亞洲能源物流

ASIA ENERGY Logistics

亞洲能源物流集團有限公司

ASIA ENERGY LOGISTICS GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

Stock Code : 351

Carrying the World's Future

Annual Report 2016

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Liang Jun
Mr. Fung Ka Keung, David
Mr. Fu Yongyuan
(appointed on 6 July 2016)
Mr. Lin Wenqing
(appointed on 12 July 2016)

Non-Executive Director

Mr. Yu Baodong *(Chairman)*

Independent Non-Executive Directors

Mr. Chan Chi Yuen
Professor Sit Fung Shuen, Victor
Mr. Siu Miu Man
(appointed on 15 August 2016)

COMPANY SECRETARY

Ms. Ho Pui Man

AUDIT COMMITTEE

Mr. Chan Chi Yuen *(Chairman)*
Professor Sit Fung Shuen, Victor
Mr. Siu Miu Man

REMUNERATION COMMITTEE

Mr. Chan Chi Yuen *(Chairman)*
Mr. Liang Jun
Mr. Siu Miu Man

NOMINATION COMMITTEE

Mr. Yu Baodong *(Chairman)*
Mr. Chan Chi Yuen
Mr. Siu Miu Man

PRINCIPAL BANKER

OCBC Wing Hang Bank Ltd.

AUDITOR

BDO Limited

SHARE REGISTRAR

Tricor Secretaries Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Room 2404, 24/F
Wing On Centre
111 Connaught Road Central
Hong Kong

HONG KONG STOCK EXCHANGE STOCK CODE

351

WEBSITE

www.aelg.com.hk

BUSINESS REVIEW AND PROSPECTS

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

Railway Construction and Operations

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

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

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.

* English name for identification purposes only

Management Discussion and Analysis

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 Annual Report. The Company will continue to work hard on resolving the overlaid mine issue and will publish further announcement as and when appropriate.

Shipping and Logistics

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

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

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

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

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

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

Apart from the dry bulk shipping industry, the Company has also been exploring business opportunities in the heavy lift vessel industry. On 8 February 2017, GPO Grace (Hong Kong) Limited (the "Vessel Purchaser"), an indirectly wholly-owned subsidiary of the Company, entered into a memorandum of agreement (the "Memorandum of Agreement") with GPO Grace Limited (the "Vessel Vendor"), a company incorporated in the Marshall Islands, for the acquisition (the "Acquisition") of a new 65,000 DWT semi-submersible heavy lift vessel (the"Vessel") under construction in Taiwan. The consideration for the Acquisition of US$103.3 million (equivalent to approximately HK$803.67 million) (the "Acquisition Consideration") shall be settled by the Vessel Purchaser in such manner as stated in the Memorandum of Agreement. The Acquisition constitutes a very substantial acquisition for the Company under the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and is therefore subject to, including but not limited to, the approval of the shareholders of the Company (the "Shareholder(s)"). The approval of the Shareholders in respect of the Acquisition has been obtained at the general meeting of the Company held on 24 March 2017.

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

Details of the Acquisition are set out in the section headed "Subsequent Events" on pages 9 to 10 of this Annual Report and the circular of the Company dated 8 March 2017 and the details of the business segment of the Group are set out in Note 7 to the consolidated financial statements.

FINANCIAL REVIEW

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

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

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

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

Management Discussion and Analysis

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 2016, the Group had bank and cash balances of approximately HK$7 million (2015: approximately HK$31 million).

As at 31 December 2016, the Group had unsecured bank loan of HK$Nil (2015: HK$4 million) repayable within one year and secured bank loans of approximately HK$56 million (2015: approximately HK$283 million) repayable within one year, approximately HK$1,015 million (2015: approximately HK$283 million) repayable within one to two years, approximately HK$Nil (2015: approximately HK$607 million) repayable within two to five years. The effective interest rate for the year was 6.97% (2015: 6.96%) per annum.

As at 31 December 2016, the Group had unsecured other borrowings of approximately HK$8 million (2015: approximately HK$181 million) repayable within one year and approximately HK$404 million (2015: approximately HK$150 million) repayable on demand. Other borrowings of approximately HK$31 million (2015: approximately HK$205 million) are interest bearing at 6.5% to 8.0% (2015: 6.47% to 20.4%) per annum with the remaining balances of HK$381 million (2015: HK$125 million) interest free.

The gearing ratio of the Group as at 31 December 2016, which is calculated as net debt divided by total capital, was approximately 106% (2015: approximately 84%).

Share Capital

As at 31 December 2016, there were 14,339,369,875 Shares in issue (2015: 14,159,265,469 Shares). During the year under review, convertible notes in the principal amount of HK$7,250,000 were converted into 180,104,406 Shares and no new shares were issued upon the exercise of share options granted under the Company's share option scheme. Details of the convertible notes of the Company are set out in the section headed "Fundraising Activities" and "Subsequent Events" of this Annual Report.

Details of the movement in the Company's share capital are set out in Note 27 to the consolidated financial statements.

Pledge of Assets and Contingent Liabilities

Golden Concord Holdings Limited ("GCL") had provided a guarantee to a bank in respect of the bank loan facilities, in aggregate, up to RMB1,033 million (equivalent to approximately HK$1,155 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$673 million) and a share mortgage of its shares in China Railway Logistic Holdings Limited ("CRL"), an indirect wholly-owned subsidiary of the Company, and equity and asset pledges of CRL's subsidiaries in favour of GCL. As at 31 December 2016, the outstanding bank loans amounted to approximately RMB958 million (equivalent to approximately HK$1,071 million) 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 RMB559 million (equivalent to approximately HK$624 million).

Capital Commitments

As at 31 December 2016, the Group had capital commitment of approximately HK$262 million (31 December 2015: approximately HK$279 million), details of which are set out in Note 30 to the consolidated financial statements.

Exposure to Fluctuation in Exchange Rates

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

RISK MANAGEMENT

The Group recognises that capital risk is a key risk area that the Group exposed to. The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustment to the capital structure in light of changes in economic conditions.

For the financial risks such as are credit risk, liquidity risk, interest rate risk, currency risk and equity price risk arising from movements in its own equity share price and the fair value changes of its trading securities, the Group currently does not have a hedging policy. The management of the Company will monitor the situation and will consider to adopt hedging policy should the need arise. Furthermore, the Group's financial management policies and practices help to manage the financial risks. Further details about these financial risks are set out in Note 35 to the consolidated financial statements.

The main source of income of the Group was derived from its shipping business. Therefore, the Group is exposed to shipping market fluctuation risk where any drastic downturn in shipping market will have an adverse effect on the Group's revenue. As a way of minimizing the effect of shipping market fluctuation on the Group's revenue, the management of the Company is constantly monitoring the shipping market condition with a view to signing longer-term hire contract as and when the hire rate rises to an acceptable level.

As our MV Asia Energy trades internationally, it is required that the operation of the vessel shall comply with the requirement of international conventions as well as various rules and regulations of different port states. In an effort to minimize the impact of any non-compliance on the Group's business operation, the management of the Company liaises closely with ship management company and officers onboard to ensure the strict compliance with all the requirement. In cases where there are changes made to the regulatory policies, in particular, those policies related to environmental issues, the management of the company will ensure that the ship management company and officers on board are fully informed.

Management Discussion and Analysis

Fundraising Activities

On 16 January 2015, the Company entered into a subscription agreement which was supplemented and amended by a supplemental agreement dated 12 February 2015 (collectively, the "Subscription Agreement") with Advance Opportunities Fund (the "Subscriber") and its authorized representative, Advance Capital Partners Pte. Ltd. ("ACP"), pursuant to which the Company agreed to issue and the Subscriber agreed to subscribe for the convertible notes (the "Convertible Notes") in 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. On the same date, the Company notified the Subscriber of its intention to exercise the option to require the Subscriber to subscribe for the Tranche 2 Notes from the Company.

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

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

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2016, the Group had 96 (2015: 97) full-time employees, 79 of whom were based in the PRC. Staff costs (including director's remuneration) of the Group for the year ended 31 December 2016 were approximately HK$19.2 million. The Group decides the remunerations and compensation payable to its staff based on their duties, working experience and the prevailing market practices. Apart from basic remuneration, share options may be granted to eligible employees by reference to the performance of the Group and individual employees. The Group also participated in an approved Mandatory Provident Fund Scheme for its Hong Kong employees and made contributions to the various social insurance funds for its PRC employees.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Company is committed to environmental protection and sustainable development through the adoption and promotion of green policies in its business operations to increase staff's awareness on environmental protection and energy conservation. Information on the environmental policies and performance of the Group is set out in the section headed "Environmental, Social and Governance Report" on pages 35 to 42 of this Annual Report.

SUBSEQUENT EVENTS

Conversion of Convertible Notes

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

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

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

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

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

(1) Share consolidation

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

(2) Acquisition of the Vessel

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

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

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

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

(3) Placing

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

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

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

At the general meeting of the Company held on 24 March 2017, ordinary resolutions have been passed by the Shareholders for the approval of the Share Consolidation, the Acquisition and the Placing. The Share Consolidation will become effective from 27 March 2017.

Resignation of Executive Director

On 14 February 2017, Mr. Tse On Kin resigned as the executive director (the "Executive Director") of the Company.

EXECUTIVE DIRECTORS

Mr. Liang Jun ("Mr. Liang")

Mr. Liang, aged 50, has been an Executive Director since 12 June 2006 and is a member of the remuneration committee (the "Remuneration Committee") of the Company. Previously, he was the chairman (the "Chairman") of the Company until he resigned from such position on 26 January 2010. Mr. Liang has over 20 years of experience in business development in China. He graduated from Tong Ji University (previously known as Tie Dao University of Shanghai) with a bachelor degree in Telecommunications Engineering.

Mr. Fung Ka Keung, David ("Mr. Fung")

Mr. Fung, aged 53, has been an Executive Director since 26 January 2010. He holds a master degree in Business Administration from the University of Leicester. Mr. Fung possesses more than 25 years of experience in accounting and finance, and is currently the assistant vice president of Golden Concord Holdings Limited as well as an independent non-executive director of Vongroup Limited (Stock Code: 318), a company listed on the main board (the "Main Board") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Fung is a fellow member of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr. Fu Yongyuan ("Mr. Fu")

Mr. Fu Yongyuan, aged 60, has been an Executive Director since 6 July 2016. Mr. Fu is a marine engineer and an economist for the shipping management. He graduated from Guangdong Province Economics Management Institute majoring in Industrial Economic Management and has over 40 years of experience in shipping and freight management. For two decades from 1972 to 1992, Mr. Fu served in the COSCO System including 廣州遠洋運輸公司 (COSCO Guangzhou). His responsibilities ranged from management of freight to vessel chartering operations.

