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 2018

RESULTS

The board (the "Board") of directors (the "Directors") of Asia Energy Logistics Group Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries, (the "Group") together with its joint venture for the year ended 31 December 2018, together with the comparative figures for the previous corresponding year, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	**2018** ***HK$'000***	2017 *HK$'000*
Revenue	*5*	**50,669**	15,797
Cost of sales		**(39,173)**	(14,894)
Gross profit		**11,496**	903
Other income		**641**	2,241
Depreciation		**(1,893)**	(1,778)
Staff costs	*7(b)*	**(41,590)**	(17,571)
Impairment loss on consideration receivable		**(9,750)**	—
Impairment loss on construction in progress		**—**	(13,898)
Impairment loss on railway construction prepayment		**—**	(72)
Reversal of impairment loss on property, plant and equipment		**9,000**	8,980
Change in fair value of contingent consideration payable		**4,228**	(7,928)
Change in fair value of derivative components of GIC Convertible Bonds		**(12,939)**	—
Change in fair value of derivative components of Convertible Notes		**(4)**	(77)
Change in fair value of options/commitment to issue Convertible Notes		**(16)**	(261)
Share of results of joint venture		**(24,754)**	9,718
Other operating expenses		**(30,591)**	(16,283)
Finance costs	*7(a)*	**(72,603)**	(61,377)

	Note	2018 HK$'000	2017 HK$'000
Loss before tax	*7*	**(168,775)**	(97,403)
Income tax expense	*8*	**—**	—
Loss for the year		**(168,775)**	(97,403)
Other comprehensive income (loss)			
Exchange difference arising on translation of financial statements of foreign operations which may be reclassified subsequently to profit or loss		**10,924**	(6,169)
Total comprehensive loss for the year		**(157,851)**	(103,572)
Loss for the year attributable to:			
Owners of the Company		**(138,559)**	(62,004)
Non-controlling interests		**(30,216)**	(35,399)
		(168,775)	(97,403)
Total comprehensive loss for the year attributable to:			
Owners of the Company		**(132,129)**	(65,523)
Non-controlling interests		**(25,722)**	(38,049)
		(157,851)	(103,572)
Loss per share			
Basic and diluted (HK cents)	*10*	**(5.91)**	(4.23)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment		**211,457**	41,753
Intangible asset		**1,000**	1,000
Construction in progress	*11*	**1,598,782**	1,671,728
Railway construction prepayment	*12*	**4,775**	8,737
Interest in a joint venture		**—**	—
Deposits paid for acquisition of property, plant and equipment		**2,610**	—
		1,818,624	1,723,218
Current assets			
Trade and other receivables	*13*	**32,076**	38,988
Bank balances and cash		**18,456**	5,968
		50,532	44,956
Current liabilities			
Trade and other payables	*14*	**154,669**	164,527
Bank and other borrowings		**1,647,783**	1,657,275
Convertible Notes		**—**	3,036
Amount due to a joint venture		**143,411**	118,680
Amounts due to minority equity owners of subsidiaries		**8,348**	8,750
		1,954,211	1,952,268
Net current liabilities		**(1,903,679)**	(1,907,312)
Total assets less current liabilities		**(85,055)**	(184,094)
Non-current liabilities			
Contingent consideration payable		**3,700**	7,928
GIC Convertible Bonds	*15*	**71,330**	—
Derivative components of GIC Convertible Bonds	*16*	**15,157**	—
Convertible Bonds	*17*	**12,152**	—
		102,339	7,928
NET LIABILITIES		**(187,394)**	(192,022)
Capital and reserves			
Share capital	*18*	**1,709,316**	1,608,309
Reserves		**(1,769,240)**	(1,698,583)
Equity attributable to owners of the Company		**(59,924)**	(90,274)
Non-controlling interests		**(127,470)**	(101,748)
TOTAL DEFICITS		**(187,394)**	(192,022)

NOTES

1. GENERAL INFORMATION

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

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

The financial information relating to the years ended 31 December 2017 and 2018 included in this preliminary announcement of annual results for the year ended 31 December 2018 does not constitute the Company's statutory financial statements for those years but is derived therefrom. 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 2017 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 2018 in due course. The Company's auditors have reported on the consolidated financial statements of the Company for the years ended 31 December 2018 and 2017. The auditor's reports for the years ended 31 December 2018 and 2017:

- were qualified or otherwise modified;
- did not refer to any matter to which the auditor draw attention by way of emphasis without qualifying the reports; and
- contained a statement under section 406(2) or 407(2) or (3) of the Hong Kong Companies Ordinance.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure requirements under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

These consolidated financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand unless otherwise indicated.

3. ADOPTION OF NEW/REVISED HKFRSs

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2017 consolidated financial statements except for the adoption of the following new/revised HKFRSs that are relevant to the Group and effective from the current year:

HKFRS 9 "Financial instruments"

The following terms are used in these consolidated financial statements:

- FVPL: fair value through profit or loss
- FVOCI: fair value through other comprehensive income
- Designated FVOCI: equity instruments measured at FVOCI
- Mandatory FVOCI: debt instruments measured at FVOCI

HKFRS 9 replaces HKAS 39 "*Financial Instruments: Recognition and Measurement*" for annual periods beginning on or after 1 January 2018. It introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting.

In accordance with the transition provisions in HKFRS 9, comparative information has not been restated and the Group has applied HKFRS 9 retrospectively to financial instruments that existed at 1 January 2018 (i.e. the date of initial application), except as described below:

(a) The following assessments are made on the basis of facts and circumstances that existed at the date of initial application:

(i) the determination of the business model within which a financial asset is held;

(ii) the designation of financial assets or financial liabilities at FVPL or, in case of financial assets, at Designated FVOCI; and

(iii) the de-designation of financial assets or financial liabilities at FVPL.

The above resulting classification shall be applied retrospectively.

(b) If, at the date of initial application, determining whether there has been a significant increase in credit risk since initial recognition would require undue cost or effort, a loss allowance is recognised at an amount equal to lifetime expected credit losses at each reporting date until the financial instrument is derecognised unless that financial instrument has low credit risk at a reporting date.

(c) For investments in equity instruments that were measured at cost under HKAS 39, the instruments are measured at fair value at the date of initial application.

Classification and measurement of financial assets and financial liabilities

The adoption of HKFRS 9 has no significant effect on the classification and measurement of the Group's financial liabilities.

The following table reconciles the original measurement categories and carrying amounts under HKAS 39 to the new measurement categories and carrying amounts under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018.

Measurement category under HKAS 39	**Carrying amount under HKAS 39**	**Measurement category and carrying amount under HKFRS 9**
		Amortised cost
	HK$'000	*HK$'000*
Loans and receivables *(Note)*		
Consideration receivable	9,850	9,850
Amount due from Golden Concord Group Management Limited ("Golden Concord")	24,823	24,823
Other debtors and deposits	3,266	3,266
Bank balances and cash	5,968	5,968
	43,907	43,907

Note: These items continue to be measured at amortised cost because, at the date of initial application, the Group's business model is to hold these items to collect contractual cash flows and the contractual terms of these items give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Impact of the new impairment requirements

The effect on adoption of the new impairment requirements under HKFRS 9 is not material to the Group's consolidated financial statements.

