company	**267,385**	297,864

(ii) Weighted average number of ordinary shares

The weighted average number of ordinary shares in issue during the year ended 31 December 2016 was approximately 14,220,379,000 (2015: 13,833,162,000).

	2016	2015
	HK cents	*HK cents*
Basic loss per share	**1.88**	2.15

(b) Diluted loss per share is the same as basic loss per share for both years as the potential ordinary shares on exercise of share options, contingent consideration shares and convertible notes are anti-dilutive.

11. CONSTRUCTION IN PROGRESS AND RAILWAY CONSTRUCTION PREPAYMENT

	Construction in progress	Railway construction prepayment
	HK$'000	*HK$'000*
Cost:		
As at 1 January 2015	**2,127,323**	11,117
Exchange adjustment	**(124,338)**	(649)
As at 31 December 2015	**2,002,985**	10,468
Impairment loss	**(314,015)**	(1,641)
Exchange adjustment	**(113,458)**	(592)
As at 31 December 2016	**1,575,512**	8,235

Construction in progress and railway construction prepayment represent railway construction costs and related prepaid construction costs of the Zuanxiao Railway in the PRC. The construction work has been suspended since July 2013 due to the compensation payable to the overlaid mine owner (the "Mine Owner") has not yet been resolved. The Group entered into three disposal agreements dated 14 February 2014 as amended subsequently by three supplemental agreements on 23 September 2014 for disposal of its majority or entire equity interests in the Railway Companies which hold the construction in progress and railway construction prepayment. Consequently, during the year ended 31 December 2015, the Directors consider it is appropriate to determine their fair value less costs to sell (i.e. recoverable amounts) by making reference to the consideration of the disposal of the Railway Companies as they consider that the disposal agreements remain valid and the purchaser will continue to execute the disposal agreements in accordance with their terms and conditions. As the fair value less estimated costs to sell is higher than the carrying amounts of the construction in progress and railway construction prepayment as at 31 December 2015, no impairment loss on these assets has been recognised.

During the year ended 31 December 2016, the disposal agreements were considered terminated with effect from 4 August 2016. Accordingly, management considered that impairment indicator of the carrying amounts of the property, plant and equipment, construction in progress and the railway construction prepayment in relation to the Zunxiao Railway existed as at 31 December 2016. An independent expert was engaged to assess the recoverable amounts of the aforesaid assets which were determined based on value in use calculations and were determined to be less than their carrying amounts. Accordingly, impairment losses of HK$645,000, HK$314,015,000 and HK$1,641,000 on the property, plant and equipment, construction in progress and the railway construction prepayment in relation to Zunxiao Railway respectively were recognised as at 31 December 2016 (2015: HK$Nil).

The recoverable amounts of the aforesaid assets as at 31 December 2016 have been determined from value in use calculations based on cash flow projections from formally approved budgets covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3.00%, which does not exceed the long-term growth rate for the railway industry. The cash flows are discounted using a discount rate of 17.80%. The discount rate used is pre-tax and reflects specific risks relating to the aforesaid assets. Although the carrying amounts of the property, plant and equipment, construction in progress and the railway construction prepayment in relation to Zunxiao Railway have been reduced to their estimated recoverable amounts of HK$2,842,000, HK$1,575,512,000 and HK$8,235,000 respectively, any adverse change in the key assumptions used to determine the recoverable amounts would result in further impairment losses.

12. OTHER RECEIVABLES AND PREPAYMENTS

	2016	2015
	HK$'000	*HK$'000*
Third parties	**18,579**	26,753
Related party	**23,163**	24,769
	41,742	51,522

As at 31 December 2016, included in the Group's other receivables and prepayments is an outstanding sale consideration receivable of HK$14,850,000 (2015: HK$19,850,000) which is past due but not impaired and arising from disposal of a former subsidiary which holds an interest in an associate.

13. TRADE AND OTHER PAYABLES

	2016	2015
	HK$'000	*HK$'000*
Trade payables		
– current and up to 30 days	**606**	536
Construction cost payables	**135,143**	144,295
Other payables	**13,032**	9,681
	148,781	154,512