Mr. Fu was an executive director of Titan Petrochemicals Group Limited (Stock Code: 1192), a company listed on the Main Board, from 3 July 2012 to 30 September 2015.

Mr. Lin Wenqing ("Mr. Lin")

Mr. Lin Wenqing, aged 37, has been an Executive Director since 12 July 2016. Mr. Lin is a certified lawyer in the People's Republic of China (the "PRC"). He holds a bachelor degree in Law from Sun Yat-Sen University and University of Warwick in the United Kingdom. He is currently a member of the Committee of Internal and Judicial Affairs to the Standing Committee of Shenzhen Municipal People's Congress. Mr. Lin has over 10 years of experience in corporate legal affairs and corporate management. He also has extensive exposure to corporate finance and security and asset management.

Mr. Lin is currently the director of Yunnan Biovalley Medicines Co. Ltd (Stock Code: 833266), a company listed on the National Equities Exchange and Quotations in the PRC. He is also the managing director of Shenzhen FENO Capital Investment Co. Ltd. and the executive director of Shenzhen Liandao Capital Management Co. Ltd.

Prior to being appointed as the Executive Director, Mr. Lin was a consultant to the Jurisino Law Group, a law firm based in the PRC, and he was a vice president of Shenzhen Jiangshajiang Investment Co. Ltd. from year 2008 to 2014.

Directors' Profile

NON-EXECUTIVE DIRECTOR

Mr. Yu Baodong (Chairman) ("Mr. Yu")

Mr. Yu, aged 53, has been a non-executive director (the "Non-Executive Director") of the Company since 31 March 2009 and the Chairman since 26 January 2010. Mr. Yu is also the chairman of the nomination committee (the "Nomination Committee") of the Company. He has over 10 years of experience in project investment and corporate management. He holds a master degree in Economics from the People's University of China and a doctorate degree in Economics from the Wuhan University. Mr. Yu was an executive director of GCL-Poly Energy Holdings Limited (Stock Code: 3800) from November 2006 to September 2014 and a non-executive director of GCL New Energy Holdings Limited (Stock Code: 451) from May 2014 to February 2015. Both companies are listed on the Main Board.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Chi Yuen ("Mr. Chan")

Mr. Chan, aged 50, has been an independent non-executive director (the "Independent Non-Executive Director") of the Company since 30 September 2004. He is the chairman of both the audit committee (the "Audit Committee") and the Remuneration Committee of the Company. He is also a member of the Nomination Committee.

Mr. Chan holds a bachelor degree with honours in Business Administration and a master of science degree with distinction in Corporate Governance and Directorship. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and the Institute of Chartered Accountants in England and Wales. Mr. Chan is a practising certified public accountant and has extensive experience in financial management, corporate development, corporate finance and corporate governance.

Mr. Chan is currently an executive director of Noble Century Investment Holdings Limited (Stock Code: 2322), Royal Century Resources Holdings Limited (formerly known as Kate China Holdings Limited) (Stock Code: 8125) and e-Kong Group Limited (Stock Code: 524). Mr. Chan is also an independent non-executive director of New Times Energy Corporation Limited (Stock Code: 166), China Baoli Technologies Holdings Limited (formerly known as Rex Global Entertainment Holdings Limited) (Stock Code: 164), Jun Yang Financial Holdings Limited (Stock Code: 397), Media Asia Group Holdings Limited (Stock Code: 8075), U-RIGHT International Holdings Limited (Stock Code: 627), Leyou Technologies Holdings Limited (Stock Code: 1089) and Affluent Partners Holdings Limited (formerly known as Man Sang Jewellery Holdings Limited) (Stock Code: 1466).

Mr. Chan was an executive director of South East Group Limited (now known as China Minsheng Drawin Technology Group Limited) (Stock Code: 726) from December 2013 to July 2015, Co-Prosperity Holdings Limited (Stock Code: 707) from December 2014 to October 2015 and an independent non-executive director of China Sandi Holdings Limited (Stock Code: 910) from September 2009 to July 2014, all of which are listed either on the Main Board or GEM Board.

Professor Sit Fung Shuen, Victor ("Prof. Sit")

Prof. Sit, aged 69, has been an Independent Non-Executive Director since 7 June 2010. He is a member of the Audit Committee. Prof. Sit has obtained a Ph.D. from the London School of Economics and Political Science, United Kingdom. He is a founding director of the Advanced Institute for Contemporary China Studies of Hong Kong Baptist University and has also been invited to be the Honorary Professor of a number of renowned universities including Peking University, Zhongshan University, Jinan University and Xian Jiaotung University in the PRC. He had been a Professor of the Department of Geography of The University of Hong Kong from 1977 to 2007 and was the Head of Department of Geography and Geology of The University of Hong Kong from 1993 to 1998.

Prof. Sit is currently a member of both the City Planning Commission of Shenzhen Municipal Government of the PRC and Sanmin Municipal Government of Fujian Province of the PRC and the senior advisor to China Airport Synergy Investment Limited. Prof. Sit had also assumed the posts of Deputy to the National People's Congress of the PRC from 1993 to 2008 and Advisor to the Governor of Guangdong Province of the PRC from 2000 to 2005. He was formerly a member of the Preparatory Committee of the Hong Kong Special Administrative Region ("HKSAR") of the National People's Congress of the PRC, Port and Marine Board of the HKSAR Government, Committee on Port and Harbour Development and the Port Development Board of the HKSAR Government.

Prof. Sit is currently an independent non-executive director of FDG Kinetic Limited (formerly known as CIAM Group Limited) (Stock Code: 378), a company listed on the Main Board.

Mr. Siu Miu Man ("Mr. Siu")

Mr. Siu, aged 59, has been an Independent Non-Executive Director and a member of the Audit Committee, the Remuneration Committee and the Nomination Committee since 15 August 2016. He holds a Master of Science Degree in Electronic Commerce from the Hong Kong Polytechnic University and he is a Registered Professional Engineer, a Registered Professional Surveyor and an Authorized Person by qualification under the Building Ordinance (Chapter 123 of the Laws of Hong Kong). In addition, Mr. Siu is a corporate member of the Chartered Institute of Arbitrators, the Royal Institution of Chartered Surveyors, the Hong Kong Institute of Surveyors and the Hong Kong Institution of Engineers.

Mr. Siu is currently the Vice President of the Association of Hong Kong Professionals, the Honorary President of the Hong Kong Kowloon City Industry and Commerce Association, the Chairman of the Building Healthy Kowloon City Association and the Vice President of the Hong Kong Real Property Federation. He is actively participating in public affairs and charitable activities.

Mr. Siu is currently an independent non-executive director of Value Convergence Holdings Limited (Stock Code: 821) and Sheung Yue Group Holdings Limited (Stock Code: 1633). He has also served in many public listed companies as senior management and has over 25 years of managerial experience in general management, commerce, banking, finance, real estate development and construction business. He is currently a director of a consultancy firm, an engineering firm and an electronic manufacturing company.

Directors' Report

The Board is pleased to present this Annual Report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

The Company is a public company incorporated in Hong Kong with limited liability. The Company acts as an investment holding company. The principal activities and other particulars of its principal subsidiaries are set out in Note 17 to the consolidated financial statements. The analysis of segment information of the Group during the financial year is set out in Note 7 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2016 are set out in the section headed "Consolidated Statement of Comprehensive Income" on page 48 of this Annual Report. The Directors did not recommend the payment of a final dividend for the year ended 31 December 2016.

A summary of the published results, assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements is set out on page 112 of this Annual Report. This summary does not form part of the audited consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the section headed "Consolidated Statement of Changes in Equity" on page 51 of this Annual Report and Note 38 to the consolidated financial statements, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company did not have any reserves available for distribution to Shareholders as calculated in accordance with the provisions of section 297 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company are set out in Note 27 to the consolidated financial statements.

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.

BANK LOANS AND OTHER BORROWINGS

Particulars of the Group's bank loans and other borrowings are set out in Note 22 to the consolidated financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

The Group's largest supplier contributed 65% to the Group's total purchases of the year under review and the aggregate amount of purchases attributable to the Group's top five suppliers represented 100% of the Group's total purchases.

The Group's largest customer accounted for 27.16% of the Group's revenue of the year under review and 84.3% of the total revenue of the Group of the year under review was attributable to the Group's top five customers.

None of the Directors, their close associates or any Shareholders (which to the best of the knowledge of the Directors own more than 5% of the Company's issued share capital) had any interest in the Group's major suppliers or customers noted above.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group recognises that good relationship with our employees, customer and suppliers are key to its success. The Group maintains caring relationship with its employees and good partnership with its suppliers and aims to provide the best service to its customers.

DIRECTORS OF SUBSIDIARIES

A list of the names of the directors of the Company's subsidiaries during the year and up to the date of this Annual Report can be found in the Company's website at www.aelg.com.hk.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The composition of the Board during the year ended 31 December 2016 and up to the date of this Annual Report are set out in the section headed "Corporate Governance Report" of this Annual Report.

The Company has received annual confirmations from each of the Independent Non-Executive Directors with regard to his independence and considers that each Independent Non-Executive Director is independent.

Mr. Liang Jun and Mr. Fung Ka Keung, David, both being the Executive Directors, will retire from office by rotation pursuant to Articles 101A and 101B of the articles of association (the "Articles of Association") of the Company. Mr. Fu Yongyuan, Mr. Lin Wenqing and Mr. Siu Miu Man, all being Directors appointed after the last annual general meeting of the Company as an addition to the Board, shall hold office until the forthcoming annual general meeting of the Company pursuant to Article 92 of the Articles of Association. All of the above retiring Directors are eligible and will offer themselves for re-election at the forthcoming annual general meeting of the Company.

