亞洲能源物流

ASIA ENERGY 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 2017

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 2017, together with the comparative figures for the previous corresponding year, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**2017** **HK$'000**	2016 HK$'000
Revenue	*4*	**15,797**	10,392
Cost of sales		**(14,894)**	(15,228)
Gross profit/(loss)		**903**	(4,836)
Other income and gains		**2,241**	1,040
Depreciation and amortisation		**(1,778)**	(1,687)
Staff costs		**(17,571)**	(19,211)
Impairment loss on property, plant and equipment		**(20)**	(2,645)
Impairment loss on construction in progress	*11*	**(13,898)**	(314,015)
Impairment loss on railway construction prepayment	*11*	**(72)**	(1,641)
Reversal of impairment loss on property, plant and equipment		**9,000**	—
Change in fair value of contingent consideration payable		**(7,928)**	—
Change in fair value of derivative component of convertible notes		**(77)**	882
Change in fair value of options/commitment to issue convertible notes		**(261)**	(2,620)
Share of results of joint venture		**9,718**	8,549
Other operating expenses		**(16,283)**	(21,061)
Finance costs	*6*	**(61,377)**	(76,122)
Loss before income tax	*7*	**(97,403)**	(433,367)
Income tax	*8*	**—**	—
Loss for the year		**(97,403)**	(433,367)

	Notes	**2017** *HK$'000*	2016 *HK$'000*
Other comprehensive income			
Exchange difference arising on translation of financial statements of foreign operations which may be reclassified subsequently to profit or loss		**(6,169)**	(5,904)
Total comprehensive income for the year		**(103,572)**	(439,271)
Loss for the year attributable to:			
Owners of the Company		**(62,004)**	(267,385)
Non-controlling interests		**(35,399)**	(165,982)
		(97,403)	(433,367)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(65,523)**	(269,840)
Non-controlling interests		**(38,049)**	(169,431)
		(103,572)	(439,271)
			(restated)
Loss per share — basic and diluted (HK cents per share)	*10*	**(4.23)**	(18.80)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	**2017** **HK$'000**	2016 *HK$'000*
Non-current assets			
Property, plant and equipment		**41,753**	37,127
Intangible assets		**1,000**	1,000
Construction in progress	*11*	**1,671,728**	1,575,512
Railway construction prepayment	*11*	**8,737**	8,235
Interest in a joint venture		**—**	—
		1,723,218	1,621,874
Current assets			
Other receivables and prepayments	*12*	**38,988**	41,742
Cash and cash equivalents		**5,968**	7,154
		44,956	48,896
Current liabilities			
Trade and other payables	*13*	**164,527**	148,781
Bank loans and other borrowings		**1,657,275**	468,582
Convertible notes	*14*	**3,036**	3,278
Amount due to a joint venture		**118,680**	128,420
Amounts due to minority equity owners of subsidiaries		**8,750**	8,177
		1,952,268	757,238
Net current liabilities		**(1,907,312)**	(708,342)
Total assets less current liabilities		**(184,094)**	913,532
Non-current liabilities			
Bank loans		**—**	1,015,070
Contingent consideration payable		**7,928**	—
		7,928	1,015,070
NET LIABILITIES		**(192,022)**	(101,538)
Capital and reserves attributable to owners of the Company			
Share capital	*15*	**1,608,309**	1,595,221
Other reserves		**(1,698,583)**	(1,633,060)
Equity attributable to owners of the Company		**(90,274)**	(37,839)
Non-controlling interests		**(101,748)**	(63,699)
TOTAL EQUITY		**(192,022)**	(101,538)

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 businesses.

The financial information relating to the years ended 31 December 2016 and 2017 included in this preliminary announcement of annual results for the year ended 31 December 2017 does 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 2016 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 2017 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 2016 and 2017 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 2017 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 HKFRSs that are first effective for the current accounting period of the Group, but do not have material impact on the consolidated financial statements other than additional disclosure made in 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 2017 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 2017, the Group had net current liabilities of HK$1,907,312,000 and incurred a loss of HK$97,403,000 for the year ended 31 December 2017. 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 2017 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 construction work has been suspended since July 2013 due to the fact that the compensation payable to the overlaid mine owner (the "Mine Owner") around the Tangcheng section of the Zunxiao Railway has not yet been resolved. Although continuous effort has been made by the Group in negotiation with the Mine Owner, no agreement has been reached by the parties involved in respect of the scope of compensation payable. The Group will continue to negotiate with the Mine Owner in order to reach an agreement on the amount of compensation payable so that it will be able to resume and complete the construction of 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$1,086,228,000 as at 31 December 2017 and all of them are beneficially owned by a director of certain subsidiaries of the Company who is also 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 addition, the Railway Companies will also negotiate with a bank for extension of the repayment date of the entire or partial amount of the aforementioned bank loans which are due for repayment on 31 December 2018.

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$555,075,000 as at 31 December 2017, and related interests until the financial position of the Railway Companies has improved and the loan repayments will not affect the construction and operation of the Zunxiao Railway.