HKFRS 15 "Revenue from contracts with customers"

HKFRS 15 replaces, among others, HKAS 18 and HKAS 11 which specified the revenue recognition arising from sale of goods and rendering of services and the accounting for construction contracts respectively. The Standard establishes a comprehensive framework for revenue recognition and certain costs from contracts with customers within its scope. It also introduces a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The adoption of HKFRS 15 does not have any significant impact on the consolidated financial statements.

Amendments to HKFRS 2 "Classification and Measurement of Share-based Payment Transactions"

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

HK(IFRIC)-Int 22 "Foreign Currency Transactions and Advance Consideration"

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognised the non-monetary asset or non-monetary liability arising from the advance consideration.

The adoption of the interpretation does not have any significant impact on the consolidated financial statements.

4. PRINCIPAL ACCOUNTING POLICIES

Basis of measurement

The measurement basis used in the preparation of these consolidated financial statements is historical cost.

Going concern basis

As at 31 December 2018, the Group had net current liabilities of approximately HK$1,903,679,000 (2017: HK$1,907,312,000) and net liabilities of approximately HK$187,394,000 (2017: HK$192,022,000). In addition, it incurred a loss of approximately HK$168,775,000 for the year ended 31 December 2018 (2017: HK$97,403,000). 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 2018 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 of the Zunxiao Railway has been suspended since July 2013 because the Group could not reach an agreement with the overlaid mine owner (the "Mine Owner") in respect of the compensation payable to the Mine Owner for the reserve of the mine located at around the Tangcheng section of the Zunxiao Railway.

* *English name for identification purposes only*

With continuous effort of the management of the Company, an agreement to jointly appoint independent valuers was entered into between Tangcheng Company and the Mine Owner in November 2018 in order to assess the volume and fair value of the reserve of the mine, which will form a basis of the amount of the compensation payable to the Mine Owner. As at the date of these consolidated financial statements, the preliminary assessment of the volume of the mine conducted by the independent valuer was completed. The management of the Company is in discussion with the Mine Owner about the compensation amount of the overlaid mine.

Following the positive developments of the negotiation of the compensation payable to the Mine Owner, which has been dragged on for years, the directors of the Company are optimistic that the construction work of the Zunxiao Railway could be resumed soon. In addition, the future economic benefits to be brought by the Zunxiao Railway to the Group are expected to be significant, given the State Council promulgated the Three-year Action Plan to Make the Skies Blue Again (《打贏藍天保衛戰三年行動計劃》) in 2018.

The directors expect that the Railway Companies will continue to rely on the financial support from certain companies (the "Lenders") in order to meet their financial obligations including payment of interests on bank borrowings, construction cost payables and other operating expenses. One of the Lenders is Golden Concord Holdings Limited ("GCL"), a guarantor of the Group's bank borrowings. The Lenders are beneficially owned by Mr. Zhu Gongshan, a director of certain subsidiaries of the Company. Mr. Zhu is also a beneficiary of a discretionary trust which is a substantial shareholder of the Company.

In this connection, GCL, which is also the holding company of the other companies comprising the Lenders, has confirmed in writing that it will continue to provide financial support to the Railway Companies and will not demand for repayment of other borrowings of the Group, which amounted to approximately HK$725,632,000 as at 31 December 2018, and related interests until the financial position of the Railway Companies is improved and the loan repayments will not affect the construction and operation of the Zunxiao Railway.

In addition, the Railway Companies will negotiate with the bank for extension of the repayment date of the entire or partial amount of the Group's bank borrowings which are due for repayment on 31 December 2019.

Furthermore, the directors have also taken into account the urgent letter of request dated 28 January 2019 from the Railway Companies in respect of the proportional contribution to the anticipated increase of capital, details of which have been disclosed in the Company's announcement dated 30 January 2019.

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 the Group's obligations under a shareholders' agreement to acquire the two remaining vessels until the Group's financial position is improved and the shipping market recovers to a level which justifies the acquisition of the two remaining vessels or otherwise discharge the Group's obligations to acquire the two remaining vessels.

During the year, the management of the Company had taken the following actions to improve the financial position of the Group. The Company completed a placing of 923,361,034 shares of the Company for aggregate gross cash proceeds of HK$100,000,000. In addition, the Company issued Convertible Notes, GIC Convertible Bonds and Convertible Bonds for gross cash proceeds of HK$2,500,000, HK$100,000,000 and HK$18,000,000, respectively. These proceeds were mainly applied for the acquisition of two handysize dry bulk vessels and general working capital of the Group.

The directors have prepared a cash flow forecast covering a period up to 30 June 2020 on the basis that the Group's aforementioned plans and measures will be successful, 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 2018. Accordingly, the directors consider that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notwithstanding the above, material uncertainties exist as to whether the Group will be able to successfully implement its plans and measures as mentioned above. The appropriateness of the use of the going concern basis depends on whether (i) the Group would be able to successfully negotiate with the bank for extension of the repayment date of the Group's bank borrowings; (ii) the Lenders which have been providing financial support to the Railway Companies will continue to have sufficient and adequate financial resources to provide financial support to the Railway Companies; (iii) the Group and the joint venture partner's mutual intention on withholding enforcement of or otherwise discharge the Group's obligations under the shareholders' agreement to acquire the two remaining vessels will continue and remain unchanged; and (iv) the Group will 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 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 inappropriate, adjustments would have to be made to reflect the situation that assets may need to be realised at the amounts other than which they are currently recorded in the consolidated statement of financial position at as 31 December 2018. In addition, the Group may have to recognise further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Company using consistent accounting policies.

All intra-group balance, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Non-controlling interests are presented, separately from owners of the Company, in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position. The non-controlling interests in the acquiree, that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in event of liquidation, are measured initially either at fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. This choice of measurement basis is made on an acquisition-by-acquisition basis. Other types of non-controlling interests are initially measured at fair value, unless another measurement basis is required by HKFRSs.

5. REVENUE

Revenue represents the amount received and receivable for time charters:

	2018	2017
	HK$'000	*HK$'000*
Operating lease income		
Charter-hire income	**50,669**	15,797

The Group did not enter into any contracts with customers within HKFRS 15.

6. SEGMENT INFORMATION

The chief operating decision makers ("CODM") evaluate the performance of and allocate resources to operating segments based on the Group's internal reporting in respect of these segments. The Group's operating segments are structured and managed separately according to the nature of their businesses. The Group's reportable segments are as follows:

(a) Railway construction and operations

(b) Shipping and logistics

Segment results represent the results from each reportable segment without allocation of corporate income and expenses.