14. CONVERTIBLE NOTES

On 16 January 2015, the Group entered into a subscription agreement (the "Subscription Agreement") with two independent third parties, namely, Advance Opportunities Fund (the "Subscriber") and Advance Capital Partners Pte. Ltd (being the authorized representative of the Subscriber) pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, the convertible notes in the aggregate principal amount of up to HK$100 million at the issue price, being 100% of the principal amount of the convertible notes (the "Convertible Notes"). On 12 February 2015, the Company entered into a supplemental agreement (the "Supplemental Agreement") with the Subscriber and Advance Capital Partners Pte. Ltd to amend certain terms and conditions of the Subscription Agreement. The Convertible Notes comprise two tranches with principal amounts of HK$60 million comprising 24 equal sub-tranches of HK$2.5 million each ("Tranche 1 Notes") and HK$40 million ("Tranche 2 Notes") comprising 8 equal sub-tranches of HK$5 million each, respectively. On 1 March 2016, the Company entered into a second supplemental agreement (the "Second Supplemental Agreement") with the Subscriber and Advance Capital Partners Pte. Ltd to further amend certain terms and conditions of the Subscription Agreement. The Convertible Notes comprise two tranches with principal amounts of HK$60 million comprising 24 equal sub-tranches of HK$2.5 million each ("Tranche 1 Notes") and HK$40 million ("Tranche 2 Notes") comprising one sub-tranche of HK$5 million for the first sub-tranche and 14 equal sub-tranches of HK$2.5 million each.

The Convertible Notes issued or to be issued by the Company contain liability component and derivative components (comprising the conversion option held by the note holder and the early redemption option held by the Company), which are classified separately on initial recognition. As the conversion option and the early redemption option will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instrument, both options are derivatives. At the date of issue of each tranche of the Convertible Notes, the Convertible Notes are recognised at fair value, with liability portion of the Convertible Notes measured at the present value of the future coupon payments discounted at market rate for equivalent non-convertible notes that do not have conversion option and early redemption option.

The Tranche 1 Notes

On 2 April 2015, all the conditions precedent to the closing of the first sub-tranche of the Tranche 1 Notes were fulfilled and closing of the first sub-tranche of the Tranche 1 Notes took place on 2 April 2015 (the "Closing Date").

On the Closing Date, the Company issued the Tranche 1 Notes in an aggregate principal amount of HK$5 million to the Subscriber.

The Tranche 1 Notes were interest bearing at 2% per annum, with a maturity date falling 36 months from the Closing Date (that is, 2 April 2018) and entitled the holder to convert them, in tranches, into ordinary shares of the Company at either a fixed conversion price or floating conversion price at any time before the maturity date. The principal terms and conditions of the Subscription Agreement (as amended by the Supplemental Agreement) and the Tranche 1 Notes are set out in the Company's circular dated 13 March 2015.

The movements of the liability component and derivative component of the Tranche 1 Notes during the year are set out below:

	Liability component	**Derivative component**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Issuance of the convertible notes	2,659	152,188	154,847
Interest expense	16	–	16
Fair value gain	–	(11,760)	(11,760)
Transfer to share capital on conversion of convertible notes	(2,663)	(140,076)	(142,739)
At 31 December 2015	12	352	364
Fair value gain	–	(32)	(32)
Transfer to share capital on conversion of convertible notes *(Note 15)*	(12)	(320)	(332)
At 31 December 2016	–	–	–

On 1 March 2016, the Company entered into a second supplemental agreement (the "Second Supplemental Agreement") with the Subscriber to further amend certain terms and condition of the Subscription Agreement and the Company has notified the Subscriber of its intention to exercise the option granted by the Subscriber to the Company to require the Subscriber to subscribe for the Tranche 2 Notes from the Company. The Tranche 1 Notes were wholly converted into ordinary shares of the Company during the year ended 31 December 2016.

The Tranche 2 Notes

The Tranche 2 Notes are interest bearing at 2% per annum, with a maturity date falling 36 months from the Closing Date (that is, 2 April 2018) and entitle the holder to convert them, in tranches, into ordinary shares of the Company at either 50% of the closing price immediately preceding the conversion date or floating conversion price at any time before the maturity date. The principal terms and conditions of the Second Supplemental Agreement and the Tranche 2 Notes are set out in the Company's circular dated 11 April 2016.

The Tranche 2 Notes with principal amount of HK$40 million which comprise the first sub-tranche of HK$5 million and 14 equal subsequent sub-tranches of HK$2.5 million each.

During the year ended 31 December 2016, the sub-tranches of the Tranche 2 Notes with principal amount of HK$10,000,000 were subscribed by and issued to the Subscriber, of which HK$7,000,000 were converted into ordinary shares of the Company, with remaining principal amount of the issued Tranche 2 Notes of HK$3,000,000 outstanding as at 31 December 2016.

In this connection, the Group incurred a loss amounting to HK$2,620,000 (2015: loss of HK$94,847,000 for the Tranche 1 Notes) arising from change in fair value of options/commitment to issue the Tranche 2 Notes from the date of the Second Supplemental Agreement to the date of issuance of respective sub-tranches of the Tranche 2 Notes, being the difference between the aggregate fair values of the sub-tranches of the Tranche 2 Notes of HK$12,620,000 as at the date of its issuance and their principal amount of HK$10,000,000.