* *English name for identification purposes only*

As for the shipping and logistics operations, the Group and the joint venture partner had preliminary discussions and concluded the mutual intention on withholding enforcement of or otherwise discharge the Group's financial obligations to acquire the two remaining vessels under a shareholders' agreement until the Group's financial position has improved and the shipping market recovers to a level which justifies acquisition of the two remaining vessels. In the absence of other unforeseen circumstances, the directors consider the mutual intention will remain unchanged.

Given the above circumstances, the management had taken the following actions to improve the financial position of the Group. As detailed in the circular of the Company dated 5 January 2018, on 30 November 2017, the Company entered into a placing agreement with a placing agent, whereby the placing agent had conditionally agreed to place, on a best effort basis, and the Company had conditionally agreed to allot and issue, a total of 923,361,034 shares of the Company (the "Shares"). On the same date of 30 November 2017, the Company also entered into a subscription agreement with a subscriber, whereby the Company had conditionally agreed to issue, and the subscriber had conditionally agreed to subscribe for the convertible bonds in the aggregate principal amount of up to HK$100 million (the "Convertible Bonds"). On 23 February 2018, the placing was completed with 923,361,034 shares of the Company being successfully placed at an aggregate gross proceeds of HK$100 million. On 2 March 2018, the conditions precedent to the subscription agreement were fulfilled, and the Convertible Bonds in the aggregate principal amount of HK$100 million were issued to and subscribed by the subscriber. The proceeds from the issues of the Shares and the Convertible Bonds will be mainly applied for the acquisition of two handysize dry bulk vessels by the Group with the remaining balance of approximately HK$31.8 million for the general working capital of the Group.

In view of the above circumstances and the plans to be taken by the Group to address the going concern issue, the Directors have prepared a cash flow forecast of the Group covering a period up to 30 June 2019 on the basis that the Group has successfully implemented or 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 2017. 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 Group would be able to successfully negotiate with a bank for an extension of the repayment date of the entire or partial amount of the bank loans of the Railway Companies which are due for repayment on 31 December 2018; (ii) the Lenders which have been providing financial support to the Railway Companies to meet their financial obligations continue to have sufficient financial ability to provide the financial support to the Railway Companies; (iii) the shipping market conditions continue not to justify further acquisition of vessels, such that the Group and the joint venture partner's mutual intention on withholding enforcement of or otherwise discharge the Group's financial obligations under a shareholders' agreement would continue to remain unchanged during the forecast period; and (iv) 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.

There are significant uncertainties as 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:

	2017	2016
	HK$'000	*HK$'000*
Charter-hire income	**15,797**	10,392

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' result 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 2017	**Railway construction and operations** *HK'000*	**Shipping and logistics** *HK'000*	**Total** *HK'000*
Segment revenue from external customers	**—**	**15,797**	**15,797**
Segment (loss)/profit	**(77,536)**	**19,523**	**(58,013)**
Other segment information:			
Interest expenses	**(59,924)**	**—**	**(59,924)**
Other income and gains	**2,379**	**15**	**2,394**
Depreciation of property, plant and equipment	**(677)**	**(2,789)**	**(3,466)**
Impairment loss on property, plant and equipment	**(20)**	**—**	**(20)**
Impairment loss on construction in progress	**(13,898)**	**—**	**(13,898)**
Impairment loss on railway construction prepayment	**(72)**	**—**	**(72)**
Reversal of impairment loss on property, plant and equipment	**—**	**9,000**	**9,000**
Share of results of joint venture	**—**	**9,718**	**9,718**
Operating lease payments	**(153)**	**—**	**(153)**

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 and gains	—	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 railway construction prepayment	(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

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

	2017	2016
	HK$'000	*HK$'000*
Loss		
Segment loss	**(58,013)**	(403,012)
Other income, gains/(losses)	**(153)**	688
Gain on disposal of plant, property and equipment	**—**	94
Change in fair value of contingent consideration payable	**(7,928)**	—
Change in fair value of derivative component of convertible notes	**(77)**	882
Change in fair value of options/commitment to issue convertible notes	**(261)**	(2,620)
Other unallocated corporate expenses *(Note)*	**(30,971)**	(29,399)
Consolidated loss before income tax	**(97,403)**	(433,367)

	2017	2016
	HK$'000	*HK$'000*
Assets		
Railway construction and operations	**1,708,459**	1,609,904
Shipping and logistics	**43,944**	36,858
Segment assets	**1,752,403**	1,646,762
Intangible assets	**1,000**	1,000
Other unallocated corporate assets	**14,771**	23,008
Consolidated total assets	**1,768,174**	1,670,770
Liabilities		
Railway construction and operations	**1,807,814**	1,626,100
Shipping and logistics	**120,748**	130,170
Segment liabilities	**1,928,562**	1,756,270
Contingent consideration payable	**7,928**	—
Convertible notes	**3,036**	3,278
Other unallocated corporate liabilities	**20,670**	12,760
Consolidated total liabilities	**1,960,196**	1,772,308

Note: Unallocated corporate expenses for the years ended 31 December 2017 and 2016 mainly included staff costs, directors' remuneration and rental expenses of the head office in Hong Kong.