Year ended 31 December 2018	**Railway construction and operations**	**Shipping and logistics**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Segment revenue from external customers	**—**	**50,669**	**50,669**
Segment loss	**(72,118)**	**(31,110)**	**(103,228)**
Unallocated income			**57**
Change in fair value of contingent consideration payable			**4,228**
Change in fair value of derivative components of Convertible Notes			**(4)**
Change in fair value of options/commitment to issue Convertible Notes			**(16)**
Impairment loss on consideration receivable			**(9,750)**
Other unallocated corporate expenses			**(60,062)**
Loss for the year			**(168,775)**
Other segment information:			
Change in fair value of derivative components of GIC Convertible Bonds	**—**	**(12,939)**	**(12,939)**
Depreciation of property, plant and equipment *(Note)*	**(607)**	**(6,955)**	**(7,562)**
Finance costs *(Note)*	**(58,488)**	**(12,601)**	**(71,089)**
Reversal of impairment loss on property, plant and equipment	**—**	**9,000**	**9,000**
Share of results of joint venture	**—**	**(24,754)**	**(24,754)**

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)
Change in fair value of contingent consideration payable			(7,928)
Change in fair value of derivative components of Convertible Notes			(77)
Change in fair value of options/commitment to issue Convertible Notes			(261)
Other unallocated corporate expenses			(31,124)
Loss for the year			(97,403)
Other segment information:			
Depreciation of property, plant and equipment *(Note)*	(677)	(2,789)	(3,466)
Finance costs *(Note)*	(59,924)	—	(59,924)
Impairment loss on construction in progress	(13,898)	—	(13,898)
Impairment loss on railway construction prepayment	(72)	—	(72)
(Impairment loss) Reversal of impairment loss on property, plant and equipment	(20)	9,000	8,980
Share of results of joint venture	—	9,718	9,718

Note: Depreciation excluded from the measure of segment results during the years ended 31 December 2018 and 2017 amounted to approximately HK$1,286,000 and HK$1,101,000 respectively.

Finance costs excluded from the measure of segment results during the years ended 31 December 2018 and 2017 amounted to approximately HK$1,514,000 and HK$1,453,000 respectively.

	2018	2017
	HK$'000	*HK$'000*
Assets		
Railway construction and operations	**1,630,383**	1,708,459
Shipping and logistics	**223,999**	43,944
Segment assets	**1,854,382**	1,752,403
Unallocated corporate assets	**14,774**	15,771
Consolidated total assets	**1,869,156**	1,768,174
Liabilities		
Railway construction and operations	**1,789,895**	1,807,814
Shipping and logistics	**234,796**	120,748
Segment liabilities	**2,024,691**	1,928,562
Contingent consideration payable	**3,700**	7,928
Convertible Notes	**—**	3,036
Convertible Bonds	**12,152**	—
Other unallocated corporate liabilities	**16,007**	20,670
Consolidated total liabilities	**2,056,550**	1,960,196

Geographical information

Apart from the vessels, 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 results to specific geographical segments.

Information about major customers

Revenue from customers from shipping and logistics segment individually accounting for 10% or more of the revenue of the Group is as follows:

	2018	2017
	HK$'000	*HK$'000*
Customer A	**32,921**	—
Customer B	**9,429**	15,570
	42,350	15,570

7. LOSS BEFORE TAX

This is stated after charging (crediting):

	2018 *HK$'000*	2017 *HK$'000*
a) Finance costs:		
Interest on bank borrowings	**55,302**	54,925
Interest on other borrowings	**4,416**	6,444
Interest on Convertible Bonds *(Note 17)*	**283**	—
Interest on GIC Convertible Bonds *(Note 15)*	**12,601**	—
Interest on Convertible Notes	**1**	8
	72,603	61,377
b) Staff costs (including directors' remuneration):		
Employee benefits expense	**20,293**	16,192
Contributions to defined contribution plans	**1,569**	1,379
Equity-settled share-based payment expenses	**19,728**	—
	41,590	17,571
c) Other items:		
Auditor's remuneration		
Annual audit	**1,200**	950
Non-annual audit	**164**	675
Cost of sales *(Note)*	**39,173**	14,894
Depreciation of property, plant and equipment (charged to "cost of sales" and "administrative expenses", as appropriate)	**8,848**	4,567
Exchange loss (gain), net	**3,412**	(1,762)
Operating lease charges for premises	**2,312**	2,494

Note: Cost of sales includes depreciation of property, plant and equipment of approximately HK$6,955,000 (2017: HK$2,789,000) which amount is also included in the respective total amount disclosed separately in "depreciation of property, plant and equipment".

8. TAXATION

No provision for income tax has been made as the Group's entities either had no estimated assessable profits or incurred tax losses for the years ended 31 December 2018 and 2017.

9. DIVIDENDS

The directors do not recommend the payment of any dividend for the years ended 31 December 2018 and 2017.

10. LOSS PER SHARE

The calculation of the basic and diluted loss per share of the Company is based on the following data:

	2018	2017
	HK$'000	*HK$'000*
Loss attributable to owners of the Company	**(138,559)**	(62,004)
Weighted average number of ordinary shares for basic and diluted loss per share	**2,344,829,217**	1,464,329,953
Loss per share – basic and diluted (HK cents)	**(5.91)**	(4.23)

The weighted average number of ordinary shares for the year ended 31 December 2017 is calculated after adjustment for the share consolidation on 27 March 2017.

Diluted loss per share for the years ended 31 December 2018 and 2017 is the same as the basic loss per share as the average market price of the Company's shares in 2018 was lower than the conversion price of the GIC Convertible Bonds (as defined in Note 15) and the Convertible Bonds (as defined in Note 17) and the effect of the assumed conversion of the potential shares from exercising the Company's share options, conversion of the Convertible Notes and issue of the contingent consideration shares during both years is anti-dilutive.

11. CONSTRUCTION IN PROGRESS

	HK$'000
Cost	
As at 1 January 2017	1,875,798
Exchange realignment	131,672
As at 31 December 2017	2,007,470
Additions	4,199
Exchange realignment	(92,584)
As at 31 December 2018	**1,919,085**
Accumulated impairment losses	
As at 1 January 2017	300,286
Impairment loss	13,898
Exchange realignment	21,558
As at 31 December 2017	335,742
Exchange realignment	(15,439)
As at 31 December 2018	**320,303**
Carrying amount	
As at 31 December 2018	**1,598,782**
As at 31 December 2017	1,671,728

Construction in progress and railway construction prepayment represent railway construction costs and related prepaid construction costs (Note 12) of the Zunxiao Railway in the PRC. The construction in progress, the railway construction prepayment and related property, plant and equipment (collectively referred to as the "Railway Assets") have the carrying amount of approximately HK$1,605,184,000 as at 31 December 2018.

The construction work of the Zunxiao Railway has been suspended since July 2013 because the Group could not reach an agreement with the Mine Owner in respect of the compensation payable to the Mine Owner for the reserve of the mine together with relevant affected assets located at around the Tangcheng section of the Zunxiao Railway.

With continuous effort of the management of the Company, an agreement to jointly appoint independent valuers was entered into between Tangcheng Company and the Mine Owner in November 2018 in order to assess the volume and fair value of the reserve of the mine together with relevant affected assets, which will form a basis of the amount of the compensation payable to the Mine Owner. As at the date of these consolidated financial statements, the preliminary assessment of the volume of the mine conducted by the independent valuer was completed. The management of the Company is in discussion with the Mine Owner about the compensation amount of the overlaid mine.