The movements of the liability component and derivative component of the Tranche 2 Notes during the year since their issuance are set out below:

	Liability component	**Derivative component**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Issuance of the convertible notes	298	12,322	12,620
Interest expense	18	–	18
Fair value gain	–	(850)	(850)
Transfer to share capital on conversion of convertible notes *(Note 15)*	(232)	(8,278)	(8,510)
At 31 December 2016	84	3,194	3,278

The fair value of the derivative component of convertibles notes is categorised as a Level 3 measurement in accordance with HKFRS 13 Fair Value Measurement. During the years ended 31 December 2015 and 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

15. SHARE CAPITAL

Issued and fully paid share capital

	2016		2015	
	Number of shares	***HK$'000***	*Number of shares*	*HK$'000*
Issued and fully paid:				
At 1 January	**14,159,265,469**	**1,586,379**	13,410,027,100	1,435,649
Shares issued upon exercise of share options	**–**	**–**	28,900,000	7,991
Shares issued on the conversion of the convertible notes	**180,104,406**	**8,842**	720,338,369	142,739
At 31 December	**14,339,369,875**	**1,595,221**	14,159,265,469	1,586,379

16. CAPITAL COMMITMENTS

	2016	2015
	HK$'000	*HK$'000*
Authorised and contracted for in respect of construction of railway:		
– Zunxiao Company	**152,373**	162,686
– Tangcheng Company	**109,172**	116,561
	261,545	279,247

These commitments were entered into by two PRC non-wholly owned subsidiaries. The Group's effective interests in Zunxiao Company and Tangcheng Company are 62.50% and 51.00% respectively as at 31 December 2015 and 2016.

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

The auditor does not express an opinion in the independent auditor's report on the consolidated financial statements of the Group for the year ended 31 December 2016. The basis for disclaimer of opinion is extracted as follows:

DISCLAIMER OF OPINION

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the "Basis for Disclaimer of Opinion" section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

Impairment losses on property, plant and equipment, construction in progress and railway construction prepayment

Included in the consolidated statement of financial position as at 31 December 2016 are certain property, plant and equipment with a carrying amount of HK$2,842,000, construction in progress with a carrying amount of HK$1,575,512,000 and the railway construction prepayment with a carrying amount of HK$8,235,000 respectively (2015: HK$4,978,000, HK$2,002,985,000 and HK$10,468,000 respectively) (collectively referred to as the "Railway Assets") which are related to the construction of Zunxiao railway ("Zunxiao Railway") as explained further in Note 16 to the consolidated financial statements.

The construction work of the Zunxiao Railway has been suspended since July 2013 due to the compensation payable to the overlaid mine owner (the "Mine Owner") has not yet been resolved as set out in Note 16 to the consolidated financial statements. As set out in Note 16 to the consolidated financial statements, during the year ended 31 December 2015, the directors made reference to the consideration in the disposal agreements in determining the recoverable amount of the Railway Assets and concluded that no impairment is required to be recognised. In our audit of the consolidated financial statements for the year ended 31 December 2015, we were unable to obtain sufficient appropriate evidence concerning the impairment assessment performed by the directors. Together with the matter described under the heading "Appropriateness of using going concern basis in preparation of the consolidated financial statements" below, in relation to our audit of the consolidated financial statements for the year ended 31 December 2015, we did not express an opinion thereon.

During the year ended 31 December 2016, the abovementioned disposal agreements were terminated with effect from 4 August 2016. Consequently, the directors considered that impairment indicators for the carrying amounts of the Railway Assets existed as at 31 December 2016. As set out in Note 16 to the consolidated financial statements, the directors have performed an impairment review of the Railway Assets (the "Impairment Review"). Based on the Impairment Review, impairment losses of HK$645,000, HK$314,015,000 and HK$1,641,000 on the property, plant and equipment, the construction in progress and the railway construction prepayment respectively have been recognised based on value in use calculation.