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, precludes 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 accounted for 10% or more of the Group's revenues are listed as below:

	2017	2016
	HK$'000	*HK$'000*
Customer A	**—**	2,822
Customer B	**—**	2,159
Customer C	**—**	1,520
Customer D	**—**	1,401
Customer E	**15,570**	—
	15,570	7,902

6. FINANCE COSTS

	2017	2016
	HK$'000	*HK$'000*
Interest on bank loans	**54,925**	68,897
Interest on other borrowings	**6,444**	7,207
Interest on convertible notes	**8**	18
	61,377	76,122

7. LOSS BEFORE INCOME TAX

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

	2017	2016
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment		
– Recognised in cost of sales	**2,789**	2,827
– Recognised in administrative expenses	**1,778**	1,687
	4,567	4,514
Staff costs (included directors' remuneration)		
– Salaries, wages and other benefits	**17,224**	18,871
– Contributions to defined contribution retirement scheme	**347**	340
	17,571	19,211
Auditor's remuneration		
– Annual audit	**950**	950
– Non-annual audit	**675**	120
	1,625	1,070
Gain on disposal of property, plant and equipment	**—**	(329)
Written off of property, plant and equipment	**—**	2,837
Operating lease rentals in respect of land and buildings	**2,494**	2,458

8. INCOME TAX

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

	2017	2016
	HK$'000	*HK$'000*
Loss before income tax	**(97,403)**	(433,367)
Taxation calculated at PRC Enterprise Income Tax rate of 25% (2016: 25%)	**(24,351)**	(108,342)
Tax effect of differential tax rate	**1,336**	2,871
Tax effect of expenses not deductible for taxation purpose	**19,179**	101,816
Tax effect of unrecognised tax losses and other temporary differences	**3,836**	3,655
Income tax expense for the year	**—**	—

Hong Kong profits tax, if any, is calculated at 16.5% (2016: 16.5%) on the estimated assessable profits for the year. PRC subsidiaries are subjected to PRC Enterprise Income Tax at 25% (2016: 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 2017 (2016: Nil).

The Directors do not recommend the payment of any dividend for year ended 31 December 2017 (2016: Nil).

10. LOSS PER SHARE

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

	2017	2016
	HK$'000	*HK$'000*
(i) Loss for the year attributable to owners of the Company	**62,004**	267,385

(ii) Weighted average number of ordinary shares

	2017	2016
	'000	*'000*
		(restated)
Weighted average number of ordinary shares for the purposes of basic loss per share *(Note)*	**1,464,330**	1,422,038

Note:

The weighted average number of ordinary shares for the purpose of basic loss per share for the years ended 31 December 2017 and 2016 are calculated after adjustment of the share consolidation which became effective on 27 March 2017 (Note 15).

The comparative figures for the basic loss per share for the year ended 31 December 2016 are restated retrospectively to take into account of the effect of the share consolidation which became effective on 27 March 2017 as if they had taken place since the beginning of the comparative period.

	2017	2016
	HK cents	*HK cents*
		(restated)
Basic loss per share	**4.23**	18.80

(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 *HK$'000*	Railway construction prepayment *HK$'000*
Cost, net of impairment losses:		
As at 1 January 2016	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
Impairment loss	**(13,898)**	**(72)**
Exchange adjustment	**110,114**	**574**
As at 31 December 2017	**1,671,728**	**8,737**

Construction in progress and railway construction prepayment represent railway construction costs and related prepaid construction costs of the Zunxiao Railway in the PRC. The construction work has been suspended since July 2013 due to the fact that the compensation payable to the Mine Owner has not yet been resolved. The Mine Owner has requested for an amount of compensation which management of the Company considers to be exaggerated and unreasonable. 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 scope of compensation payable.

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$20,000, HK$13,898,000 and HK$72,000 (2016: HK$645,000, HK$314,015,000 and HK$1,641,000 respectively) on the property, plant and equipment, construction in progress and the railway construction prepayment in relation to Zunxiao Railway respectively were recognised during the year ended 31 December 2017.

The recoverable amounts of the aforesaid assets as at 31 December 2017 and 2016 involved 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% (2016:3.00%), which does not exceed the long-term growth rate for the railway industry. The cash flows are discounted using a discount rate of 17.33% (2016:17.80%). The discount rate used is pre-tax and reflects specific risks relating to the aforesaid assets. The cash flows are estimated based on various assumptions, mainly included the expected amount of the compensation to the Mine Owner, the expected payment terms of the compensation, the expected time of resumption of the construction of the Zunxiao Railway and the expected commencement date of the operation of the Zunxiao Railway. 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$2,319,000, HK$1,671,728,000 and HK$8,737,000 respectively (2016: 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

	2017	2016
	HK$'000	*HK$'000*
Third parties	**14,165**	18,579
Related party	**24,823**	23,163
	38,988	41,742

As at 31 December 2017, included in the Group's other receivables and prepayments is an outstanding sale consideration receivable of HK$9,850,000 (2016: HK$14,850,000) which is past due but not impaired and arising from disposal of a former subsidiary.