The Group estimates the recoverable amounts of the Railway Assets as at 31 December 2018 with reference to a valuation performed by an independent professional valuer. The valuation of the Railway Assets is performed using the income approach. The income approach involves cash flows projections with unit transportation price, transportation volume and growth rates of unit transportation price and related costs as the key assumptions. The pre-tax discount rate used in estimating the fair value of the Railway Assets is 18% (2017: 17%).

Since the recoverable amount of the Railway Assets as at 31 December 2018 is approximately the same as their carrying amount, no further impairment loss or reversal of impairment loss for the year ended 31 December 2018 was considered necessary (2017: impairment loss of HK$20,000, HK$13,898,000 and HK$72,000 on property, plant and equipment, construction in progress and railway construction prepayment respectively).

12. RAILWAY CONSTRUCTION PREPAYMENT

	2018	2017
	HK$'000	*HK$'000*
Cost	**6,448**	10,491
Accumulated impairment losses		
As at 31 January	**(1,754)**	(1,569)
Impairment loss	**—**	(72)
Exchange realignments	**81**	(113)
As at 31 December	**(1,673)**	(1,754)
	4,775	8,737

13. TRADE AND OTHER RECEIVABLES

	Note	2018 HK$'000	2017 HK$'000
Trade receivables	*13(a)*	**345**	—
Other receivables			
Consideration receivable	*13(b)*	**9,850**	9,850
Amount due from Golden Concord		**23,682**	24,823
Others debtors		**4,021**	2,330
Deposits		**1,080**	936
Prepayments		**2,848**	1,049
		41,481	38,988
Less: Loss allowance on consideration receivable	*13(b)*	**(9,750)**	—
		31,731	38,988
		32,076	38,988

13(a) Trade receivables

As at 31 December 2018, all trade receivables aged within 6 months, based on the invoice date.

13(b) Consideration receivable

The balance represents the remaining consideration receivable from disposal of a former subsidiary of HK$100,000 (2017: HK$9,850,000) in 2014, net of impairment loss of HK$9,750,000 (2017: HK$Nil).

14. TRADE AND OTHER PAYABLES

	Note	2018 HK$'000	2017 HK$'000
Trade payables	*14(a)*	**2,392**	672
Other payables			
Accruals and other payables		**24,887**	19,114
Construction cost payables	*14(b)*	**126,303**	144,617
Receipts in advance		**1,087**	124
		152,277	163,855
		154,669	164,527

14(a) Trade payables

The credit period of trade payables is normally within 90 days (2017: 90 days). As at 31 December 2018, all (2017: all) trade payables aged within 30 days, based on the invoice date.

14(b) Construction cost payables

The construction cost payables are unsecured and repayable on demand, of which approximately HK$53,855,000 bear interest at rates ranged between 3.5% and 4.75% per annum. The remaining balances are interest-free.

15. GIC CONVERTIBLE BONDS

On 30 November 2017, the Company entered into a subscription agreement with GIC Investment Limited ("GIC"), an indirect wholly-owned subsidiary of GCL-Poly Energy Holdings Limited of which Mr. Zhu is a director and a substantial shareholder, pursuant to which the Company has conditionally agreed to issue, and GIC has conditionally agreed to subscribe for, convertible bonds in an aggregate principal amount of HK$100,000,000 (the "GIC Convertible Bonds"). The GIC Convertible Bonds bear 5.5% interest per annum and carry a right to convert the aggregate principal amount into conversion shares at the initial conversion price of HK$0.1701 per conversion share (subject to adjustments) during the period from eighteen months after 2 March 2018, the date on which the GIC Convertible Bonds were issued, and ending on 1 March 2021. The conversion price is subject to adjustment on the occurrence of dilutive or concentration event.

Both the Company and GIC have early redemption options at any time on or after two years from the issue date at an amount equal to the aggregate of 105.5% of the principal amount of the GIC Convertible Bonds and any outstanding interests and amounts due.

At initial recognition, the GIC Convertible Bonds are separated into a liability component, comprising straight debt component of the bonds, embedded derivatives (i.e. early redemption options by the Company and GIC) and an equity component representing the conversion options of the GIC Convertible Bonds. The early redemption options are separately recognised as derivative financial liabilities and are measured at fair value. The equity component is recognised in the convertible bonds reserve, whereas the liability component is recognised at amortised cost under non-current liabilities. The effective interest rate of the liability component on initial recognition is 22.59% per annum.

As at 31 December 2018, one of the vessels of the Group with carrying amount of HK$81,779,000 was pledged to GIC for the GIC Convertible Bonds.

The movements of liability component of the GIC Convertible Bonds are as follows:

	HK$'000
Nominal value of GIC Convertible Bonds issued	100,000
Issue costs apportioned to liability component	(1,222)
Derivative components as at the issue date at fair value *(Note 16)*	(2,218)
Equity component as at the issue date	(35,043)
Liability component as at the issue date at fair value	61,517
Imputed interest expenses	12,601
Payment of interest expenses	(2,788)
	9,813
As at 31 December 2018	71,330

16. DERIVATIVE COMPONENTS OF GIC CONVERTIBLE BONDS

	HK$'000
Issue of GIC Convertible Bonds *(Note 15)*	2,218
Fair value loss	12,939
As at 31 December 2018	15,157

The fair value of the derivative components of the GIC Convertible Bonds was estimated by an independent professional valuer using Binomial Option Pricing Model at the date of issue and at the end of the reporting period, which is catergorised as Level 3 fair value measurement.

The significant unobservable input used in the fair value measurement is the expected volatility of 44.51%.

As at 31st December 2018, if the expected volatility had been 10% higher/lower while all other variables were held constant, the Group's loss for the year would increase/decrease by approximately HK$552,000.

17. CONVERTIBLE BONDS

On 4 September 2018, the Company entered into a placing agreement (the "Placing Agreement") with VC Brokerage Limited (the "Placing Agent") pursuant to which the Company proposed to offer for subscription, and the Placing Agent agreed to procure not less than six placees to subscribe for, 3-year non-redeemable convertible bonds up to HK$46,000,000 (the "Convertible Bonds") on a best effort basis on the terms and subject to the conditions set out in the Placing Agreement.

The Convertible Bonds bear 2.5% interest per annum and carry a right to convert the aggregate principal amount into conversion shares at initial conversion price of HK$0.0932 per conversion share (subject to adjustment) during the period from the date of expiry of the period of twelve months after the issue date and ending on the third business day prior to the maturity date, the date falling on the third anniversary of the issue date (both days inclusive).

The conditions specified in the Placing Agreement (as revised and supplemented by the first supplemental agreement dated 3 October 2018 and second supplemental agreement dated 18 October 2018) have been fulfilled and the completion of the placing took place on 8 November 2018. A portion of the Convertible Bonds in the principal amount of HK$18,000,000 with the initial conversion price of HK$0.0932 was successfully placed to six placees. The effective interest rate of the liability component on initial recognition is 15.85% per annum.