However, as detailed in Note 16 to the consolidated financial statements, although continuous effort has been made in negotiation with the Mine Owner, no agreement has been reached by the parties involved in respect of the terms of the compensation payable as at the date of issuance of these consolidated financial statements. Any agreement with the Mine Owner, the timing of such agreement and the amount of compensation payable to the Mine Owner are crucial in estimating the recoverable amount of the Railway Assets. Agreement with the Mine Owner must be reached before the construction of the Zunxiao Railway can be resumed. However, the directors have not made available to us details of the bases for determining the timing and amount of the compensation payable to the Mine Owner, and the timing of the expected resumption of the construction of the Zunxiao Railway. Accordingly, we were unable to obtain sufficient appropriate audit evidence we considered necessary to assess whether there should be any impairment or the amount of impairment loss recognised in the consolidated statement of comprehensive income based on the result of the Impairment Review was appropriate. There were no other alternative audit procedures that we could perform to satisfy ourselves as to whether such impairment losses of the Railway Assets were free from material misstatement.

Any adjustment to the carrying amounts of the Railway Assets determined to be necessary had we been able to obtain sufficient appropriate evidence would have consequential direct effect on the Group's net assets as at 31 December 2016, the Group's net loss for the year ended 31 December 2016 and the related note disclosures to the consolidated financial statements.

Appropriateness of using going concern basis in preparation of the consolidated financial statements

As shown in the consolidated financial statements as at 31 December 2016, the Group had net current liabilities of HK$708,342,000 and incurred a loss of HK$433,367,000 for the year ended 31 December 2016 (2015: HK$836,295,000 and HK$344,190,000 respectively). These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

As detailed in Note 3(b)(ii) to the consolidated financial statements, in view of the above circumstances, the directors have prepared a cash flow forecast of the Group covering a period up to 31 March 2018 after taking into account the following major assumptions, (i) the lenders (the "Lenders") which have been providing financial support to the Railway Companies to meet their financial obligations have agreed to continue the support and would be able to do so and will not demand repayment of their loans made to the Railway Companies and related interests during the forecast period; (ii) the Group will be able to reach an agreement with the joint venture partner to withhold enforcement of or otherwise discharge the Group's financial obligations under a shareholders' agreement (as set out in Note 18 to the consolidated financial statements); (iii) the Group would be able to reach an agreement with the Mine Owner on the amount of compensation payable to the Mine Owner as planned so that the Group would be able to resume and complete the construction of the Zunxiao Railway; and (iv) the remaining balance of approximately HK$46,000,000 from the successful placing of shares of the Company after payments of the related acquisition as detailed in Note 40 to the consolidated financial statements will be available for general working capital purposes of the Group. The directors consider the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the twelve months from 31 December 2016. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The appropriateness of preparation of the consolidated financial statements on the going concern basis depends on whether the assumptions taken into account by the directors in the going concern assessment are reasonable and the above plans and measures can be implemented successfully.

However, as detailed in the paragraphs above under the heading "Impairment losses on property, plant and equipment, construction in progress and railway construction prepayment" there is limited audit evidence available to us in assessing the reasonableness of the assumptions regarding any agreement with the Mine Owner and the timing and amount of the compensation payable to the Mine Owner, which affects the probability and the timing of the resumption and completion of the construction of the Zunxiao Railway which are crucial for estimating the future cash flows of the Group and in assessing the Group's ability as a going concern. In respect of the other assumptions that the directors have relied on, there are significant uncertainties as to the outcomes of the plans and measures.

We are unable to determine whether the underlying assumptions used in preparation of the cash flow forecast are valid and therefore whether it is appropriate to prepare the consolidated financial statements on the going concern basis. There were no alternative audit procedures that we could perform in this regard. Should the going concern basis be determined to be not appropriate, adjustments would have to be made to write down the carrying amounts of the Group's assets to their realisable values, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

The directors of the Company also have prepared the consolidated financial statements for the year ended 31 December 2015 (the "2015 Consolidated Financial Statements") on a going concern basis with underlying assumptions similar to those adopted in 2016 as stated above. In our audit of the 2015 Consolidated Financial Statements, we were also unable to obtain sufficient appropriate audit evidence to determine whether the underlying assumptions used in preparation of the cash flow forecast are reasonable. Together with the matter detailed under the heading "Impairment losses on property, plant and equipment, construction in progress and railway construction prepayment", we did not express an opinion on the consolidated financial statements for the year ended 31 December 2015.

REPORT ON OTHER MATTER UNDER SECTION 407(3) OF THE HONG KONG COMPANIES ORDINANCE

In accordance with the Hong Kong Companies Ordinance, we have the following matter to report. In our opinion:

In respect alone of the inability to obtain sufficient appropriate audit evidence in respect of the directors' estimations relating to the Railway Assets as described in the "Basis for Disclaimer of Opinion" section above, we have not obtained all the information and explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of the audit.

BUSINESS REVIEW AND PROSPECT

During the year under review, the Company and its subsidiaries, together with its joint venture, (together, the "Group") were principally engaged in the (i) railway construction and operations, and (ii) shipping and logistics businesses.