13. TRADE AND OTHER PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Trade payables		
– current and up to 30 days	**672**	606
Construction cost payables	**144,617**	135,143
Other payables	**19,238**	13,032
	164,527	148,781

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 authorised representative of the Subscriber) pursuant to which the Company had conditionally agreed to issue, and the Subscriber had 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 ended 31 December 2016 are set out below:

	Liability component *HK$'000*	**Derivative component** *HK$'000*	**Total** *HK$'000*
At 1 January 2016	12	352	364
Fair value gain	—	(32)	(32)
Transfer to share capital on conversion of convertible notes	(12)	(320)	(332)
At 31 December 2016	—	—	—

The Tranche 1 Notes were wholly converted into ordinary shares of the Company during the year ended 31 December 2016.

The Tranche 2 Notes

On 1 March 2016, the Company 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 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 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 2017, the sub-tranches of the Tranche 2 Notes with principal amount of HK$12.5 million (2016: HK$10 million) were subscribed by and issued to the Subscriber, of which HK$9.5 million (2016: HK$7 million) were converted into ordinary shares of the Company, with remaining principal amount of the issued Tranche 2 Notes of HK$3 million (2016: HK$3 million) outstanding as at 31 December 2017.

In this connection, the Group incurred a loss amounting to HK$0.261 million (2016: loss of HK$2.62 million) 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$12.761 million (2016: HK$12.62 million) as at the date of its issuance and their principal amount of HK$12.5 million (2016: HK$10 million). As at 31 December 2017, an outstanding principal amount of HK$17.5 million (2016: HK$30 million) of Tranche 2 Notes remained unsubscribed.

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 *HK$'000*	**Derivative component** *HK$'000*	**Total** *HK$'000*
Issuance of the convertible notes during the year ended 31 December 2016	298	12,322	12,620
Interest expense	18	—	18
Fair value gain	—	(850)	(850)
Transfer to share capital on conversion of convertible notes	(232)	(8,278)	(8,510)
At 31 December 2016	84	3,194	3,278
Issuance of the convertible notes	186	12,575	12,761
Interest expense	8	—	8
Fair value loss	—	77	77
Transfer to share capital on conversion of convertible notes	(248)	(12,840)	(13,088)
At 31 December 2017	30	3,006	3,036

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 2017 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

	2017 *Number of shares*	*HK$'000*	2016 *Number of shares*	*HK$'000*
Issued and fully paid:				
At 1 January	**14,339,369,875**	**1,595,221**	14,159,265,469	1,586,379
Shares issued on conversion of convertible notes before share consolidation	**107,142,857**	**6,003**	180,104,406	8,842
Share consolidation *(Note)*	**(13,001,861,459)**	**—**	—	—
Shares issued on conversion of convertible notes after share consolidation	**81,129,253**	**7,085**	—	—
At 31 December	**1,525,780,526**	**1,608,309**	14,339,369,875	1,595,221

Note:

Pursuant to the share consolidation approved by the shareholders, every ten issued ordinary shares of the Company had been consolidated into one ordinary share. The share consolidation became effective as from 27 March 2017.

16. CAPITAL COMMITMENTS

	2017 *HK$'000*	2016 *HK$'000*
Authorised and contracted for in respect of construction of railway:		
– Zunxiao Company	**163,054**	152,373
– Tangcheng Company	**116,825**	109,172
	279,879	261,545

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 2017 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 2017. 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 2017 are certain property, plant and equipment with a carrying amount of HK$2,319,000, construction in progress with a carrying amount of HK$1,671,728,000 and the railway construction prepayment with a carrying amount of HK$8,737,000 (2016: HK$2,842,000, HK$1,575,512,000 and HK$8,235,000 respectively) (collectively referred to as the "Railway Assets") which are related to the construction of the Zunxiao railway (the "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 fact that 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, the directors have performed an impairment review of the Railway Assets (the "Impairment Review"). Based on the Impairment Review, impairment losses of HK$20,000, HK$13,898,000 and HK$72,000 (2016: HK$645,000, HK$314,015,000 and HK$1,641,000 respectively) on the property, plant and equipment, the construction in progress and the railway construction prepayment respectively have been recognised for the year ended 31 December 2017 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 for the year ended 31 December 2017 based on the result of the Impairment Review was appropriate and whether there should be any adjustments to the carrying amounts of the Railway Assets as at 31 December 2017. There were no other alternative audit procedures that we could perform to satisfy ourselves as to whether such impairment losses and carrying amounts of the Railway Assets were free from material misstatement. In our audit of the Company's consolidated financial statements for the year ended 31 December 2016 (the "2016 Consolidated Financial Statements"), the above-mentioned circumstances and limitations on our scope of work also existed. We did not express an opinion on the 2016 Consolidated Financial Statements.