During the year under review, each Director has a service agreement with the Company for a term of three years and is subject to retirement by rotation and re-election in accordance with the Articles of Association. Save as disclosed above, none of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Directors' Report

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out in the section headed "Directors' Profile" on pages 11 to 13 of this Annual Report.

DIRECTORS' INTERESTS IN CONTRACTS AND COMPETING BUSINESS

During the year under review and up to the date of this Annual Report, Mr. Chan Chi Yuen ("Mr. Chan") is an executive director of Noble Century Investment Holdings Limited (Stock Code: 2322), a company listed on the Main Board, which has a subsidiary engaging in the vessel chartering business and therefore, Mr. Chan is considered to have interests in the businesses which compete or may compete with the businesses of the Group and is required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

Given that Mr. Chan is an Independent Non-Executive Director and does not participate in the daily operation of the Group, the Directors believe that any significant competition caused to the business of Group would be unlikely. Mr. Chan has confirmed he is fully aware of, and has been discharging, his fiduciary duty to the Company to avoid conflict of interest. In situations where any conflict of interests arises, Mr. Chan will refrain from taking part in the decision making process and from voting on the relevant board resolution at the board meeting.

Save as disclosed under the section headed "Directors and Directors' Service Contracts" of this Annual Report and in Note 33 to the consolidated financial statements, no contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PERMITTED INDEMNITY PROVISION

The Articles of Association provides that every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto, and no Director or other officer shall be liable for any loss or damage which may happen to or be incurred by the Company in the execution of the duties of his office or in relation thereto. The Company had arranged appropriate directors' and officers' liability insurance coverage for the directors and other officers of the Group for the year under review.

INTERESTS OF CONTROLLING SHAREHOLDERS IN CONTRACTS

There was no contract of significance between the Company or any of its subsidiaries and a controlling shareholder (as defined in paragraph 16 of Appendix 16 to the Listing Rules) or any of its subsidiaries, at any time during the year under review.

EMOLUMENT POLICY

The emolument policy of the employees and senior management of the Group is set up by the remuneration committee (the "Remuneration Committee") of the Company on the basis of their merit, qualification and competence. The emoluments of the Directors are decided by the Remuneration Committee, having regard to market competitiveness, individual performance and achievement. The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of which are set out in the section headed "Share Options" below.

Details of the emoluments of the Directors and the five highest paid individuals are set out in Note 11 to the consolidated financial statements.

RETIREMENT BENEFITS SCHEMES

The Group strictly complies with the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) in making mandatory provident fund contributions for its Hong Kong employees. The Group has also complied with the relevant PRC laws and regulations in making contributions to the various social insurance funds for its PRC employees.

SHARE OPTIONS

2008 Option Scheme

On 20 August 2008, a new share option scheme (the "2008 Option Scheme") was adopted by the Company. The purpose of the 2008 Option Scheme was to attract, retain and motivate talented participants to strive for future development and expansion of the Group. The participants are as follows:

(i) any full-time employee and Director (including Non-Executive Director and Independent Non-Executive Director) of the Group; and any part time employee of the Group with weekly working hours of ten hours and above (collectively, "Employee");

(ii) any advisor or consultant to the Group; any provider of goods and/or services to the Group; or any other person who, at the sole determination of the Board, has contributed to the Group (the assessment criterion of which are (a) such person's contribution to the development and performance of the Group; (b) the quality of work performed by such person for the Group; (c) the initiative and commitment of such person in performing his or her duties; and (d) the length of service or contribution of such person to the Group) (collectively, "Business Associate"); and

(iii) the trustee of any trust (whether family, discretionary or otherwise) whose beneficiaries or objects include any Employee or Business Associate of the Group.

The 2008 Option Scheme is valid and effective for a period of ten years commencing on the date of adoption.

The total number of shares which may be issued upon exercise of all the share options to be granted under the 2008 Option Scheme and any other scheme of the Company shall not in aggregate exceed 10% of the issued share capital of the Company as at the date on which the 2008 Option Scheme was adopted, without prior approval from the Shareholders. The total number of shares issued and to be issued upon exercise of the share options granted and to be granted to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company.

Since there was a substantial increase in the issued share capital of the Company after the adoption of the 2008 Option Scheme, the Directors had obtained Shareholders' approval at an annual general meeting of the Company to increase the total number of Shares which may be issued upon exercise of all the share options to 1,285,702,710 Shares, representing 10% of the issued share capital of the Company as at 26 April 2010. The subscription price will be determined by the Directors, which shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant of options; or (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five days immediately preceding the date of grant of the share options; or (iii) the nominal value of a share.

Share options may generally be exercised in whole or part at any time during the period commencing on the first business day from the date of grant of the share options and expiring on the close of business on the last day of such period as determined by the Directors and notified to the grantee (in any event such period must not be more than 10 years from the date of grant of the share options) subject to any restrictions as may be imposed on the exercise of the share option during the period in which the share option may be exercised.

On 21 April 2011, 313,200,000 share options were granted at an exercise price of HK$0.168 per Share under the 2008 Option Scheme, of which 312,200,000 share options were accepted and 1,000,000 share options were lapsed due to non-acceptance by the grantee within the prescribed time limit. For the year under review, no share options (2015: 1,500,000) were lapsed following the cessation of employment of the relevant grantees.

The following table sets out the movements in the Company's share options under the 2008 Option Scheme during the year:

Directors or category of participant	**Exercise period of share options**	**Exercise price of share options** HK$	**As at 1.1.2016**	**Granted during the year**	**Exercised during the year** HK$	**Lapsed during the year**	**As at 31.12.2016**
Directors							
Mr. Liang Jun	21.4.2011 to 20.4.2021	0.168	20,000,000	—	—	—	20,000,000
	21.4.2012 to 20.4.2021	0.168	15,000,000	—	—	—	15,000,000
	21.4.2013 to 20.4.2021	0.168	15,000,000	—	—	—	15,000,000
Mr. Fung Ka Keung, David	21.4.2011 to 20.4.2021	0.168	4,000,000	—	—	—	4,000,000
	21.4.2012 to 20.4.2021	0.168	3,000,000	—	—	—	3,000,000
	21.4.2013 to 20.4.2021	0.168	3,000,000	—	—	—	3,000,000
Ms. Yu Sau Lai	21.4.2011 to 20.4.2021	0.168	1,300,000	—	—	—	1,300,000
(resigned on 31 August 2016)	21.4.2012 to 20.4.2021	0.168	3,000,000	—	—	—	3,000,000
(Note 1)	21.4.2013 to 20.4.2021	0.168	3,000,000	—	—	—	3,000,000
Mr. Yu Baodong	21.4.2011 to 20.4.2021	0.168	20,000,000	—	—	—	20,000,000
	21.4.2012 to 20.4.2021	0.168	15,000,000	—	—	—	15,000,000
	21.4.2013 to 20.4.2021	0.168	15,000,000	—	—	—	15,000,000
Ms. Sun Wei	21.4.2011 to 20.4.2021	0.168	20,000,000	—	—	—	20,000,000
(resigned on 31 August 2016)	21.4.2012 to 20.4.2021	0.168	15,000,000	—	—	—	15,000,000
(Note 1)	21.4.2013 to 20.4.2021	0.168	15,000,000	—	—	—	15,000,000
Employees (in aggregate)	21.4.2011 to 20.4.2021	0.168	19,500,000	—	—	—	19,500,000
	21.4.2012 to 20.4.2021	0.168	16,950,000	—	—	—	16,950,000
	21.4.2013 to 20.4.2021	0.168	16,550,000	—	—	—	16,550,000
		Total	220,300,000		—	—	220,300,000

Note:

(1) Ms. Yu Sau Lai and Ms. Sun Wei resigned as an Executive Director and a Non-Executive Director with effect from 31 August 2016 but are entitled to exercise their share options until 31 May 2017 pursuant to the terms of the 2008 Option Scheme.

During the year under review no share options had been exercised, no share options were lapsed and cancelled. The number of Shares which may be issued upon exercise of the share options which had been granted and outstanding on 31 December 2016 under the 2008 Option Scheme was 220,300,000 (2015: 220,300,000), representing approximately 1.54% (2015: approximately 1.56%) of the number of shares in issue as at 31 December 2016.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the sections headed "Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures" and "Share Options" of this Annual Report, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, chief executive, or any of their respective spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

CONNECTED TRANSACTIONS

Details of the related party transactions and connected transactions for the year ended 31 December 2016 are set out in Note 33 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the best of knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this Annual Report.

CORPORATE GOVERNANCE

Throughout the year 2016, the Company has complied with the applicable code provisions and principles as set out in Appendix 14 to the Listing Rules, except for the deviations mentioned in the section headed "Corporate Governance Report – Corporate Governance Practices" on page 21 of this Annual Report.

ENVIRONMENTAL, SOCIAL AND CORPORATE RESPONSIBILITY

The Company has complied with the applicable code provisions and principles as set out in Appendix 16 to the Listing Rules throughout the 2016 and details of which are set out in the section headed "Environmental, Social and Corporate Report" on page 35 of this Annual Report.

Directors' Report

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

During the year under review, the Company had not aware of any material breach of or non-compliance with the applicable laws and regulations by the Group. The management regularly reviews and updates the rules and policies of the Group to ensure it is in compliance with the legal and regulatory requirements.

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2016 were audited by BDO Limited. A resolution for the re-appointment of BDO Limited as the auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

Liang Jun
Executive Director
Hong Kong

24 March 2017

Corporate Governance Report

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 2016, the Company has complied with the CG Code, save for the deviations specified and explained below.

Code Provision A.2.1

The post of chief executive (the "Chief Executive") of the Company has remained vacant since March 2000. The duties of Chief Executive have been performed by other Executive Directors. As there is a clear division of responsibilities of each Director, the vacancy of the post of Chief Executive did not have any material impact on the operations of the Group. However, the Board will review the current structure from time to time and if a candidate with suitable knowledge, skill and experience is identified, the Board will make an appointment to fill the post of Chief Executive as appropriate.

Code Provision A.6.7

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

DIRECTORS' SECURITIES TRANSACTIONS

Compliance with 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 as the Company's code of conduct for dealings in securities of the Company by Directors. Having made specific enquiry, all Directors who held office in 2016 confirmed that they have complied with the code throughout the year ended 31 December 2016.