As at 31 December 2018, one of the vessels of the Group with carrying amount of HK$81,908,000 was pledged to the holders of the Convertible Bonds.

The movements of liability component of the Convertible Bonds are as follows:

	HK$'000
Nominal value of Convertible Bonds issued	18,000
Issue costs apportioned to liability component	(560)
Equity component as at the issue date	(5,571)
Liability component as at the issue date at fair value	11,869
Imputed interest expenses	283
As at 31 December 2018	12,152

18. SHARE CAPITAL

	2018		2017	
	Number of shares	***HK$'000***	*Number of shares*	*HK$'000*
Issued and fully paid:				
As at 1 January	**1,525,780,526**	**1,608,309**	14,339,369,875	1,595,221
Shares issued on conversion of Convertible Notes before share consolidation	—	—	107,142,857	6,003
Share consolidation	—	—	(13,001,861,459)	—
Shares issued on conversion of Convertible Notes after share consolidation	—	—	81,129,253	7,085
Shares issued on placing, net of issue costs *(Note)*	**923,361,034**	**97,464**	—	—
Shares issued on conversion of Convertible Notes	**30,734,663**	**3,543**	—	—
As at 31 December	**2,479,876,223**	**1,709,316**	1,525,780,526	1,608,309

Note: On 23 February 2018, gross cash consideration of approximately HK$100,000,000 from issue of 923,361,034 ordinary shares by way of placing at a price of HK$0.1083 per share, net of issue costs of approximately HK$2,536,000, was credited to share capital account.

The shares issued rank pari passu in all respects among themselves and with other shares then in issue.

19. CAPITAL COMMITMENTS

	2018	2017
	HK$'000	*HK$'000*
Authorised and contracted for:		
— Railway construction and operations	**257,402**	279,879
— Shipping and logistics	**2,136**	—
	259,538	279,879

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

The auditor does not express an opinion in the draft independent auditor's report on the consolidated financial statements of the Group for the year ended 31 December 2018. 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

As a result of similar limitations of audit scope as mentioned below, a disclaimer of opinion was expressed by the predecessor auditor in its report dated 23 March 2018 on the consolidated financial statements of the Group for the year ended 31 December 2017.

(i) Impairment of non-current assets

Included in the consolidated statement of financial position as at 31 December 2017 are certain property, plant and equipment, construction in progress and railway construction prepayment (collectively referred to as the "Railway Assets") with carrying amounts of approximately HK$2,319,000, HK$1,671,728,000 and HK$8,737,000 respectively, which were arrived at after deducting impairment losses based on directors' assessment of approximately HK$624,000, HK$335,742,000 and HK$1,754,000 respectively.

As discussed in note 16 to the consolidated financial statements, the Directors have performed an impairment assessment on the Railway Assets as at 31 December 2018 based on a valuation performed by an independent professional valuer. As a result of the impairment assessment, no further impairment loss or reversal of impairment loss for the year ended 31 December 2018 was considered necessary. Despite we are satisfied with the Director's impairment assessment of the Railway Assets as at 31 December 2018, we were unable to obtain sufficient appropriate audit evidence to assess the adequacy and appropriateness of the Directors' impairment assessment as at 31 December 2017, which may have a significant impact on the financial position of the Group as at 31 December 2017, and on the financial performance and the elements making up the consolidated statement of cash flows of the Group for the year ended 31 December 2018.

(ii) Material uncertainty related to going concern

As at 31 December 2018, the Group had net current liabilities of approximately HK$1,903,679,000 (2017: HK$1,907,312,000) and net liabilities of approximately HK$187,394,000 (2017: HK$192,022,000). In addition, it incurred a loss of approximately HK$168,775,000 for the year ended 31 December 2018 (2017: HK$97,403,000). These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

The validity of the going concern assumption is dependent on the successful and favourable outcomes of the measures being taken by the Directors of the Company and the development of the events as described in note 4 to the consolidated financial statements. The directors of the Company are of the opinion that the Group would be able to continue as a going concern. Therefore, the consolidated financial statements have been prepared on a going concern basis.

We were unable to obtain sufficient appropriate audit evidence regarding the use of going concern assumption in the preparation of the consolidated financial statements. Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at the amounts other than which they are currently recorded in the consolidated statement of financial position at as 31 December 2018. In addition, the Group may have to recognise further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively.

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

In respect alone of the inability to obtain sufficient appropriate audit evidence in respect of the impairment assessment of the Railway Assets and the material uncertainty related to going concern as described in the "Basis for Disclaimer of Opinion" section of our report above, we have not obtained all the information or explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of the audit.

BUSINESS REVIEW

During the year under review, the Group together with its joint venture 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 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 the "Railway Companies"). The business scope of the Railway Companies consists of the construction and operation of a 121.7 kilometer single track railway (the "Zunxiao Railway") with 12 stations connecting two major municipalities in the Hebei Province (河北省), namely Tangshan City (唐山市) and Chengde City (承德市), in 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.

With a view to resuming the construction of the Zunxiao Railway, the management of the Company has visited the local governments to promote the settlement of the overlaid mine, express the Company's strong determination to the construction of the Zunxiao Railway, catch on the latest local economic conditions and policies and discussed with other shareholders of the Zunxiao Railway in respect of funding for the resumption of construction works.

As disclosed by the Company previously, the outstanding issue which caused the prolonged delay of the construction related mainly to the assessment of the scope of compensation payable to the overlaid mine owner (the "Mine Owner"). Upon various negotiations with the Mine Owner, the Group has achieved positive progress in the settlement of the overlaid mine issue. In the fourth quarter of 2018, the Group has entered into a joint appointment letter with the Mine Owner, pursuant to which, both parties have agreed to engage an independent valuer to assess the reserve of the iron ore, assets and value of the overlaid mine. Such assessment shall become a basis for determining the compensation amount payable to the Mine Owner in the future. As at the date of this announcement, the preliminary assessment of the volume of the mine conducted by the independent valuer was completed. The management of the Company is in discussion with the Mine Owner about the compensation amount of the overlaid mine.

* *for identification purposes only*

Shipping and Logistics

The Group started its shipping business in May 2010 through the joint venture company (the "JV Company" and together with its subsidiary, the "JV Group") and its own vessel owning and chartering business in November 2013 through acquisition of a Handysize bulk carrier, namely, MV Asia Energy. In early 2018, two additional Handysize bulk carriers, MV Clipper Selo and MV Clipper Panorama, were acquired by the Group.

The impact of the financial crisis on the global shipping market has gradually weakened. Although there was fluctuation in the Baltic Dry Index (BDI) which measures the demand for shipping capacity versus the supply of dry bulk, the shipping market during 2018 has recovered significantly from its record lows in February 2016 and charter rates for dry bulk vessels were maintained at a profitable level.

The JV Group

The JV Group currently owns two Handysize vessels with carrying capacity of approximately 35,000 DWT each operating in the China domestic shipping market.