Railway Construction and Operations

The Group started its investment in railway construction and operations in July 2009 through the acquisition of 100% equity interest in Gofar Holdings Limited ("Gofar") which indirectly holds a 62.5% equity interest in each of 承德遵小鐵路有限公司 (Chengde Zunxiao Railway Limited*) ("Zunxiao Company") and 承德寬平鐵路有限公司 (Chengde Kuanping Railway Limited*) ("Kuanping Company"), and a 51% equity interest in 唐山唐承鐵路運輸有限責任公司 (Tangshan Tangcheng Railway Transportation Company Limited*) ("Tangcheng Company") (collectively referred as the "Gofar Group"). The business scope of the Gofar Group consists of the construction and operation of a 121.7 kilometer singletrack railway (the "Zunxiao Railway") with 12 stations connecting two major municipalities in the Hebei Province, namely Tangshan City (唐山市) and Chengde City (承德市), in the People's Republic of China (the "PRC").

The construction of the Zunxiao Railway was originally scheduled to be completed by the end of 2010. However, as disclosed in the Company's previous financial reports, the construction progress had been obstructed significantly owing to contingent circumstances. Despite continuous efforts having been made to expedite the construction progress, based on the latest assessment of the construction progress, the completion date is still uncertain and no revenue will be generated until the construction of the Zunxiao Railway has been completed and the commencement of full operation.

* *English name for identification purposes only*

As announced by the Company on 28 February 2014, the Company's indirectly wholly-owned subsidiary, China Railway Logistic Holdings Limited (the"Vendor"), and 河北建投交通投資有限責任公司 (Hebei Construction, Transportation and Investment Co., Ltd*) (the "Purchaser") entered into three disposal agreements (as amended and supplemented by three supplemental agreements dated 23 September 2014) (collectively the "Disposal Agreements") for the disposal (the "Disposal") of the Group's majority equity interests in Zunxiao Company and Kuanping Company and the entire equity interest in Tangcheng Company (the "Relevant interests"). Since the signing of the Disposal Agreements, the Company, the Vendor and the Purchaser had been striving to address the outstanding issues in order to fulfill the conditions precedent to the completion of the Disposal collaboratively.

On 4 August 2016, the Company announced that it had been informed by a letter from the Purchaser stating that the Purchaser no longer had any further intention to proceed with the acquisition of the Relevant Interests. In the circumstances, the Vendor had sought an advice from a PRC legal advisers who, on the basis that the Purchaser had stated that it no longer had any further intention to proceed with the acquisition of the Relevant Interests, opined that the Vendor might exercise its rights to dissolve the Disposal Agreements by serving notice on the Purchaser. As the Purchaser did not respond nor contest the notice within the prescribed time limit, the Disposal Agreements were considered dissolved with effect from 4 August 2016.

As disclosed by the Company previously, the outstanding issues which caused the prolonged delay of the Disposal related mainly to the assessment of the scope of compensation payable to the overlaid mine owner. Although continuous effort has been made in negotiation with the overlaid mine owner, no agreement has been reached by the parties involved in respect of the scope of compensation payable as at the date of this announcement. The Company will continue to work hard on resolving the overlaid mine issue and will publish further announcement as and when appropriate.

Shipping and Logistics

The Group started its shipping business in May 2010 through the joint venture company (the "JV Company" and together with its subsidiaries the "JV Group"). The Group also started its own vessel owning and chartering business in November 2013 by the acquisition of MV Tremonia, a bulk carrier with carrying capacity of approximately 28,000 DWT. MV Tremonia was renamed as MV Asia Energy in May 2014 upon completion of her routine maintenance.

* *English name for identification purposes only*

Pursuant to the JV agreement entered into on 1 December 2009 (as amended by a supplemental agreement dated 1 December 2009) (collectively, the "JV Agreement") among the parties to the JV Agreement, a total of four dry bulk vessels are to be acquired. However, due to the continuing poor performance of the shipping market in the past few years, the JV Group has not made further acquisition of the remaining two vessels as planned since its acquisition of the first two vessels in 2010.

The JV Group has been closely monitoring the shipping market conditions and carrying out periodic reviews of the shipping market development. The JV Group will make further assessments of its business operation and performance with a view to formulating the most appropriate business strategy as the shipping market develops in the year ahead.

During the year under review, the Baltic Dry Index (the "BDI") fell to new record lows in February 2016 and the charter rates dropped well below operating costs across all vessel sizes. The BDI has since then recovered from below 300 in February to the level of about 960 towards the end of December 2016. The BDI has further extended its gain to a level above 1,050 in mid-March 2017. There is cautious optimism heading into 2017 with the BDI's price up significantly from a year ago due to increased demand to transport goods.