Directors' interests and short positions in shares and underlying shares and debentures

As at 31 December 2016, the following person(s) is/are Directors of the Company who had or was deemed to have an interest or short position in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) (the "SFO") which (i) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short position which they had or were deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to Listing Rules:

Long Position in the Shares and underlying Shares

Name of Director	Capacity	Number of Shares held	Number of underlying Shares held under equity derivatives *(Note 1)*	Total	Approximate percentage of shareholding *(Note 2)*
Mr. Liang Jun	Beneficial Owner	2,000,000	50,000,000	52,000,000	0.36%
Mr. Fung Ka Keung, David	Beneficial Owner	—	10,000,000	10,000,000	0.07%
Ms. Yu Sau Lai (resigned on 31 August 2016) *(Note 3)*	Beneficial Owner	—	7,300,000	7,300,000	0.05%
Mr. Yu Baodong	Beneficial Owner	—	50,000,000	50,000,000	0.35%
Ms. Sun Wei (resigned on 31 August 2016) *(Note 3)*	Beneficial Owner	—	50,000,000	50,000,000	0.35%

Notes:

(1) These are share options granted by the Company to the Directors under the 2008 Option Scheme adopted by the Shareholders on 20 August 2008 and refreshed on 3 June 2010. Such share options can be exercised by the Directors at various intervals during the period from 21 April 2011 to 20 April 2021 at an exercise price of HK$0.168 per Share.

(2) The approximate percentage of shareholding was calculated based on the number of Shares in issue of 14,339,369,875 Shares as at 31 December 2016.

(3) Ms. Yu Sau Lai and Ms. Sun Wei resigned as an Executive Director and a Non-Executive Director with effect from 31 August 2016 but are entitled to exercise their share options until 31 May 2017 pursuant to the terms of the 2008 Option Scheme.

Save as disclosed above, as at 31 December 2016, as far as the Board was aware, none of the Directors of the Company had or was deemed to have any interest or short position in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short position which they had or were deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules.

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

So far as is known to any Directors, as at 31 December 2016, the following persons (not being a Director) had interests in the Shares or underlying Shares which were notified to the Company and the Stock Exchange pursuant to the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO:

Long Position in the Shares and underlying Shares

Name	Capacity	Number of Shares and underlying Shares held	Approximate percentage of shareholding *(Note 4)*
Mr. Wong Kin Ting ("Mr. Wong")	Interest of controlled corporations	4,552,970,325 *(Note 1)*	31.75%
Mr. Zhu Gongshan ("Mr. Zhu")	Beneficiary of discretionary trust & interest of controlled corporations	2,137,450,000 *(Note 2)*	14.91%
Credit Suisse Trust Limited ("CST")	Trustee	2,000,000,000 *(Note 3)*	13.95%

Notes:

(1) According to the individual substantial shareholder notice filed by Mr. Wong on 8 August 2016, Mr. Wong was deemed to be interested in 4,552,970,325 Shares through his interests in the following corporations which are 100% owned by him:

(i) 295,000,000 Shares held by Delight Assets Management Limited; and

(ii) 4,257,970,325 Shares held by King Castle Enterprises Limited.

(2) According to the individual substantial shareholder notice filed by Mr. Zhu on 1 November 2013, Mr. Zhu was deemed to be interested in 2,137,450,000 Shares that comprised:

(i) 2,000,000,000 Shares indirectly held by Asia Pacific Energy Fund ("APEF") (as described in Note 3 below); and

(ii) 137,450,000 Shares directly held by Profit Act Limited, which is indirectly controlled by Mr. Zhu.

(3) According to the corporate substantial shareholder notice filed by CST on 1 November 2013, CST was deemed to be interested in 2,000,000,000 Shares in its capacity as the trustee of these Shares. These 2,000,000,000 Shares were beneficially owned by Fast Sky Holdings Limited which in turn is 100% directly controlled by Golden Concord Group Limited ("Golden Concord Group"). Golden Concord Group is 100% controlled by Asia Pacific Energy Holdings Limited which in turn is 100% controlled by Asia Pacific Energy Fund Limited. Asia Pacific Energy Fund Limited is 50% controlled by Serangoon Limited and 50% controlled by Seletar Limited and both Serangoon Limited and Selector Limited are 100% controlled by CST.

Out of these 2,000,000,000 Shares, 1,000,000,000 Shares are consideration Shares which may be issued (in whole or in part as appropriate) to Golden Concord Group Limited or its nominee pursuant to an agreement dated 18 December 2009 (as amended by supplemental agreements on 24 December 2009 and 28 April 2010, respectively) in relation to the acquisition of the entire equity interests in Ocean Jade Investments Limited (collectively, the "Agreements"). Details of the Agreements are set out in the Company's circular dated 30 April 2010, whereby it was disclosed that the allotment and issue of these 1,000,000,000 Shares is subject to the achievement of the profit guarantee as contained in the Agreements.

(4) The approximate percentage of shareholding was calculated based on the number of Shares in issue of 14,339,369,875 Shares as at 31 December 2016.

Save as disclosed above, as at 31 December 2016, the Company had not been notified of any other person (other than the Directors whose interests are set out in the section headed "Directors' Interests and Short Positions in Shares and Underlying Share and Debentures" above) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO.

BOARD OF DIRECTORS

(1) Board Composition

The Board currently comprises four Executive Directors, one Non-Executive Director and three Independent Non-Executive Directors. The biographical details of each Director are shown in the section headed "Directors' Profile" on pages 11 to 13 of this Annual Report and are on the Company's website. The Directors during the year under review and up to the date of this Annual Report are as follows:

Executive Directors

Mr. Liang Jun
Mr. Fung Ka Keung, David
Mr. Fu Yongyuan (appointed on 6 July 2016)
Mr. Lin Wenqing (appointed on 12 July 2016)
Ms. Yu Sau Lai (resigned on 31 August 2016)
Mr. Tse On Kin (resigned on 14 February 2017)

Non-Executive Directors

Mr. Yu Baodong (Chairman)
Ms. Sun Wei (resigned on 31 August 2016)

Independent Non-Executive Directors

Mr. Chan Chi Yuen
Professor Sit Fung Shuen, Victor
Mr. Zhang Xi (resigned on 5 July 2016)
Mr. Siu Miu Man (appointed on 15 August 2016)

The Company has received annual confirmations from each of the Independent Non-Executive Directors with regard to his independence to the Company and considers that each of the Independent Non-Executive Directors to be independent.

(2) Responsibility of the Board of Directors

It is the function of the Board to assume the responsibility for leadership and control of the Company. The Directors are collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs.

Other duties include but are not limited to:

- maintaining effective control of the Company;
- giving strategic direction to the Company;
- reviewing, approving and monitoring fundamental financial and business strategies, plans and major corporate actions;
- ensuring that the Company complies with relevant laws, regulations and codes of business practice;
- ensuring that the Company communicates with Shareholders and the relevant stakeholders transparently and promptly; and
- monitoring the overall corporate governance functions of the Company.

Although the Board have delegated some of their responsibilities and functions to various committees, it acknowledges that it remains ultimately accountable for the performance and affairs of the Company.

(3) Board Meetings and General Meetings

There were eight board meetings and two general meetings held during the year under review. The attendance of Directors at the board meetings and the general meetings was as follows:

	Attendance No. of board meetings attended/ No. of board meetings held during the year	Attendance No. of general meetings attended/ No. of general meetings held during the year
Executive Directors		
Mr. Liang Jun	8/8	2/2
Mr. Fung Ka Keung, David	8/8	2/2
Mr. Fu Yongyuan (appointed on 6 July 2016)	3/3	–
Mr. Lin Wenqing (appointed on 12 July 2016)	3/3	–
Ms. Yu Sau Lai (resigned on 31 August 2016)	7/7	2/2
Mr. Tse On Kin (resigned on 14 February 2017)	8/8	2/2
Non-Executive Directors		
Mr. Yu Baodong *(Chairman)*	7/8	2/2
Ms. Sun Wei (resigned on 31 August 2016)	1/7	0/2
Independent Non-Executive Directors		
Mr. Chan Chi Yuen	7/8	2/2
Professor Sit Fung Shuen, Victor	8/8	2/2
Mr. Zhang Xi (resigned on 5 July 2016)	4/5	2/2
Mr. Siu Miu Man (appointed on 15 August 2016)	2/2	–

(4) Continuous Professional Development

For newly appointed Director, the Company will provide an induction package including necessary information and briefings. the Directors are encouraged to participate in professional development courses and seminars to ensure that he is aware of his responsibilities under the Listing Rules, legal and other regulatory requirements. Ongoing professional trainings and seminars had been and will continuously be offered to all Directors in order for them to develop and refresh their knowledge and skills as directors of listed company.

All Directors are provided with monthly updates on the Company's performance, position and prospects, together with the latest development on the changes of applicable rules and regulations to enable the Board as a whole and each Director to discharge their duties. Directors had also participated in continuous professional development programs held by the Company. Last but not least, all Directors have been continuously keeping themselves updated on relevant issues like corporate governance and regulatory environments through self-reading materials.

The individual training record of each Director for the year ended 31 December 2016 was as follows:

	Self-Reading	Trainings organised by the Company
Executive Directors		
Mr. Liang Jun	√	√
Mr. Fung Ka Keung, David	√	√
Mr. Fu Yongyuan (appointed on 6 July 2016)	√	√
Mr. Lin Wenqing (appointed on 12 July 2016)	√	√
Ms. Yu Sau Lai (resigned on 31 August 2016)	√	√
Mr. Tse On Kin (resigned on 14 February 2017)	√	√
Non-Executive Directors		
Mr. Yu Baodong *(Chairman)*	√	√
Ms. Sun Wei (resigned on 31 August 2016)	√	√
Independent Non-Executive Directors		
Mr. Chan Chi Yuen	√	√
Professor Sit Fung Shuen, Victor	√	√
Mr. Zhang Xi (resigned on 5 July 2016)	√	
Mr. Siu Miu Man (appointed on 15 August 2016)	√	√

(5) Chairman and Chief Executive

Mr. Yu Baodong is the Chairman of the Board and there is no Chief Executive during the year under review and up to the date of this Annual Report.