Both JV vessels were under full employment throughout the year under review except for a short period of drylocking and the JV Group recorded revenue of approximately HK$80,416,000 (2017: approximately HK$79,360,000), representing an increase of approximately 1% as compared to 2017. The Group's share of loss from the JV Group was approximately HK$24,754,000 (2017: a share of profit of approximately HK$9,718,000).

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 shipping market conditions for the past few years, the JV Group has not made further acquisition of the remaining two vessels as planned. The Group discussed with its joint venture partner and reached a mutual understanding to withhold enforcement of or otherwise discharge the Group's financial obligations under the JV Agreement to acquire the two remaining vessels until the Group's financial position has improved and the shipping market recovers to a more sustainable level which justifies the further acquisition.

Own Vessels

The Group currently operates a fleet of three dry bulk carriers trading worldwide. The total carrying capacity of the Group's dry bulk fleet is approximately 92,000 DWT (2017: approximately 28,000 DWT), representing an increase of 229%.

The Company successfully acquired and took deliveries of MV Clipper Selo and MV Clipper Panorama in April 2018 and both were then chartered out and started generating revenue immediately after their deliveries.

MV Asia Energy was under full employment throughout the year under review, whilst MV Clipper Selo and MV Clipper Panorama have also been under full employment since their deliveries in April 2018 except a short period of drydocking.

For the year of 2018, the Group recorded a revenue of approximately HK$50,669,000 (2017: approximately HK$15,797,000), representing an increase of approximately 221% as compared to the year of 2017. The gross profit was approximately HK$11,496,000 (2017: approximately HK$903,000), representing an increase of approximately 1173% as compared to the year of 2017. The increase in both the revenue and gross profit were due to the increase in charter rate and the additional contribution made by the two newly acquired vessels immediately after their deliveries.

The performance of the Group's own vessels was satisfactory and has made positive contributions to the Group.

PROSPECTS

Railway Construction and Operations

During the first half of 2018, the State Council promulgated the Three-year Action Plan to Make the Skies Blue Again (《打贏藍天保衛戰三年行動計劃》) (hereinafter referred as the "Action Plan"). The Action Plan specified the fundamental objectives, major tasks and supporting measures for the air pollution control of the forthcoming three years.

The transportation structure will be optimized according to the Action Plan, with Beijing-Tianjin-Hebei Region and its surrounding areas as focus. In principle, highways are no longer available for the transportation of large-burden materials used in new construction, reconstruction and extension projects. The optimization on the cargo transportation structure mainly focuses on the transfer of highway transportation to railway for the commodities cargo. According to the Action Plan, it is anticipated that by 2020, the volume of railway freight will increase by 30% nationwide as compared with that of 2017, while the Beijing-Tianjin-Hebei Region and its surrounding areas will increase by 40%.

The construction of special railway lines for iron and steel and other key enterprises will be accelerated by fully deploying the special railway line capacity in place and substantially increasing the proportion of railway transportation. It is expected that the proportion of railway transportation will be more than 50% in the major areas by 2020. The management of the Company considered that above new policies will facilitate the restoration of the railway construction and bring more opportunities to railway transportation.

However, on 29 January 2019, the Board received a report from its indirect wholly-owned subsidiary, namely China Railway Logistic Holdings Limited ("China Railway"), which is the majority shareholder of the Railway Companies. The report from China Railway enclosed a copy of an urgent letter of request dated 28 January 2019 ("Letter of Request") jointly issued by the Railway Companies. In their Letter of Request, the Railway Companies requested China Railway to pay in February 2019 the proportional contribution to the anticipated increase of the respective registered capital of the Railway Companies in an aggregate amount of RMB417 million. The Board has carefully assessed the available resources of the Company and come to the view that the Company does not currently have sufficient resources to satisfy the abovementioned request of the Railway Companies within the prescribed timeframe. For this reason, the Board believes that there may be a need to restructure the equity interest the Company indirectly in the Railway Companies (the "Possible Restructuring") with the objective to preserve the interests of the Company in the Zunxiao Railway to the utmost extent. Although as at the date of this announcement, the structure and scale of the Possible Restructuring are yet to be developed and determined, if it were to materialize, the Possible Restructuring may involve the Company disposing of its indirect equity interest in each of the Railway Companies. The management of the Company has been taking and will continue to take proactive, appropriate and timely steps to explore and examine various feasible and suitable options for the Possible Restructuring to meet the requests under the Letter of Request.

Shipping and Logistics

China Dry Bulk Shipping Market: the PRC government has been focusing more attention to environmental protection, especially on reducing the pollution caused by road transportation. The introduction of the Chinese emission rules which aim at strengthening the control of emission reduction and the new national transportation policies of Road-to-Rail and Road-to-Sea to support the environmental protection will have a positive impact on China shipping market.

International Dry Bulk Shipping Market: the international dry bulk shipping sector is under-going a multi-year upcycle. The market fundamental looks good and dry bulk demand is benefiting from China's commodity imports. However, with the escalating trade war during the year, the shipping market has certainly been affected. The dry bulk shipping market has already been affected by the steel and aluminium tariffs and the shipping market could possibly be hit again if and when further tariffs come into force. The effect of the trade war has triggered uncertainty and could unsettle the much recovered shipping market.

Despite the uncertainties caused by the trade war and its potential adverse impact on the shipping market, the management of the Company expects that the Group's shipping and logistics business will not be significantly affected in the year 2019 as all three vessels are on charter contracts which will run until the end of the year 2019 or after.

The Group will continuously seek for suitable investment opportunities to expand its fleet size by acquiring vessels of similar or other carrying capacity.

FINANCIAL REVIEW

For the year ended 31 December 2018, the revenue of the Group was approximately HK$50,669,000, representing an increase of approximately 221% compared with the revenue of approximately HK$15,797,000 for the year ended 31 December 2017.

The loss after tax for the year ended 31 December 2018 was approximately HK$168,775,000, representing an increase of approximately 73% compared with the loss after tax of approximately HK$97,403,000 for the year ended 31 December 2017.

The increase 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 share based payment resulted from the grant of share options under the Company's share option scheme amounting to approximately HK$20,858,000 (2017: Nil); (ii) the increase in the share of loss of a joint venture of approximately HK$24,754,000 (2017: a share of profit of approximately HK$9,718,000); (iii) the adverse fair value change of derivative financial instruments based on the valuation of the GIC Convertible Bonds issued by the Company of approximately HK$12,939,000 (2017: Nil); and (iv) the increase in finance costs incurred for the Group's operations by approximately HK$11,226,000, from approximately HK$61,377,000 in 2017 to approximately HK$72,603,000 in 2018.

The basic and diluted loss per share of the Company for the year under review was HK5.91 cents (2017: HK4.23 cents).

Liquidity, Financial Resources and Gearing Ratio

The Group is mainly financed by various borrowings, shareholders' equity and internally generated cash flows.

As at 31 December 2018, the Group had bank and cash balances of approximately HK$18,456,000 (2017: approximately HK$5,968,000).