Any adjustment to the carrying amounts of the Railway Assets determined to be necessary had we been able to obtain sufficient appropriate audit evidence would have consequential direct effect on the Group's net assets as at 31 December 2017, the Group's net loss for the year ended 31 December 2017 and the related note disclosures in 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 2017, the Group had net current liabilities of HK$1,907,312,000 and incurred a loss of HK$97,403,000 for the year ended 31 December 2017 (2016: HK$708,342,000 and HK$433,367,000 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 30 June 2019 after taking into account the following major assumptions, (i) the Group would be able to successfully negotiate with a bank for an extension of the repayment date of the entire or partial amount of the bank loans of the Railway Companies which are due for repayment on 31 December 2018; (ii) the lenders (the "Lenders") which have been providing financial support to the Railway Companies to meet their financial obligations continue to have sufficient financial ability to provide the financial support to the Railway Companies; (iii) the shipping market conditions continue not to justify for further acquisition of vessels, such that the Group and the joint venture partner's mutual intention on withholding 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) would continue to remain unchanged during the forecast period; and (iv) 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. 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 2017. 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 were 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 2016 Consolidated Financial Statements on a going concern basis with underlying assumptions similar to those adopted in 2017 as stated above. In our audit of the 2016 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 2016 Consolidated Financial Statements.

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

Business Review

During the year under review, 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 would be generated until the construction of the Zunxiao Railway has been completed and the commencement of full operation.

* *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. Under 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 issue 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. With a view to resume construction of the Zunxiao Railway, the Group is seeking for professionals with expertise in infrastructure construction management to assess the construction cost of the outstanding railway sections and to put forward any possible solutions to the Company and the relevant authorities to expedite the construction progress. Meanwhile, the Company is striving to explore different fundraising means in order to obtain sufficient capital commitment to sustain its railway construction and operations and will publish further announcements as and when appropriate.

Shipping and Logistics

Existing Vessels

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 M.V. Asia Energy, a bulk carrier with carrying capacity of approximately 28,000 DWT.

* *for identification purposes only*

Due to the rebound of the general commodities price, the Baltic Dry Index (BDI) also recovered significantly from its record lows in February 2016. For the year under review, the BDI has shown an increasing trend, which rose from 953 points on 3 January 2017 to 1,366 points on 27 December 2017, representing an increase by approximately 43% since 3 January 2017. The directors of the Company (the "Directors") consider that it is a signal of improvement in the dry bulk market and is also beneficial for the Group to maintain the existing vessel chartering business.

For the year under review, M.V. Asia Energy recorded revenue of approximately HK$15,797,000 (2016: approximately HK$10,392,000), representing an increase of approximately 52% as compared to the corresponding period of 2016.

Pursuant to the joint venture 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 vessels are to be acquired. However, due to the continuing poor performance of the shipping market for 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 Group discussed with its joint venture partner in order to reach an agreement to withhold enforcement of or otherwise discharge the Group's financial obligations under the JV Agreement. Both the Company and the joint venture partner concluded their mutual intention on withholding the enforcement of the Group's obligation to acquire the two remaining vessels until the Group's financial position has improved and the shipping market recovers to a level which justifies the further acquisition.

For the year under review, the JV Group recorded revenue of approximately HK$79,360,000 (2016: approximately HK$44,960,000), representing an increase of approximately 77% as compared to the corresponding period of 2016. The Group's share of profit from the JV Group was approximately HK$9,718,000 (2016: approximately HK$8,549,000).

Overall, the performances of both the Group's own vessel and the JV Group were satisfactory and had made positive contributions to the Group.

Acquisition of Heavy Lift Vessel

On 8 February 2017, an indirect wholly-owned subsidiary of the Company entered into a memorandum of agreement (the "Memorandum of Agreement") with a vendor for the acquisition of a heavy lift vessel (the "Heavy Lift Vessel") at a consideration of US$103.3 million (the "Acquisition Consideration"). The Acquisition Consideration should be satisfied by (i) US$10 million in cash as down payment within 3 banking days after the date of the completion of the First Placing (as defined in the section headed "Fundraising Activities – Placing" below); (ii) US$83.3 million in cash on delivery of the Heavy Lift Vessel which would be partly funded by the proceeds generated from the First Placing of approximately US$27.4 million and partly funded by a mortgage loan of approximately US$55.9 million; and (iii) US$10 million to be settled by the issuance of 311,200,000 consideration shares on delivery of the Heavy Lift Vessel.

On the same day of 8 February 2017, the Company entered into the First Placing Agreement (as defined in the section headed "Fundraising Activities – Placing" below) for which the net proceeds of HK$384 million was intended to be applied towards the partial settlement of the Acquisition Consideration and as working capital. Details of which are set out in the section headed "Fundraising Activities" below.