Despite the poor shipping market condition in 2016, the performance of the JV Group has been satisfactory. For the year under review, the JV Group recorded revenue of approximately HK$44.96 million (2015: approximately HK$43.66 million), representing an increase of approximately 2.98% as compared to the last year. The Group's share of profit from the JV Group was approximately HK$8.55 million (2015: loss of approximately HK$93.43 million).

Unlike the vessels of the JV Group which traded domestically in the PRC, the performance of MV Asia Energy, which traded internationally, was adversely affected by the poor shipping market during 2016. For the year under review, MV Asia Energy recorded revenue of approximately HK$10.39 million (2015: approximately HK$21.92 million), representing a decrease of approximately 52.6% as compared to last year.

Apart from the dry bulk shipping industry, the Company has also been exploring business opportunities in the heavy lift vessel industry. On 8 February 2017, GPO Grace (Hong Kong) Limited (the "Vessel Purchaser"), an indirectly wholly-owned subsidiary of the Company, entered into a memorandum of agreement (the "Memorandum of Agreement") with GPO Grace Limited (the "Vessel Vendor"), a company incorporated in the Marshall Islands, for the acquisition (the "Acquisition") of a new 65,000 DWT semi-submersible heavy lift vessel (the "Vessel") under construction in Taiwan. The consideration for the Acquisition of US$103.3 million (equivalent to approximately HK$803.67 million) (the "Acquisition Consideration") shall be settled by the Vessel Purchaser in such manner as stated in the Memorandum of Agreement. The Acquisition constitutes a very substantial acquisition for the Company under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and is therefore subject to, including but not limited to, the approval of the shareholders of the Company (the "Shareholder(s)").

Subject to the fulfillments of the conditions precedent to the Memorandum of Agreement and upon the successful delivery of the Vessel in May 2017, the Group will commence its operation in the heavy lift vessel industry (the "Heavy Lift Business"). The scope of services of the Vessel mainly covers the transportation of sizeable objects such as offshore drilling rigs, safety vessels, oil production platforms and heavy cranes. The Board believes that the Acquisition will enable the Group to diversify its business and broaden its source of revenue by entering into the Heavy Lift Business and therefore offers a valuable opportunity to enhance the long-term growth potential of the Group which is in line with the Company's business plan.

Details of the Acquisition are set out in the section headed "Subsequent Events" below and in the circular of the Company dated 8 March 2017.

FINANCIAL REVIEW

For the year ended 31 December 2016, the revenue of the Group was approximately HK$10.39 million, representing a decrease of approximately 52.6% compared with the revenue of approximately HK$21.92 million for the year ended 31 December 2015.

The loss after tax for the year ended 31 December 2016 was approximately HK$433 million, representing an increase of approximately 25.87% compared with the loss of approximately HK$344 million for the year ended 31 December 2015.

The increase in loss for the year under review as compared to the loss for the year ended 31 December 2015 was mainly attributable to, among other factors, a combined net effect of (i) the impairment loss on construction in progress of approximately HK$314 million (2015: Nil); (ii) the decrease of impairment loss on intangible assets to HK$Nil (2015: approximately HK$18.5 million); (iii) the decrease of loss arising from the change in fair values of derivative component of convertible notes and options/commitment to issue convertible notes to approximately HK$1.7 million (2015: approximately HK$83.1 million); (iv) share of profit of joint venture of approximately HK$8.5 million (2015: share of loss of approximately HK$93.4 million); and (v) decrease in finance costs to approximately HK$76.1 million (2015: approximately HK$100.9 million).

The basic and diluted loss per ordinary share of the Company (the "Share(s)") for the year under review was HK1.88 cents (2015: HK2.15 cents).

FUND RAISING ACTIVITIES

On 16 January 2015, the Company entered into a subscription agreement which was supplemented and amended by a supplemental agreement dated 12 February 2015 (collectively, the "Subscription Agreement") with Advance Opportunities Fund (the "Subscriber") and its authorized representative, Advance Capital Partners Pte. Ltd. ("ACP"), pursuant to which the Company agreed to issue and the Subscriber agreed to subscribe for the convertible notes (the "Convertible Notes") in the aggregate principal amount of up to HK$100 million at a price equivalent to 100% of the principal amount of the Convertible Notes. The principal terms and conditions of the Subscription Agreement are set out in the Company's circular dated 13 March 2015.