As at 31 December 2018, the Group had guaranteed bank loans of approximately HK$922,151,000 (2017: approximately HK$1,086,228,000) repayable within one year. The effective interest rate for the year was 4.9% (2017: 4.9%) per annum.

As at 31 December 2018, the Group had unsecured other borrowings of approximately HK$725,632,000 (2017: approximately HK$571,047,000) repayable within one year or on demand. Other borrowings of approximately HK$34,524,000 (2017: approximately HK$40,795,000) are interest bearing at 1.0% to 8.0% (2017: 1.5% to 8.0%) per annum while the remaining balances of HK$691,108,000 (2017: HK$530,252,000) are interest-free.

The gearing ratio of the Group as at 31 December 2018, which is calculated as net debt (i.e total liabilities less bank balance and cash) divided by adjusted capital (net debt less total deficits), was approximately 110% (2017: approximately 111%).

Share Capital

During the year, convertible notes in the principal amount of HK$3,500,000 were converted into 30,734,663 shares of the Company (the "Shares") and no new Shares were issued upon the exercise of share options granted under the Company's share option schemes. On 23 February 2018, a total of 923,361,034 Shares were allotted and issued pursuant to a placing agreement dated 30 November 2017.

As at 31 December 2018, there were 2,479,876,223 Shares in issue (2017: 1,525,780,526 Shares).

Pledge of Assets and Contingent Liabilities

Golden Concord Holdings Limited ("GCL") had provided a guarantee to a bank in respect of the bank borrowings facilities, in aggregate, up to approximately RMB1,033 million (equivalent to approximately HK$1,179 million), granted to certain non-wholly owned subsidiaries of the Company in the PRC. In return for GCL's guarantee, the Group provided a counter-indemnity to indemnify GCL to the extent of the percentage of equity interest held by the Group in each of the subsidiaries of up to approximately RMB602 million (equivalent to approximately HK$687 million) and a share mortgage of its shares in China Railway, an indirect wholly-owned subsidiary of the Company, and equity and asset pledges of China Railway's subsidiaries in favour of GCL. As at 31 December 2018, the outstanding bank borrowings amounted to approximately RMB807,990,000 (equivalent to approximately HK$922,151,000) and therefore, according to the Group's percentage equity interest holdings in the subsidiaries, the amount indemnified by the Group under the counter-indemnity in favour of GCL would be up to approximately RMB470 million (equivalent to approximately HK$536 million).

Capital Commitments

As at 31 December 2018, the Group had capital commitment of approximately HK$259,538,000 (31 December 2017: approximately HK$279,879,000).

Exposure to Fluctuation in Exchange Rates

The Group's assets, liabilities and transactions are mainly denominated either in US dollars, Hong Kong dollars or Renminbi. As the exchange rate of the US dollars to Hong Kong dollars is relatively stable due to the Hong Kong dollars is pegged to the US dollars, the Directors consider that the Group's currency exchange risk is within acceptable range. Therefore, no hedging devices or other alternatives have been implemented.

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$2.5 million (2017: HK$12.5 million) was subscribed by and issued to the Subscriber and approximately HK$2.5 million (2017: HK$11.6 million) (net of arrangement fee) was raised which had been applied towards the general working capital. In January 2018, Convertible Notes of the Tranche 2 Notes in the principal amount of HK$3.5 million were converted into 30,734,663 Shares. On 8 May 2018, Convertible Notes of the

Tranche 2 Notes in the remaining principal amount of HK$2.0 million were redeemed in full together with the interest accrued thereon. Upon completion of the redemption, the Company and the Subscriber were released from their respective obligations under the terms of the Tranche 2 Notes.

As at 31 December 2018, there was no outstanding Convertible Notes which may be subscribed, issued and converted.

Placing of Shares

On 30 November 2017, the Company entered into a placing agreement (the "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 "Placing").

On 26 January 2018, the Placing was duly approved by passing an ordinary resolution of the Company by the shareholders. The conditions precedent specified in the Placing Agreement had been fulfilled and the completion of the Placing took place on 23 February 2018.

Convertible Bonds

(1) GIC 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 with a term of 3 years (the "GIC Convertible Bonds").

On 26 January 2018, the resolution approving the CB Agreement and the transaction contemplated thereunder was duly passed as an 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.

(2) Convertible Bonds

On 4 September 2018, the Company entered into a placing agreement (the "CB Placing Agreement") with the placing agent, VC Brokerage Limited ("VCB"), pursuant to which the Company had proposed to offer for subscription, and VCB had agreed to procure not less than six placees to subscribe for the convertible bonds in the aggregate principal amount of HK$46 million for a term of 3 years (the "Convertible Bonds"), on a best effort basis, on the terms and subject to the conditions set out in the CB Placing Agreement (the "CB Placing"). Based on the initial conversion price of HK$0.0932 per Share, a total of 493,562,231 conversion shares ("Conversion Shares") will be allotted and issued upon exercise of the conversion rights in full of the Convertible Bonds, under the general mandate of the Company granted by the shareholders at the annual general meeting ("AGM") held on 17 May 2018.

As the Company and VCB contemplated that further time would be required to satisfy or fulfill the condition precedent to the CB Placing Agreement, on 3 October 2018, both parties had entered into a supplemental agreement to the CB Placing Agreement to extend the long stop date of the CB Placing from 3 October 2018 to 18 October 2018, whilst all other terms in the CB Placing Agreement remained unchanged.

In light of the unfavorable market conditions subsequent to the entry into by the parties of the CB Placing Agreement, on 18 October 2018, the Company and VCB, upon taking into account the progress of the CB Placing, had entered into a second supplemental agreement to further extend the long stop date from 18 October 2018 to 1 November 2018 so as to allow VCB more time to soliciting potential subscribers of the Convertible Bonds, and to revise the denomination of the Convertible Bonds from HK$1,000,000 each to HK$500,000 each upon their respective issue at closing.

On 8 November 2018, the Company announced that the conditions precedent specified in the CB Placing Agreement (as revised and supplemented by the supplemental agreement dated 3 October 2018 and the second supplemental agreement dated 18 October 2018) had been fulfilled and the closing took place on 8 November 2018. A portion of the Convertible Bonds in the principal amount of HK$18 million with the initial conversion price of HK$0.0932 had been successfully placed to six placees, who are independent third parties to the Company.

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.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the best of knowledge of the Directors, the percentage of the Shares in the public's hands exceeded 25% throughout the year as required under the Listing Rules.