On 24 March 2017, the acquisition of the Heavy Lift Vessel and the First Placing were duly passed as ordinary resolutions of the Company by the shareholders of the Company (the "Shareholders").

As disclosed in the announcement of the Company dated 31 March 2017, the conditions precedent to the Memorandum of Agreement regarding the availability of the financing for the acquisition of the Heavy Lift Vessel and the completion of the First Placing had not been fulfilled before the long stop date, the Memorandum of Agreement lapsed in accordance with the terms thereof and the acquisition of the Heavy Lift Vessel contemplated thereunder would not proceed.

Subsequent to the unsuccessful implementation of business plans as mentioned above, the management of the Company had been actively discussing and exploring other possible options with a view to further developing the Group's existing business operations and to improving the Group's financial position.

Acquisition of Dry Bulk Vessels

The Group is reassured with its intention to expand the dry bulk vessel business after taking into account the continuous growth of the BDI as mentioned above, the improving performance of its shipping and logistics segment and the potential recovery of the international shipping market. Feasibility study had been carried out to assess the viability of acquiring additional vessels by estimating, based on the market charter rate and with reference to the operating data of the Company's own vessel, the expected revenue, operating cost, finance cost and general expenses. It was concluded that it would be profitable and appropriate and an attainable level of operation for the Group to acquire two additional dry bulk vessels.

Subsequent to the year under review on 23 January 2018, the Group entered into two memorandum of agreements for the acquisition of two Handysize dry bulk vessels, further details of which are set out in the section headed "Subsequent Events" below.

Prospects

2017 is regarded as the year during which the dry bulk shipping market staged a sustainable recovery to healthier levels from the dark days of 2015 and 2016. Driven by the global economy recovery, the dry bulk shipping market is expected to benefit from the forthcoming global economy growth. The implementation of the "Belt and Road" initiative of China may also bring new stimulus to the shipping demand and dry bulk shipping market is expected to anticipate a further revival in the next 12 months.

Looking ahead to 2018, global economic activity continues to firm up and the pickup in growth has been broad based with notable upside surprises in Europe and Asia. The global economy growth forecasts for 2018 and 2019 have been revised upward, which reflects increased global growth momentum and the expected impact of the recently approved U.S. tax policy changes.

To take advantage of the expected dry bulk shipping market growth and to achieve sustainable development of its shipping and logistics business, the Group has entered into memorandum of agreements to acquire two additional Handysize dry bulk vessels of about 32,000 DWT each and scheduled to take deliveries of both vessels before the end of April 2018. With the benefit of pre-negotiated and signed charterparties, the two vessels will commence their employment and start generating revenue immediately upon their deliveries.

Benefiting from the improving global economy outlook, it is anticipated that the Group's shipping and logistics business will enjoy a better shipping market environment and make a greater contribution to the Group's overall business operations in 2018 and beyond.

In order to rectify the adverse situation faced by the Group and having considered the positive segment performance of the shipping and logistics business, the management is envisaging the possibility of enlarging the existing shipping and logistics business. The Group will continuously seek for suitable investment opportunities to expand the fleet size by acquiring vessels of similar or other carrying capacity. Further announcements will be published as and when appropriate.

FINANCIAL REVIEW

For the year ended 31 December 2017, the revenue of the Group was approximately HK$15.8 million, representing an increase of approximately 52% compared with the revenue of approximately HK$10.4 million for the year ended 31 December 2016.

The loss after tax for the year ended 31 December 2017 was approximately HK$97.4 million, representing a decrease of approximately 78% compared with the loss of approximately HK$433.4 million for the year ended 31 December 2016.

The decrease in loss for the year under review as compared to the loss for the year ended 31 December 2017 was mainly attributable to (i) the increase in the turnover to approximately HK$15.8 million (2016: approximately HK$10.4 million); (ii) the reversal of impairment loss on the vessel classified as property, plant and equipment of HK$9 million (2016: HK$Nil); (iii) the decrease in finance cost to approximately HK$61.4 million (2016: approximately HK$76.1 million); (iv) the decrease in general operating expenses to approximately HK$16.3 million (2016: approximately HK$21.1 million); and (v) the decrease in impairment loss on railway construction in progress to approximately HK$13.9 million (2016: approximately HK$314.0 million).

The basic and diluted loss per ordinary share of the Company (the "Share(s)") for the year under review was HK4.23 cents (2016: HK18.80 cents).

FUNDRAISING ACTIVITIES

Convertible Notes

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 authorised 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 an 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 circular of the Company 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 and notified the Subscriber of its intention to exercise the option to require the Subscriber to subscribe for the Tranche 2 Notes from the Company, details of which are set out in the Company's circular dated 11 April 2016.

On 26 April 2016, Shareholders' approval was obtained for, among other things, the exercise of the Option and the creation and issue of the Tranche 2 Notes and the allotment and issue of the conversion shares upon exercise of the conversion rights attached to the Tranche 2 Notes.