Chairman and Chief Executive are responsible for the management of the board and the day-to-day management of the Company. The Company has established and adopted a "Division of Responsibilities of Chairman and Chief Executive" guideline which clearly identified the respective roles of Chairman and Chief Executive. In brief, the Chairman is responsible for providing leadership for the Board and the Chief Executive is responsible for leading the management in the day-to-day running of the Group's business in accordance with the business plans and within the budgets approved by the Board.

During the year under review, the post of Chief Executive has been vacant and the duties of Chief Executive were performed by all Executive Directors.

(6) Non-Executive Directors and Independent Non-Executive Directors

During the year under review and up to the date of this Annual Report, all Non-Executive Directors and all Independent Non-Executive Directors have been appointed for a specific term of service. Pursuant to the Articles of the Association, all Non-Executive Directors and all Independent Non-Executive Directors shall be subject to retirement by rotation at least once every three years at the annual general meeting of the Company and shall be eligible for re-election.

BOARD COMMITTEES

The Board currently has three committees, namely the Remuneration Committee, the Audit Committee and the Nomination Committee. All the Board committees are empowered by the Board under their own terms of reference which were published on the Stock Exchange's website and the Company's website.

(1) Remuneration Committee

The Remuneration Committee was established in 2006 with specific written terms of reference and its main function is to make recommendations to the Board on policies relating to the remuneration of other Directors. In accordance with the Listing Rules, the majority of the members of the Remuneration Committee are Independent Non-Executive Directors.

As at the date of this Annual Report, the members of the Remuneration Committee are Mr. Chan Chi Yuen (Chairman), Mr. Liang Jun and Mr. Siu Miu Man.

During the year under review, the Remuneration Committee has performed the following duties:

- determining, with delegated responsibility, the remuneration packages of individual Executive Director and senior management;
- making recommendations to the Board on the remuneration of Non-Executive Director and Independent Non-Executive Directors; and
- ensuring no Director or any of his associates is involved in deciding his own remunerations.

The Remuneration Committee held three meetings during the year and the attendance of its members was as follows:

	No. of meetings attended/ No. of meetings held during the year
Mr. Chan Chi Yuen (appointed as Chairman on 5 July 2016)	3/3
Mr. Liang Jun	3/3
Mr. Zhang Xi (*Chairman*, resigned on 5 July 2016)	–
Mr. Siu Miu Man (appointed on 15 August 2016)	1/1

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in Note 11 to the consolidated financial statements.

(2) Audit Committee

The Audit Committee comprising only Independent Non-Executive Directors was established with specific written terms of reference that complied with the Listing Rules. The main purpose of the Audit Committee is to review and provide supervision over the Group's financial reporting process, risk management and internal controls.

As at the date of this Annual Report, the members of the Audit Committee are Mr. Chan Chi Yuen (Chairman), Professor Sit Fung Shuen, Victor and Mr. Siu Miu Man.

During the year under review, the Audit Committee has performed the following duties:

- making recommendation to the Board on the appointment, re-appointment and removal of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;
- monitoring the integrity of the financial statements of the Company; and
- reviewing the Company's financial controls, internal control and risk management systems.

The Audit Committee held three meetings during the year and the attendance of its members was as follows:

	No. of meetings attended/ No. of meetings held during the year
Mr. Chan Chi Yuen *(Chairman)*	3/3
Professor Sit Fung Shuen, Victor	3/3
Mr. Zhang Xi (resigned on 5 July 2016)	2/2
Mr. Siu Miu Man (appointed on 15 August 2016)	1/1

(3) Nomination Committee

The Board established a Nomination Committee comprising one Non-Executive Director and two Independent Non-Executive Directors with specific written terms of reference. Its main function is to review and assess the structure, size and composition of the Board and to identify and make recommendation to the Board on the selection, appointment or re-appointment for directorship.

Pursuant to code provision A.5.6 of the CG Code, the Board adopted a board diversity policy setting out the approach to achieve board diversity. All Board appointments will be made based on merit and contribution while taking into account the diversity components including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, expertise, skills, knowledge and length of service. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance.

As at the date of this Annual Report, the members of the Nomination Committee comprised Mr. Yu Baodong (Chairman), Mr. Chan Chi Yuen and Mr. Siu Miu Man.

During the year under review, the Nomination Committee has performed the following duties:

- reviewing the structure, size and composition of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

- assessing the independence of Independent Non-Executive Directors;

- making recommendations to the Board on the appointment or re-appointment of director and succession planning for directors, in particular the Chairman and Chief Executive; and

- reviewing the board diversity policy and to ensure its effectiveness.

The Nomination Committee held three meetings during the year and the attendance of its members was as follows:

	Attendance No. of meetings attended/ No. of meetings held during the year
Mr. Yu Baodong *(Chairman)*	3/3
Mr. Chan Chi Yuen	3/3
Mr. Zhang Xi (resigned on 5 July 2016)	–
Mr. Siu Miu Man (appointed on 15 August 2016)	–

(4) Corporate Governance Function

The Company has not established any committee responsible for the corporate governance function of the Group and it is collectively performed by the Board. The Board acknowledges overseeing the corporate governance function of the Group collectively and agreed to comply with a specific written terms of reference.

During the year under review, the Board has performed the following corporate governance functions:

- reviewing the Company's policies and practices on corporate governance and make recommendations;

- reviewing the training and continuous professional development of Directors and senior management; and

- monitoring the Company's policies and practices on compliance with legal and regulatory requirements.

AUDITOR'S REMUNERATION

During the year under review, the fees in respect of audit and non-audit services provided by BDO Limited, the external auditor of the Company, were HK$950,000 and HK$120,000, respectively.

FINANCIAL REPORTING

The Directors acknowledge their responsibilities for preparing the financial statements which give true and fair view of the Group.

In preparing the financial statements for the year ended 31 December 2016, the Directors have made judgments and estimates that it is appropriate to prepare the financial statements on a going concern basis.

The Directors are responsible for ensuring the maintenance of proper accounting records, safeguarding of the assets of the Company and taking reasonable steps for the prevention and detection of fraud and other irregularities.

A statement by the Independent Auditor about its reporting and its responsibilities is set out in the Independent Auditor's Report on pages 43 to 47 of this Annual Report.

RISK MANAGEMENT AND INTERNAL CONTROL

During the year, the Group has complied with Code Provision C.2 of the CG Code by establishing appropriate and effective risk management and internal control systems. Management is responsible for the design, implementation and monitoring of such systems, while the Board oversees management in performing its duties on an ongoing basis. Main features of the risk management and internal control systems are described in the sections below:

Risk Management System

The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- *Identification*: Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.

- *Evaluation*: Analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly.

- *Management*: Consider the risk responses, ensure effective communication to the Board and on-going monitoring of the residual risks.

Based on the risk assessments conducted in 2016, no significant risk was identified.

Internal Control System

The Company has in place an internal control system which is compatible with the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") 2013 framework. The framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The components of the framework are shown as follow:

- *Control Environment*: A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.

- *Risk Assessment*: A dynamic and iterative process for identifying and analyzing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed.

- *Control Activities*: Action established by policies and procedures to help ensure that management directives to migitgate risks to the achievement of objectives are carried out.

- *Information and Communication*: Internal and external communication to provide the Group with the information needed to carry out day-to-day controls.

- *Monitoring*: Ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning.

In order to enhance the Group's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group also adopts and implements an inside information policy and procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

- The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.

- Confidentiality agreements are in place when the Group enters into significant negotiations.

- The Executive Directors are designated persons who speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.

Based on the internal control reviews conducted in 2016, no significant control deficiency was identified.

Internal Auditors

The Group has outsourced the internal audit work (the "IA function") to SHINEWING Risk Services Limited, which is one of the professional internal audit services provider in Hong Kong. The IA function is independent of the Group's daily operation and carries out appraisal of the risk management and internal control systems by conducting interviews, walkthroughs and tests of operating effectiveness.

An internal audit plan has been approved by the Board. According to the established plan, review of the risk management and internal control systems is conducted annually and the results are reported to the Board via Audit Committee afterwards.

Effectiveness of the Risk Management and Internal Control Systems

The Board is responsible for the risk management and internal control systems of the Group and ensuring annual review of the effectiveness of these systems. Several areas have been considered during the Board's review, which include but not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Group's ability to respond to changes in its business and the external environment; and (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems.

The Board, through its review and the review made by IA function and Audit Committee, concluded that the risk management and internal control systems were effective and adequate. Such systems, however, are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. It is also considered that the resources, staff qualifications and experience of relevant staff were adequate and the training programs and budget provided were sufficient.

COMPANY SECRETARY

Ms. Ho Pui Man, the financial controller of the Company, was appointed by the Board as the Company Secretary and she has complied with Rule 3.29 of the Listing Rules of obtaining no less than 15 hours of relevant professional training during the year under review.

SHAREHOLDERS' RIGHTS

The Board had adopted a Shareholder's Communication Policy (the "Policy") which aims to promoting and facilitating effective communication with its Shareholders. The objective is to ensure the Company provides timely, clear, reliable and material information for its Shareholder in exercising their rights. The Policy defined how Shareholders can convene general meeting, procedures to which enquiries may be put to the Board and sufficient contact details enabling these enquiries to be properly directed and sufficient contact details for putting forward proposals at the Shareholders' meetings. A procedure for Shareholders to propose a person for election as a Director (the "Procedure") was also adopted providing guidelines on how Shareholders can propose an individual as directors of the Company. The Policy and the Procedure are published on the Company's website.

ABOUT ESG REPORT

This is the first Environmental, Social and Governance Report (the "ESG Report") for Asia Energy Logistics Group Limited (stock code: 351) and its subsidiaries (collectively the "Group"). The purpose of this ESG Report is not only to communicate the Group's sustainability strategies, management approaches and performances with our stakeholders, but also introduce the Group's ongoing activities for its sustainable development towards the societies and environment as a whole. This ESG Report summarizes the efforts and achievements made by the Group in corporate social responsibility and sustainable development. For information on our corporate governance, please refer to the section headed "Corporate Governance Report" on pages 21 to 34 of this Annual Report.

Scope and Period of Reporting

The ESG Report mainly covers the shipping and logistics businesses of the Group and presents the Group's strategic approach to sustainability and performance in the environmental and social aspects of its businesses in the reporting period from 1 January to 31 December 2016. The Group will continue to strengthen its efforts to collect information in order to enhance its performance in the environmental and social subject areas and to disclose related information in its sustainable development.