DIRECTORS' VIEW ON THE INDEPENDENT AUDITOR'S OPINION

In the course of preparing the consolidated financial statements for the year ended 31 December 2018 (the "Consolidated Financial Statements"), the Company had engaged an independent professional valuer to assess the recoverable amounts of the Railway Assets adopting value in use calculations. The Directors have performed an impairment assessment on the Railway Assets as at 31 December 2018 based on the valuation performed by the independent professional valuer and considered that no further impairment loss or reversal of impairment loss for the year ended 31 December 2018 was necessary. Despite the auditor is satisfied with our impairment assessment of the Railway Assets as at 31 December 2018, the auditor was unable to obtain sufficient appropriate audit evidence to assess the adequacy and appropriateness of the Directors' impairment assessment as at 31 December 2017, which may have significant impact on the financial position of the Group as at 31 December 2017, and on the financial performance and the elements making up the consolidated statement of cash flows of the Group for the year ended 31 December 2018. In addition, as at 31 December 2018, the Group had net current liabilities of approximately HK$1,904 million (2017: approximately HK$1,907 million) and net liabilities of approximately HK$187 million (2017: approximately HK$192 million) and recorded a loss of approximately HK$168.8 million (2017: approximately HK$97.4 million) for the year ended 31 December 2018, these conditions indicated the existence of a material uncertainty on the Group's ability to continue as a going concern. As a result, the auditor has expressed disclaimer of opinion on the impairment of non-current assets and the Company's going concern in the Consolidated Financial Statements.

Under the section headed "Business Review — Railway Construction and Operations" in this announcement, it is disclosed that, among other things, after numerous negotiations, in the fourth quarter of 2018, the Company has entered into a joint appointment letter with the Mine Owner, pursuant to which, both parties have agreed to engage professional valuer(s) in assessing the reserve of iron ore, assets and value of the overlaid mine. Such assessment shall form a basis for discussion between the parties with a view to reaching an agreement on the compensation amount payable to the Mine Owner. As at the date of this announcement, the preliminary assessment of the volume of the mine conducted by the independent valuer was completed. The management of the Company is in discussion with the Mine Owner about the compensation amount of the overlaid mine. Once the overlaid mine issue has been resolved, the Company is optimistic that the construction work could be resumed as soon as practicable provided that the Group has sufficient financial resources in financing the construction works of the Zunxiao Railway.

As announced by the Company on 30 January 2019, the Board has received a Letter of Request from China Railway, which is the majority shareholder of the Railway Companies requesting for proportional contribution to the anticipated increase of the respective registered capital of the Railway Companies in an aggregate amount of RMB417 million, RMB258 million of which has to be paid on 3 February 2019 whilst the remaining balance of RMB159 million by end of February 2019. Having carefully assessed the available resources of the Company, the Board has formed a view that the Group does not have sufficient financial resources to satisfy the aforesaid request of the Railway Companies within the prescribed timeframe. Accordingly, the Board believes that there may be a need of the Possible Restructuring with the objective to preserve the interests of the Company in the Zunxiao Railway to the utmost extent.

The management of the Company has been in active negotiations with the Railway Companies in relation to their funding requirements and exploring feasible and suitable options for the Possible Restructuring, which may involve the Company disposing of its indirect equity interests in the Railway Companies. Up to the date of this announcement, no feasible plan for the Possible Restructuring has been substantiated.

In view of the positive progress on discussion in reaching a settlement with the Mine Owner for the overlaid mine issue and the possibilities in pursuing the Possible Restructuring, the Board believes that the outstanding issues of the Zunxiao Railway could be resolved as soon as practicable, whilst through the Possible Restructuring or fund raising exercises, the Group would be able to relief its financial obligations under its railway operations and obtain additional financial resources in pursuing other business opportunities and fulfilling the operational needs.

As to the Company's going concern, the Company entered into a memorandum of understanding with GCL on 19 April 2018 whereby GCL has agreed to provide all necessary support to the Railway Companies in their negotiation with the bank for an extension of the repayment date of the entire or partial amount of the bank loans due on 31 December 2018. By end of December 2018, the Group has successfully reached an agreement on the extension of repayment date with the bank for a further one year period to 31 December 2019. With such extension, the Company would keep on exploring possibilities in fund raising during 2019 and considers that it would be able to address the disclaimer opinion on the Company's going concern by end of 2019.

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 the Appendix 14 (Corporate Governance Code and Corporate Governance Report (the "CG Code")) to the Listing Rules.

Throughout the year ended 31 December 2018, the Company has complied with the applicable CG Code and principles, 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 ("EDs"). 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 ("INEDs") and other non-executive Directors ("NEDs") should attend the general meetings of the Company. Mr. Wong Cheuk Bun, an INED, did not attend the general meeting of the Company held on 26 January 2018 due to a pre-arranged business engagement. Mr. Yu Baodong, the Chairman and a NED did not attend the AGM of the Company held on 17 May 2018 due to prior business engagement.

Code Provision D.2.1

Code provision D.2.1 stipulates that where Board committees are established to deal with matters, the Board should give them sufficiently clear terms of reference (the "TOR") to enable them to perform their functions properly. The executive committee of the Company (the " Executive Committee") was established in April 2018, comprising at least two EDS as members, with an aim to providing business strategies, the Company's future directions and related issues, advising on all commercial matters and operations of the Group and making recommendations to the Board for approval. The Executive Committee's TOR was approved by the Board, subsequent to its establishment, on 17 August 2018 and further amended on 13 November 2018.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") as the Company's code of conduct for dealings in securities of the Company by the Directors. Having made specific enquiry, all current Directors confirmed that they have complied with the Model Code throughout the year ended 31 December 2018.

DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 December 2018 (2017: Nil).

SCOPE OF WORK OF MAZARS CPA LIMITED

The figures in respect of this announcement of the Group's consolidated statement of comprehensive income and financial position and the related notes thereto for the year ended 31 December 2018 have been agreed by the Group's auditor, Mazars CPA Limited ("Mazars"), to the amounts set out in the Group's draft Consolidated Financial Statements for the year. The work performed by Mazars 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 Mazars on this announcement.

AUDIT COMMITTEE

The Company has an audit committee (the "Audit Committee") which was established with written TOR 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 INEDs of the Company, namely, Mr. Chan Chi Yuen (Chairman), Mr. Wong Cheuk Bun and Mr. Wong Yin Shun.

The Consolidated Financial Statements of the Group for the year ended 31 December 2018 have been reviewed by the Audit Committee.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The AGM of the Company will be held at Holiday Inn Express Hong Kong Soho, 38/F., No. 83 Jervois Street, Sheung Wan, Hong Kong on Monday, 27 May 2019 at 11: 30 a.m. A circular containing, inter alia, the information required by the Listing Rules concerning (1) the grant of general mandates to repurchase Shares and to issue new Shares; (2) the re-election of retiring Directors; and (3) refreshment of scheme mandate limit of the Company's share option scheme together with the notice of the AGM, will be published and despatched to the shareholders in the manner as required by the Listing Rules on or before 12 April 2019.

For the purpose of determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 21 May 2019 to Monday, 27 May 2019 (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 AGM, 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 Monday, 20 May 2019.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (http://www.hkex.com.hk) and the Company (https://www.aelg.com.hk). The annual report of the Company for the year ended 31 December 2018 will be despatched to the shareholders and made available for review on the same websites on or before 12 April 2019.

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

Hong Kong, 28 March 2019

As at the date of this announcement, the executive directors of the Company are Mr. Liang Jun, Mr. Fu Yongyuan and Mr. Wu Jian; 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. Wong Cheuk Bun and Mr. Wong Yin Shun.