During the year under review, Convertible Notes of the Tranche 2 Notes in the principal amount of HK$12.5 million (2016: HK$10 million) was subscribed by and issued to the Subscriber and approximately HK$11.6 million (2016: HK$9.3 million) (net of arrangement fee) was raised which had been applied towards the general working capital.

As at 31 December 2017, an aggregate principal amount of HK$22.5 million of the Tranche 2 Notes was subscribed by the subscriber, of which an aggregate principal amount of HK$19.5 million of the Tranche 2 Notes had been converted and an aggregate principal amount of HK$3 million (2016: HK$3 million) of the Tranche 2 Notes remained unconverted, and an outstanding principal amount of HK$17.5 million of the Tranche 2 Notes remained unsubscribed.

Placing

On 8 February 2017, the Company entered into a placing agreement (the "First Placing Agreement") with the placing agent, Eternal Pearl Securities Limited ("Eternal Pearl"), pursuant to which the Eternal Pearl conditionally agreed to procure not less than six placees, to subscribe for, and the Company conditionally agreed to allot and issue, on a best effort basis, a total of 4,000,000,000 shares at the price of HK$0.1 per share (the "First Placing"). The net proceeds of HK$384 million should be applied towards the partial settlement of the consideration for the acquisition of the Heavy Lift Vessel and as working capital. The acquisition of the Heavy Lift Vessel and the First Placing were duly passed as ordinary resolutions of the Company by the Shareholders on 24 March 2017.

On 31 March 2017, the conditions precedent to the Memorandum of Agreement regarding the availability of the financing for the acquisition of the Heavy Lift Vessel and the completion of First Placing had not been fulfilled before the long stop date, the Memorandum of Agreement lapsed in accordance with the terms thereof and the acquisition of the Heavy Lift Vessel contemplated thereunder would not proceed. The Company also announced that the Company and Eternal Pearl entered into a side letter to the First Placing Agreement to extend the placing period and the long stop date. The net proceeds of HK$384 million would be used for the acquisition of dry bulk vessels and as working capital.

On 19 May 2017, the Company received from the Securities and Futures Commission (the "SFC") a notice (the "Section 6 Notice") under Section 6(2) of the Securities and Futures (Stock Market Listing) Rules (the "SMLR") via fax that the SFC objected to the listing of the Placing Shares to be issued and allotted pursuant to the First Placing 10 minutes before the commencement of the general meeting for the approval of the Placing and the transactions contemplated thereunder. Under Section 6(2) of the SMLR, the Stock Exchange may only list the securities to which a listing application relates if the SFC has not given the Section 6 Notice.

On 26 May 2017, the Company announced that the Company and Eternal Pearl entered into a deed of termination for the termination of the First Placing Agreement and that the Company will continue to explore other possible business opportunities that would improve the long-term financial position of the Group.

On 30 November 2017, the Company entered into another placing agreement (the "Second Placing Agreement") with the placing agent, Taiping Securities (HK) Co Limited ("Taiping"), pursuant to which Taiping conditionally agreed to procure not less than six placees, to subscribe for, and the Company conditionally agreed to allot and issue, on a best effort basis, a total of 923,361,034 shares at the price of HK$0.1083 per share (the "Second Placing").

Subsequent to the year under review on 26 January 2018, the Second Placing was duly passed as ordinary resolution of the Company by the Shareholders.

The conditions precedent specified in the Second Placing Agreement had been fulfilled and the completion of the Second Placing took place on 23 February 2018.

Please refer to the section headed "Subsequent Events – Second Placing, Convertible Bonds and Acquisition of the Vessels" below for further details.

Convertible Bonds

On 30 November 2017, the Company entered into a subscription agreement (the "CB Agreement") with GIC Investment Limited ("GIC"), being a connected person of the Company, pursuant to which the Company had conditionally agreed to issue, and GIC had conditionally agreed to subscribe for, the convertible bonds in the aggregate principal amount of HK$100,000,000 (the "Convertible Bonds").

On 26 January 2018, the resolution approving the CB Agreement and the transaction contemplated thereunder was duly passed as ordinary resolution of the Company by the Shareholders.

The conditions precedent specified in the CB Agreement had been fulfilled and the completion thereof took place on 2 March 2018.

Please refer to the section headed "Subsequent Events – Second Placing, Convertible Bonds and Acquisition of the Vessels" below for further details.

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 under review.

SUBSEQUENT EVENTS

Conversion of Convertible Notes

On 3 January 2018 and 25 January 2018, the Convertible Notes of the Tranche 2 Notes in an aggregate principal amount of HK$3.5 million were converted.

On 12 January 2018, the ninth sub-tranche of the Tranche 2 Notes in the principal amount of HK$2.5 million were subscribed and issued.

As at the date of this announcement, Convertible Notes of the Tranche 2 Notes in the principal amount of HK$2 million remained unconverted and the balance of Convertible Note of the Tranche 2 Notes in the principal amount of HK$15 million remained unsubscribed.