On 30 March 2015, Shareholders' approval was obtained for, among other things, the issue of the Convertible Notes and the issue of the conversion shares upon exercise of the conversion rights attached to the Convertible Notes in an aggregate principal amount of up to HK$60 million (the "Tranche 1 Notes"). On 26 February 2016, the Tranche 1 Notes were fully issued, subscribed and converted and approximately HK$55 million (net of arrangement fee) was raised.

Pursuant to the Subscription Agreement, the Company was granted an option (the "Option") to require the Subscriber to subscribe for the rest of the Convertible Notes in an aggregate principal amount of up to HK$40 million (the "Tranche 2 Notes") during the option period (being the period commencing from and including the conversion date of the last of the Convertible Notes in Tranche 1 Notes to and including the tenth business day thereafter) subject to further Shareholders' approval having been obtained.

On 1 March 2016, the Company entered into a second supplemental agreement with the Subscriber and ACP to further amend certain terms and conditions of the Subscription Agreement. On the same date, the Company notified the Subscriber of its intention to exercise the option to require the Subscriber to subscribe for the Tranche 2 Notes from the Company.

On 3 May 2016, all the conditions precedent to the closing of the first sub-tranche of the Tranche 2 Notes were fulfilled and closing of the first sub-tranche of the Tranche 2 Notes took place (the "Tranche 2 Closing Date"). On the Tranche 2 Closing Date, the Company issued Convertible Notes in an aggregate principal amount of HK$5 million to the Subscriber.

During the year under review, the sub-tranches of the Tranche 2 Notes with principal amount of HK$10 million were subscribed by and issued to the Subscriber, of which HK$7 million were converted. As at 31 December 2016, Tranche 2 Notes in the principal amount of HK$3 million remained unconverted.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

SUBSEQUENT EVENTS

Conversion of Convertible Notes

On 13 January 2017, 7 February 2017 and 15 March 2017, Convertible Notes of the Tranche 2 Notes in an aggregate principal amount of HK$3 million were converted.

On 26 January 2017, the fourth sub-tranche of the Tranche 2 Notes in the principal amount of HK$2.5 million was subscribed and issued.

As at the date of this announcement, Convertible Notes of the Tranche 2 Notes in the principal amount of HK$2.5 million remain unconverted and the balance of Convertible Notes of the Tranche 2 Notes in an aggregate principal amount of HK$27.5 million remain unsubscribed.

Proposed Share Consolidation, Acquisition of the Vessel and Placing of New Shares under Specific Mandate

On 8 February 2017, the Company announced its intention of 1) implementation of share consolidation; 2) Acquisition of the Vessel; and 3) placing of new shares under specific mandate.

(1) Share consolidation

Pursuant to Rule 13.64 of the Listing Rules, where the market price of the securities of an issuer approaches the extremities of HK$0.01 or HK$9,995.00, the issuer may be required either to change the trading method or to proceed with a consolidation or splitting of its securities. In view of the recent trading price of the existing shares of the Company (the "Existing Shares"), the Company proposed to implement the share consolidation (the "Share Consolidation") of every ten Existing Shares before the share consolidation into one consolidated share (the "Consolidated Share") and, where applicable, the total number of Consolidated Shares will be rounded down to a whole number.

(2) Acquisition of the Vessel

On 8 February 2017, Vessel Purchaser entered into the Memorandum of Agreement with Vessel Vendor, pursuant to which, the Vessel Purchaser agreed, among other things, to acquire and the Vessel Vendor agreed to sell the Vessel at the Acquisition Consideration of US$103.3 million (equivalent to approximately HK$803.67 million). The Acquisition Consideration shall be settled by the Vessel Purchaser in the following manner:

(i) US$10 million (equivalent to approximately HK$77.8 million) to be settled in cash as down payment within 3 banking days after the date of the Placing Completion, which will be funded by the proceeds generated from the Placing;

(ii) US$83.30 million (subject to final adjustment in accordance with the shipbuilding contract for the Vessel) (equivalent to approximately HK$648.07 million) to be settled in cash on delivery of the Vessel, but not later than 3 banking days after the date that notice of readiness has been given under the shipbuilding contract for the Vessel which will be partly funded by the proceeds generated from the Placing of approximately HK$213.17 million and partly funded by a mortgage loan of approximately HK$434.9 million; and

(iii) US$10 million (equivalent to approximately HK$77.8 million) to be settled by the issuance of 311,200,000 new Consolidated Shares on delivery of the Vessel, but not later than 3 banking days after the date that notice of readiness has been given under the shipbuilding contract for the Vessel.