Reporting Guidelines

The ESG Report has been prepared in accordance with the updated Environmental, Social and Governance Reporting Guide issued by The Stock Exchange of Hong Kong Limited (the "ESG Reporting Guide"), as set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Stakeholder Engagement

Our staff from different divisions of the Group and of the ship management company were all involved in helping us to recognise our sustainability performance. The data were carefully collected and analyzed, highlighting not only the Group's sustainable initiatives for the calendar year 2016, but also the Group's short-term and long-term sustainability strategies. The Group will increase the stakeholder engagement via constructive dialogue, with a view to driving long-term prosperity.

Contact

If you have any comments and suggestions about this ESG Report, please feel free to contact us via enquiries@aelg.com.hk.

PROVIDING A RELIABLE SHIP MANAGEMENT

The Group emphasizes the importance in the selection of ship management company for its vessel operation. The selected ship management company is a reputable global ship management company which provides vessel management services in full compliance with the relevant rules and standards, including the International Safety Management (ISM) Code, International Ship and Port Facility Security (ISPS) Code, Occupational Health and Safety Assessment Series (OHSAS) 18001, ISO 9001:2000 Quality Management Systems standard and ISO 14001:2004 Environmental Management Systems standard. In order to uphold the corporate reputation of the Group, we place great emphasis on delivering the same core values and visions on the environmental and social affairs to the ship management company. We share a vision to manage the vessel safely and efficiently with a key focus on occupational health, safety, security, and the environment. The Group cooperates closely with the ship management company with the aim to prevent any work accidents, crew casualties and fatalities and pollution to the environment. Although the ship management company bears the responsibilities for managing the vessel's daily operation, the Group oversees the performance of the ship management company to ensure the operation of the vessel complies with the international conventions and the requirements applicable to Hong Kong and port states. The Group has stressed great importance in its continuous improvement of sustainable development.

Environmental, Social and Governance Report

PROMOTING GREEN OPERATION

The ship management company bears the responsibility of monitoring the environmental footprint. We aim to minimize the negative impacts to the environment and the marine system during the vessel operation. In view of the expansion of the Group's shipping business, we adopts to the philosophy of low-carbon environment friendliness operation. The Group adopts a top down approach in its commitment to develop the Go Green Culture. We fully comply with the national laws, regulations and international conventions. We have adopted innovative measures in the establishment of the Group's environmental management system to reduce the greenhouse gas emission, to conserve energy, to minimize air pollution, to prevent water pollution, and to alleviate waste impact and avoid habitat destruction. For the year ended 31 December 2016, the Group's vessel recorded zero incidence of environmental pollution and crew casualty. This is an indicative result of the pro-active culture of environmental management on the vessel.

Establishment of Environmental Management System

The ship management company places great emphasis on the establishment of environmental management, and is committed to executing it in daily operation in a purposeful and planned manner to minimize the negative impacts on the environment. We ensure that vessel crew members and staff of the Group are fully aware of their roles and responsibilities towards environmental protection. In order to notify our crew members of the various policies and guidelines promulgated from the head office, a manual script of these policies and guidelines about environmental protection are kept on the vessel. Although most of the policies are established by the head office, periodic management meetings are held to maintain a dialogue between the head office and crew members of the vessel with a view to monitoring and reviewing the process of implementation of the environmental policies and guidelines. In addition to setting up an organizational structure of environmental management, the Group also formulated policies and implementation procedures for energy saving management and environmental protection. In order to ensure the policies and procedures are fully understood and strictly followed, Environmental Awareness Training is provided to every crew member. We continuously put effort into strengthening training, supervision and assessment of environmental protection.

Reduction of Greenhouse Gas Emission

Climate change remains a severe global challenge and requires the joint efforts of everyone. Fossil fuel consumption is one of the major contributors to the greenhouse gas emission. In an effort to reduce Greenhouse Gas Emission, our vessel runs only on low sulfur fuel.

Control of Air Pollution

Although the level of air pollutants discharged from vessels is much lower than other means of transportations, it still poses a threat to our environment. It is a requirement that the ship management company takes relevant measures to minimize the release of pollutants into the air by continuously monitoring the efficiency of vessel equipment and engines such as funnel, fuel purification plant, fuel burning equipment, fuel injector systems, turbocharger systems and incinerator plant. The ship management company should conduct tank cleaning, cargo measurement, sampling and gas freeing operations to reduce the release of cargo vapour and inert gas into the air regularly.

Conservation of Energy

In response to the current climate change, the Group continuously seeks to reduce energy consumption through establishing a vessel energy efficiency management plan with reference to the guideline of International Convention for the Prevention of Pollution from Ships (MARPOL). Also, technical improvement can bring a good energy saving effect, as such around 40% of the luminaries on board are replaced by light-emitting diode (LED) lights. The crew cabin and other working areas onboard the vessel are maintained at temperature of 25 to 26 degree Celsius. Furthermore, the speed of vessel is appropriately adjusted to a lower level in heavy weather to avoid excess pounding and fuel consumption. The ship management company continuously explores the potential for energy conservation through innovation in management. Records of energy conservation of the vessel are periodically reviewed so that any non-compliance relating to energy conservation is identified and remedial actions are taken.

In order to implement the approved measures effectively and efficiently, adequate trainings and briefings are arranged to raise the awareness on energy conservation of everyone crew member. The information from the seafarers' seminars is also communicated to crew members in a timely manner. As a way of energy conservation, crew members are encouraged to turn off ancillary systems, including lighting, ventilation systems, galley ranges, steam supplies, etc. when they are not in use.

The Energy Efficiency Operational Indicator (EEOI) serves as a quantitative indicator of energy efficiency of a vessel in operation. It presents a downward trend of the overall energy consumption of the vessel. The vessel is recognised with international energy efficiency certificate (IECC).

Prevention of Water Pollution

The vessel has strict system controls and procedural safeguards to prevent the spillage of oily water and noxious liquid substances. The vessel is equipped with an oily water separator which separates oil from oily waste water such as bilge water before discharging into the environment. In addition, the oil discharge monitoring equipment monitors the discharge of oily water mixtures to ensure it is within the legal limits. Our oil pollution prevention officer who is fully experienced with the equipment is responsible for not only handling, inspecting and maintaining of the equipment, but also preventing the improper discharge of oil or oily wastes. The officer should assume full responsibility of cleanup work in the event of an accidental discharge or oil spillage. For onboard sewage treatment, the vessel is recognised with the international sewage pollution prevention certificate from National Shipping Administrations. Regularly surveys are also carried out to ensure the efficient operation of onboard sewage treatment facility.

Alleviation of Garbage Impact

It is a fact that garbage discharged by the vessel into sea is as deadly to marine life as oil or chemical. Garbage management plan was set up according to the guidelines of International Maritime Organization (IMO) to specify the procedures of waste collection, storage, processing and disposal. For example, food waste is processed by the food waste decomposing machine to minimize the amount of food waste. All old and expired medicine are marked and disposed as special garbage, which would be sent ashore to an authorized organization.

Comprehensive training and detailed instructions about the garbage management are provided to the crew members. Apart from these training courses, the ship management company provides technical training for staff responsible for the operation of equipment to help them get a better understanding of the limitation of equipment and MARPOL regulation.

The ship management company actively raises the awareness of garbage management by placard, posters and brochures. The ship management company takes steps to reduce the amount of garbage generated on board by following measures: consumable items being ordered in bulk packaging; suppliers being requested to avoid supplying items in plastic and other disposable packaging wherever possible; crew members being encouraged to avoid the use of disposable convenience items; using of permanent reusable coverings for cargo protection instead of disposable or recyclable plastic sheeting. In addition, crew members are requested to reuses daily necessities, shoring, lining and packing materials. Office ashore reviews the effectiveness of the plan regularly with the officer in charge on board with a view to improving the garbage management plan continuously. Records of all discharged material are maintained in order to facilitate the control on the implementation of the garbage management system.

Avoidance of Habitat Destruction

Scientific research has proved that the discharge of ballast water containing various species which survive in the sea even after the trip can have a serious effect on the ecological balance of the environment. The ship management company has set out a ballast water management plan according to the requirement on exchange of ballast water issued by National Quarantine Regulations and MARPOL, to reduce the damage to marine environment caused by the spread of ballast water. Ballast overboard discharge (BOD) valves are kept closed and locked with warning notices posted at the valves, engine and cargo control rooms prior to entering into specified locations as defined by MARPOL. In addition, Biofouling Management Plan has been drawn up in accordance with the Guideline formulated by IMO to minimize the transfer of invasive aquatic species.

ESTABLISHING AN EXCELLENT TEAM

Talent is the foundation for the Group's stable development. The Group strictly complies with national and local labour laws and regulations, such as the Employment Ordinance of Hong Kong, Labour Law of the People's Republic of China (the "PRC") and International Convention on Standards of Training, Certification and Watch keeping for Seafarers (STCW). The Group also participated in an approved Mandatory Provident Fund Scheme which is administered for our Hong Kong staff and have made contributions to the various social insurance funds for staff in the PRC. Through our people-oriented management approach, the Group is committed to providing a safe, healthy and harmonious working environment for our staff. We provide trainings and motivation for our staff in order to help them to develop and realise their full potential. We communicate with staff at all levels to strengthen employee engagement through various channels and activities.

Employment

The driving force behind the Group's success and momentum is our staff. The Group strives to build transparent and fair mechanisms for competition and selection of staff. We avoid discrimination on the grounds of race, colour, age, sex, religion and national origin. All persons are to be treated with dignity and respect. We verify the identification and age of the candidates to avoid employing child labour during the recruitment process. Prior to each staff officially taking up the post within the Group, they are provided with the job descriptions of the position, clearly stating the duties and responsibilities of their roles to prevent any forced labour. All persons shall not be unreasonably interfered in the course of performing their duties and responsibilities. We promote our staff based on their academic qualifications, professional experience, level of participation in training, performance with reference to appraisal and loyalty. In order to closely monitor the performance of our staff and maximize their job satisfaction, we conduct performance appraisal regularly. An honest judgment on the performance of the staff is based on the entire period rather than an isolated incident. We report the performance and promotion prospect. We also provide recommendations on their training needs and career development in the appraisal with a view to maintaining the competitiveness of our staff.