Second Placing, Convertible Bonds and Acquisition of the Vessels

On 30 November 2017 and 23 January 2018, the Company announced its intention regarding (1) the Second Placing; (2) the issue of the Convertible Bonds; and (3) the acquisition of Vessels (as defined below).

(1) Second Placing

On 26 January 2018, resolution approving the Second Placing was duly passed as ordinary resolutions of the Company by the Shareholders.

The conditions precedent specified in the Second Placing Agreement had been fulfilled and the completion of the Second Placing took place on 23 February 2018.

As disclosed in the circular of the Company dated 5 January 2018, the Company intended to apply the net proceeds of HK$92.8 million (i) as to approximately HK$58.1 million for the down payment of the acquisition of Vessel 1 (as defined below); (ii) as to approximately HK$7.8 million for the capital requirement of the shipping and logistics businesses of the Group; and (iii) the remaining balance of approximately HK$26.9 million for the general working capital of the Group (which mainly consists of (i) administrative expenses for six-month period to be incurred by the Company of approximately HK$19.9 million; and (ii) repayment of a loan to independent third party of HK$7 million with annual interest of 21.6%, originally due in December 2017 but further extended to June 2018).

(2) Convertible Bonds

On 26 January 2018, the resolution approving the CB Agreement and the transactions contemplated thereunder was duly passed as ordinary resolutions of the Company by the Shareholders.

The conditions precedent specified in the Subscription Agreement had been fulfilled and the completion thereof took place on 2 March 2018.

The net proceeds of HK$98.7 million was intended to be applied (i) as to approximately HK$93.8 million for full amount of Vessel 2 (as described below); and (ii) as to approximately HK$4.9 million for the general working capital of the Group.

(3) Acquisition of the Dry Bulk Vessels

On 23 January 2018, two wholly-owned subsidiaries of the Company (the "Dry Bulk Vessels Purchasers") entered into two memorandum of agreements (the "Dry Bulk Vessels MOAs") for the acquisition (the "Dry Bulk Vessels Acquisition") of two Handysize bulk carrier vessels with carrying capacity of about 32,000 DWT each (the "Vessels" or "Vessel 1" and "Vessel 2") at a consideration of US$10.3 million each (equivalent to about HK$80.34 million each) (the "Dry Bulk Vessels Consideration") with two vendors (the "Dry Bulk Vessels Vendors") incorporated in the Republic of the Marshall Islands. The Dry Bulk Vessels Consideration shall be satisfied by the proceeds from the Second Placing and the subscription of the Convertible Bonds and the balance shall be funded by mortgage loan financing.

The conditions precedent specified in the Second Placing Agreement and the CB Agreement had been fulfilled and the completion of the Second Placing and the subscription of the Convertible Bonds took place on 23 February 2018 and 2 March 2018, respectively.

On 16 March 2018, the resolutions approving Dry Bulk Vessels Acquisition was duly passed as ordinary resolutions of the Company by the Shareholders.

As at the date of this announcement, the Company had lodged a deposit in the sum of US$2.06 million (equivalent to about HK$16.07 million) representing 10% of the consideration in an escrow account and the remaining balance would be settled at the time of deliveries in or around April 2018.

Details of the above transactions are set out in the announcements and the circulars of the Company dated 30 November 2017, 5 January 2018, 23 January 2018 and 23 February 2018, respectively.

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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

Throughout the year ended 31 December 2017, 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 2009. 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.2.7

Despite the active participation of the Chairman during the year under review, no chairman meetings with the Independent Non-Executive Directors were convened. Subsequent to the year under review on 23 March 2018, the Chairman convened a meeting with the Independent Non-Executive Director without the presence of the Executive Directors.

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 should attend the general meetings of the Company. Former Independent Non-Executive Director, Professor Sit Fung Shuen, Victor, did not attend the general meetings of the Company held on 24 March 2017 and 19 May 2017 due to his other business engagements. Existing Independent Non-Executive Director, Mr. Chan Chi Yuen, did not attend the general meeting of the Company held on 19 May 2017 due to his other business engagement.

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 2017 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), Mr. Siu Miu Man and Mr. Wong Cheuk Bun.

The audited financial results of the Group for the year ended 31 December 2017 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 Holiday Inn Express Hong Kong Soho, 38/F., No. 83 Jervois Street, Sheung Wan, Hong Kong on Thursday, 17 May 2018 at 11: 30 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 9 April 2018.

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 Monday, 14 May 2018 to Thursday, 17 May 2018 (both days inclusive), during which the period no transfer of Shares will be registered. In order to be entitled to attend and vote at the Annual General Meeting, all transfers of Shares accompanied by the relevant share certificates and properly completed transfer forms 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 no later than 4: 30 p.m. on Friday, 11 May 2018.

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 2017 will be despatched to Shareholders and made available for review on the same websites on or before 9 April 2018.

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

23 March 2018

As at the date of this announcement, the executive directors of the Company are Mr. Liang Jun, 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, Mr. Siu Miu Man and Mr. Wong Cheuk Bun.