(3) Placing

On 8 February 2017, the Company entered into the placing agreement with Eternal Pearl Securities Limited (the "Placing Agent"), pursuant to which the Placing Agent has conditionally agreed to procure not less than six placees, on a best effort basis, to subscribe for, and the Company has conditionally agreed to issue, a total of 4,000,000,000 new Consolidated Shares (the "Placing Shares") at the placing price of HK$0.10 per Consolidated Share (the "Placing").

The estimated net proceeds from the Placing are HK$384 million. The Company intends to apply the net proceeds from the Placing (i) as to approximately HK$77.8 million to the down payment of the Acquisition Consideration of the Vessel; (ii) as to approximately HK$46.5 million for defraying the costs and expenses to be incurred in connection with the taking physical delivery of the Vessel by the Vessel Purchaser after Acquisition Completion; (iii) as to approximately HK$213.17 million for partial settlement of the remaining amount of the Acquisition Consideration; and (iv) the remaining balance of approximately HK$46.5 million for the general working capital of the Group.

Details of the above transactions are set out in the announcement and the circular of the Company dated 8 February 2017 and 8 March 2017, respectively.

Resignation of Executive Director

On 14 February 2017, Mr. Tse On Kin resigned as the executive Director of the Company.

CORPORATE GOVERNANCE PRACTICES

It is a continuing commitment of the Board and the management of the Company to maintain a high standard of corporate governance practices and procedures to safeguard the interests of the Shareholders and enhance the performance of the Group. The Company has adopted and applied the principles as set out in Appendix 14 (Corporate Governance Code and Corporate Governance Report (the "CG Code")) to the Listing Rules.

Throughout the year ended 31 December 2016, the Company has complied with the CG Code, save for the deviations specified and explained below.

Code Provision A.2.1

The post of chief executive (the "Chief Executive") of the Company has remained vacant since March 2000. The duties of Chief Executive have been performed by other executive Directors of the Company. As there is a clear division of responsibilities of each Director, the vacancy of the post of Chief Executive did not have any material impact on the operations of the Group.

However, the Board will review the current structure from time to time and if a candidate with suitable knowledge, skill and experience is identified, the Board will make an appointment to fill the post of Chief Executive as appropriate.

Code Provision A.6.7

Code provision A.6.7 of the CG Code stipulates, among other things, that the independent non-executive Directors and other non-executive Directors of the Company should attend the general meetings of the Company. Ms. Sun Wei, a non-executive Director of the Company, did not attend the general meeting of the Company held on 20 April 2016 and the annual general meeting of the Company held on 9 May 2016 due to her other business engagements. Ms. Sun Wei resigned as a non-executive Director of the Company with effect from 31 August 2016.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of this announcement of the Group's consolidated statements of comprehensive income and financial position and the related notes thereto for the year ended 31 December 2016 have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on this announcement.

AUDIT COMMITTEE

The Company has an audit committee (the "Audit Committee") which was established with written terms of reference in compliance with the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process, the risk management policies and internal control system of the Group. The Audit Committee currently comprises three independent non-executive Directors of the Company, namely, Mr. Chan Chi Yuen (Chairman), Professor Sit Fung Shuen, Victor and Mr. Siu Miu Man.

The audited financial results of the Group for the year ended 31 December 2016 have been reviewed by the Audit Committee.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company (the "Annual General Meeting") will be held at 9/F., Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong, on Friday, 12 May 2017 at 11:00 a.m. A circular containing, inter alia, the information required by the Listing Rules concerning (1) the re-election of retiring Directors; and (2) the grant of general mandates to repurchase Shares and to issue new Shares, together with the notice of the Annual General Meeting, will be published and despatched to the Shareholders in the manner as required by the Listing Rules on or before 6 April 2017.

For the purpose of determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Tuesday, 9 May 2017 to Friday, 12 May 2017 (both days inclusive), during which period no transfer of Shares will be registered. In order to be qualified for attending and voting at the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by not later than 4:30 p.m. on Monday, 8 May 2017.

PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (http://www.hkex.com.hk) and the Company (http://www.aelg.com.hk). The annual report of the Company for the year ended 31 December 2016 will be despatched to Shareholders and made available for review on the same websites on or before 6 April 2017.

By Order of the Board
Asia Energy Logistics Group Limited
Liang Jun
Executive Director

24 March 2017

As at the date of this announcement, the executive directors of the Company are Mr. Liang Jun, Mr. Fung Ka Keung, David, Mr. Fu Yongyuan and Mr. Lin Wenqing; the non-executive director of the Company is Mr. Yu Baodong (Chairman); and the independent non-executive directors of the Company are Mr. Chan Chi Yuen, Professor Sit Fung Shuen, Victor and Mr. Siu Miu Man.