Welfare

Crew members play vital roles in the safe and efficient operation of the vessel. We strive to build our vessel as a second home for vessel crew. We place great emphasis on their welfare including: quality of food; standard of accommodation; adequacy of recreation facilities; condition of hygiene; suitability of air conditioning, sanitation, and medical facilities; and acceptability of working hours. We strictly comply with national laws and regulations related to staff welfare. Gambling on board are strictly prohibited.

Nurturing Talent and Succession Planning

The ship management company is committed to providing targeted, systematic and far-sighted training for vessel crews, exploring their potential to support the Group's sustainable development. The Group is satisfied with the ship management company which has established proper training system as required under International Convention for the Safety of Life at Sea (SOLAS), STCW, International Maritime Organization (IMO) Guidelines, requirement of International Labour Organization (ILO), Maritime Labor Convention (MLC), requirement of OHSAS and industry best practices. For every new joined seafarer, the ship management company organizes training, covering the topics related to emergency case, safety and environment protection measures, fire-fighting system, life-saving appliances, and garbage disposal policy to ensure they are familiar with the safety requirement of the vessel and the application of ancillary equipment.

In-house training sessions are available to the crew, in addition to the training courses provided by third parties. These modular training sessions cover many critical areas such as hazard identification and risk assessment. The training materials in the form of audio and visual and included to enhance the accessibility to seafarers. All senior officers onboard the vessel are encouraged to attend seminars regularly on the topics of management review, safety, company's philosophies and regulation updates.

BUILDING A SAFE ENVIRONMENT

Work safety is the foundation for the sustainable development of the Group, and thus we put the safety of our staff as the first priority. A comprehensive work safety management and supervision system is vital for enhancing safety performance. The Group has taken measures in accident prevention, fire precaution, workplace environment, hygiene, first aid and manual handling operations. For the year ended 31 December 2016, the Group recorded zero significant safety incidents. This result is indicative of the pro-active culture of safety and quality on the vessel.

Improvement on Safety Management System

A sound safety management system can help to appropriately manage safety risks, thus driving the continuous improvement of overall safety performance. The ship management company annually reviews our safety management system. Risk assessment is another approach used for minimizing accidents and improving the health condition on board. The officers onboard are required to continuously identify the risks associated with each voyage and the type of potential accidents through pre-voyage assessment. Physical risks and psychosocial risks are both identified. After the risks identification, all risks identified are individually evaluated. Control priorities would then be assigned based on the potential severity of each risk and the likelihood of their occurrence. In response to the risk evaluation results, preventive and protective measures are drawn up and implemented.

Establishment of a Safer Fleet

Conditions of workplace and health of vessel crew are essential factors for maintaining a safer fleet. Therefore, seafarers are required to provide their medical reports which certify that they meet the minimum requirements for performing the routine and emergency duties before working on board. The ship management company plans its work routines well and gives flexible adjustment considering their physical status to ensure the crew does not suffer from fatigue due to long hours of work and insufficient rest. The ship management company has assigned a medical officer to ensure the safe and proper storage of food, drinking water, medical and sanitary supplies and medical equipment. All medical treatments should be provided in accordance with the International Medical Guides. Hospital, medical lockers and first aid kits are equipped on board and maintained in a hygienic condition.

Support of Safety Workplace

In addition to seafarers' health, proper and correct use of personal protective equipment and clothing is one of the basic safety measures taken on the vessel. Various personal protective equipment is provided on board. Crew members are required to equip with the correct sets of such equipment while carring out their duties to protect them from working accidents. To ensure the efficiency of the personal protective equipment for protecting our staff, training regarding the operation of the equipment and the inspection and maintenance of the equipment are implemented.

Conditions of instruments are closely related to our operation. Regular inspection and maintenance of facilities and tools for operation is a vital step to prevent accidents. The officers onboard are required ensures that all instruments and working gears are correctly rigged and are used in a safe manner that is conducive to the safe working limits, state and age of the equipment. The officers onboard are required to record all the shipboard accidents in safety record book. The safety record book is used as a reference for the management in its reviewing and assessing the adequacy of the safety management system. The ship management company provides a health and safety manual to integrate the safety awareness into the daily operation.

Living Quality of the Crew

Apart from working safety, the ship management company places great emphasis on their living quality through forming a mass committee to achieve energy balance and maintain a hygienic condition for the crew. Accommodation inspection is carried out on a weekly basis with strict guideline to ensure that provision rooms, cold rooms, galley, pantry rooms and mass rooms are adequately equipped and maintained in a neat, clean and hygienic condition. The ship management company places great emphasis on food and catering. The temperature of cold room is set at the required setting under regular supervision. The ship management company assures that sufficient nutritious food supply in good quality is maintained on board for the intended voyage. Complaints regarding food and water standard from crew members are treated with great attention, where required, necessary actions are taken to immediately to rectify the situation. Steady progress have been made in the effort to improve crew members' onboard living quality.

Strict Guideline on Drug and Alcohol

The Group recognises negative effects of drug and alcohol abuse on the welfare of our staff and their associated risks. Neither drug nor alcohol abuse can be tolerated within the Group. In respect of vessel operation the ship management company has policy in place to combate the illicit use, possession, distribution or sale of non-prescription drugs. The crew is required to undergo a pre-assigned test for drugs and alcohol. If the seafarers are suspected to have an alcohol or drug abuse problem or in a position where testing is required by law, unannounced test is conducted. A positive test result or refusal to take a drug or alcohol test are grounds for disciplinary action.

In consideration of the serious consequences of drug and alcohol abase during working hours, the staff violating the policy and being unfit for work due to the use of drugs or alcohol can lead to suspension or termination of employment. The Group continuously provides lectures and information to illustrate the potential adverse effects of alcohol and drug abuse. Confidential assistance is provided to the crew members with an alcoholic problem in order to lend them a helping hand in overcoming their alcohol problem. In addition, educational materials in forms of video tapes and brochures are available on board of the vessel for the use of the crew.

Promotion of a Safety Culture

The ship management company believes that work related accidents are preventable, and thus the ship management company has a series of proactive measures to minimize the possibility of accidents. The ship management company actively promotes high standard of safety awareness, discipline and individual accountability through providing of safety posters, booklets and related videos on board. The ship management company places great emphasis on behavior-based safety to educate the mindset, habits and behaviours of crew members through enhancing their awareness on the consequences and mistakes caused by their work procedures. Maintenance of good communication is also a cornerstone for the safety culture. The ship management company highly values the feedbacks on safety measures from crew members. Regular meetings on vessel safety are arranged on regularly basis for the exchange of suggestions on safety measures between office ashore and the crew.

In addition to various types of promotion, the ship management company emphasizes that safety training is a vital factor to raise their awareness on safety. Apart from familiarization training, the ship management company constantly organizes simulated exercises and training on the use of life-saving, fire-fighting and pollution prevention and control equipment according to the requirement of international conventions for the SOLAS in order to ensure that the all crew members are completely familiar with the vessel safety equipment and to ensure the proper use of such equipment in case of emergency. The emergency drills are not carried out periodically to raise the safety awareness of the crew. The ship management company will arrange additional drills for seafarers who cannot participate in the scheduled drills due to their other duties. Training materials related to emergency and pollution drill in audio-visual form are provided on board in order to support these routine trainings.

ENSURING RESPONSIBLE MANAGEMENT

The operation of a vessel relies on a range of contracting suppliers who supply services of repairing, dry-docks and general consumable goods to support the operation of our business. The careful selection in of our suppliers will in turn enable us to offer a safer workplace to our staff and to provide quality services to our customers. We aim to exert a positive influence on our supply chain. We strive to drive improvements in ESG performance with the suppliers, and thus we take their environmental performance into consideration during our suppliers selection process. Apart from the cooperation with suppliers, we pay great attention on the business ethics throughout the business operations.

Supply Chain Value

The Group pays careful attention to instilling it commitments on sustainable development across the entire supply chain. A balanced judgment is made by considering factors from all aspects, but environmental factors are the most essential parts. Suppliers are required to provide certification of ISO 14001 or ISO 50001 Energy Management Systems standard or other environmental standard in the first stage of supplier selection. Methods and distance of delivery are some of the factors in supplier selection in which we aim to achieve lower carbon emissions associated with the provision of services to the vessel. Use of recyclable materials is also taken into account in the supplier selection. We seek to establish standardized procedures and guidelines to ensure our value of sustainability is implemented in our supply chain. For example, suppliers are required to keep packaging to a safe minimum level in order to avoid unnecessary waste.

Business Ethics

To effectively prohibit commercial bribes, kickbacks or similar payoffs or benefits paid by any supplier or client, employees and agents of the Group are prohibited from receiving anything with a significant value in connection with any transaction from the Group, other than salary, wages or other ordinary compensation. We place great emphasis on suppression of smuggling activities by spot check for contraband and drugs. The Group endeavours to deal fairly with its clients, competitors, suppliers and employees. We stand firm against any unfair advantage from anyone caused by manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair practices.

The Group highly values the confidential data of our customers. We are committed to maintaining transparency, legitimacy, relevance and accuracy when we handle the confidential data of our customers. Our staff is forbidden to disclose confidential or proprietary information outside the Group, either during or after employment, without the Group's authorization. We understand that inappropriate behaviors can damage the reputation of the Group and the seafaring community; hence, we pay special attention on the complaints from agents, authorities and clients and immediately launch an in-depth investigation after receiving any complaints.

COMMUNITY INVESTMENT

Over the years, the Group has focused on community activities and strongly encourage our staff to participate in various volunteer works.

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TO THE MEMBERS OF ASIA ENERGY LOGISTICS GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of Asia Energy Logistics Group Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 48 to 111, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Disclaimer of Opinion

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

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

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Basis for Disclaimer of Opinion (Continued)

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

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

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

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

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

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Basis for Disclaimer of Opinion (Continued)

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

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

As detailed in Note 3(b)(ii) to the consolidated financial statements, in view of the above circumstances, the directors have prepared a cash flow forecast of the Group covering a period up to 31 March 2018 after taking into account the following major assumptions, (i) the lenders (the "Lenders") which have been providing financial support to the Railway Companies to meet their financial obligations have agreed to continue the support and would be able to do so and will not demand repayment of their loans made to the Railway Companies and related interests during the forecast period; (ii) the Group will be able to reach an agreement with the joint venture partner to withhold enforcement of or otherwise discharge the Group's financial obligations under a shareholders' agreement (as set out in Note 18 to the consolidated financial statements); (iii) the Group would be able to reach an agreement with the Mine Owner on the amount of compensation payable to the Mine Owner as planned so that the Group would be able to resume and complete the construction of the Zunxiao Railway; and (iv) the remaining balance of approximately HK$46,500,000 from the successful placing of shares of the Company after payments of the related acquisition as detailed in Note 40 to the consolidated financial statements will be available for general working capital purposes of the Group. The directors consider the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the twelve months from 31 December 2016. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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

However, as detailed in the paragraphs above under the heading "Impairment losses of 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.

Independent Auditor's Report

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Basis for Disclaimer of Opinion (Continued)

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

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

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

Directors' Responsibilities for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA and to issue an auditor's report. This Annual Report is made solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this Annual Report.

However, because of the matters described in the "Basis for Disclaimer of Opinion" section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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.

BDO Limited
Certified Public Accountants

Li Pak Ki
Practising Certificate Number P01330

Hong Kong, 24 March 2017

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Revenue	5	**10,392**	21,922
Cost of sales		**(15,228)**	(20,282)
Gross (loss)/profit		**(4,836)**	1,640
Other income and gains	6	**1,040**	945
Depreciation and amortisation	9	**(1,687)**	(2,281)
Staff costs	9	**(19,211)**	(19,118)
Impairment loss on property, plant and equipment	14	**(2,645)**	(25,000)
Impairment loss on construction in progress	16	**(314,015)**	–
Impairment loss on railway construction prepayment	16	**(1,641)**	–
Impairment loss on intangible assets	15	**–**	(18,499)
Change in fair value of contingent consideration payable	24	**–**	17,836
Change in fair value of derivative component of convertible notes	23	**882**	11,760
Change in fair value of options/commitment to issue convertible notes	23	**(2,620)**	(94,847)
Share of results of joint venture	18	**8,549**	(93,427)
Other operating expenses		**(21,061)**	(22,307)
Finance costs	8	**(76,122)**	(100,892)
Loss before income tax	9	**(433,367)**	(344,190)
Income tax	10	**–**	–
Loss for the year		**(433,367)**	(344,190)
Other comprehensive income			
Exchange difference arising on translation of financial statements of foreign operations which may be reclassified subsequently to profit or loss		**(5,904)**	(26,215)
Total comprehensive income for the year		**(439,271)**	(370,405)
Loss for the year attributable to:			
Owners of the Company		**(267,385)**	(297,864)
Non-controlling interests	28	**(165,982)**	(46,326)
		(433,367)	(344,190)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(269,840)**	(314,665)
Non-controlling interests	28	**(169,431)**	(55,740)
		(439,271)	(370,405)
Loss per share – basic and diluted (HK cents per share)	13	**(1.88)**	(2.15)

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment	14	**37,127**	40,579
Intangible assets	15	**1,000**	1,000
Construction in progress	16	**1,575,512**	2,002,985
Railway construction prepayment	16	**8,235**	10,468
Interest in a joint venture	18	**–**	–
		1,621,874	2,055,032
Current assets			
Other receivables and prepayments	19	**41,742**	51,522
Cash and cash equivalents	20	**7,154**	30,512
		48,896	82,034
Current liabilities			
Trade and other payables	21	**148,781**	154,512
Bank loans and other borrowings	22	**468,582**	617,662
Convertible notes	23	**3,278**	364
Amount due to a joint venture	25	**128,420**	137,060
Amounts due to minority equity owners of subsidiaries	33(a)	**8,177**	8,731
		757,238	918,329
Net current liabilities		**(708,342)**	(836,295)
Total assets less current liabilities		**913,532**	1,218,737
Non-current liabilities			
Bank loans	22	**1,015,070**	889,846
Contingent consideration payable	24	**–**	–
		1,015,070	889,846
NET (LIABILITIES)/ASSETS		**(101,538)**	328,891

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Capital and reserves attributable to owners of the Company			
Share capital	27	**1,595,221**	1,586,379
Other reserves		**(1,633,060)**	(1,363,220)
Equity attributable to owners of the Company		**(37,839)**	223,159
Non-controlling interests	28	**(63,699)**	105,732
TOTAL EQUITY		**(101,538)**	328,891

These consolidated financial statements were approved and authorised for issue by the Directors on 24 March 2017.

Liang Jun
Director

Fu Yongyuan
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to owners of the Company							
	Share capital HK$'000 (Note 27)	Capital reserves HK$'000	Share option reserve HK$'000 (Note 29)	Foreign exchange reserve HK$'000 (Note)	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
As at 1 January 2015	1,435,649	4,190	31,862	42,501	(1,123,973)	390,229	161,472	551,701
Loss for the year	–	–	–	–	(297,864)	(297,864)	(46,326)	(344,190)
Other comprehensive income								
– Exchange difference arising on translation of financial statements of foreign operations which may be reclassified subsequently to profit or loss	–	–	–	(16,801)	–	(16,801)	(9,414)	(26,215)
Total comprehensive income for the year	–	–	–	(16,801)	(297,864)	(314,665)	(55,740)	(370,405)
Shares issued upon exercise of share options	7,991	–	(3,135)	–	–	4,856	–	4,856
Shares issued on the conversion of convertible notes	142,739	–	–	–	–	142,739	–	142,739
Forfeiture/lapse of share options	–	–	(3,457)	–	3,457	–	–	–
As at 31 December 2015	1,586,379	4,190	25,270	25,700	(1,418,380)	223,159	105,732	328,891
Loss for the year	–	–	–	–	(267,385)	(267,385)	(165,982)	(433,367)
Other comprehensive income								
– Exchange difference arising on translation of financial statements of foreign operations which may be reclassified subsequently to profit or loss	–	–	–	(2,455)	–	(2,455)	(3,449)	(5,904)
Total comprehensive income for the year	–	–	–	(2,455)	(267,385)	(269,840)	(169,431)	(439,271)
Shares issued on the conversion of convertible notes	8,842	–	–	–	–	8,842	–	8,842
As at 31 December 2016	1,595,221	4,190	25,270	23,245	(1,685,765)	(37,839)	(63,699)	(101,538)

Note:

The foreign exchange reserve comprises all foreign exchange differences arising on the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in Note 3(p).

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Operating activities			
Loss before income tax		**(433,367)**	(344,190)
Adjustments for:			
Bank interest income		**(3)**	(91)
Depreciation of property, plant and equipment	14	**4,514**	7,153
Amortisation of intangible assets	15	**–**	457
Gain on disposal of property, plant and equipment	6	**(329)**	(13)
Written off of property, plant and equipment		**2,837**	–
Finance costs	8	**76,122**	100,892
Change in fair value of contingent consideration payable	24	**–**	(17,836)
Change in fair value of options/commitment to issue convertible notes	23	**2,620**	94,847
Change in fair value of derivative component of convertible notes	23	**(882)**	(11,760)
Impairment loss on construction in progress	16	**314,015**	–
Impairment loss on intangible assets	15	**–**	18,499
Impairment loss on property, plant and equipment	14	**2,645**	25,000
Impairment loss on railway construction prepayment	16	**1,641**	–
Share of results of joint venture	25	**(8,549)**	93,427
Effect of foreign exchange rate changes		**8,930**	19,756
Operating cash flows before working capital changes		**(29,806)**	(13,859)
Decrease/(increase) in other receivables and prepayments		**4,780**	(2,535)
Decrease in trade and other payables		**(9,527)**	(28,447)
Cash used in operations		**(34,553)**	(44,841)
Interest paid on bank loans and other borrowings		**(72,328)**	(96,669)
Interest received		**3**	91
Net cash used in operating activities		**(106,878)**	(141,419)
Investing activities			
Purchase of property, plant and equipment		**(7,143)**	(7)
Proceeds from disposal of property, plant and equipment		**702**	40
Partial consideration received from disposal of a subsidiary		**5,000**	1,000
Net cash (used in)/generated from investing activities		**(1,441)**	1,033

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Financing activities			
Interest on convertible notes		18	16
Proceeds from bank loans		–	3,736
Proceeds from other borrowings		275,790	331,835
Proceeds from issue of convertible notes		10,000	60,000
Proceeds from issue of shares upon exercise of share options		–	4,856
Repayment of bank loans		(32,733)	(3,736)
Repayment of other borrowings		(168,026)	(241,236)
Net cash generated from financing activities		85,049	155,471
Net (decrease)/increase in cash and cash equivalents		(23,270)	15,085
Cash and cash equivalents at beginning of the year		30,512	15,653
Effect of foreign exchange rate changes		(88)	(226)
Cash and cash equivalents at end of the year		7,154	30,512

Details of major non-cash transactions are set out in Note 39 to the consolidated financial statements.

1. ORGANISATION AND OPERATIONS

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.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs – effective 1 January 2016

During the year, the Group has adopted a number of amendments to the HKFRSs which did not have material impact on the Company's consolidated financial statements.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements have been issued, but are not yet effective and have not been early adopted by the Group.

		Effective date
Amendments to HKAS 7	Disclosure Initiative	(i)
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	(i)
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions	(ii)
HKFRS 9	Financial Instruments	(ii)
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	(iv)
HKFRS 15	Revenue from Contracts with Customers	(ii)
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)	(ii)
HKFRS 16	Leases	(iii)

Effective date:

(i) Effective for annual periods beginning on or after 1 January 2017

(ii) Effective for annual periods beginning on or after 1 January 2018

(iii) Effective for annual periods beginning on or after 1 January 2019

(iv) The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

Amendments to HKAS 7 – Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments to HKAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured at fair value.

Amendments to HKFRS 2 – Classification and Measurements 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.

HKFRS 9 – Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at FVTOCI if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at FVTPL.

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

HKFRS 15 – Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5-step approach to revenue recognition:

Step 1:	Identify the contract(s) with a customer
Step 2:	Identify the performance obligations in the contract
Step 3:	Determine the transaction price
Step 4:	Allocate the transaction price to each performance obligation
Step 5:	Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

Amendments to HKFRS 15 – Revenue from Contracts with customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

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 are not yet in a position to quantify the effects on the Group's financial statements.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the provisions of the Hong Kong Companies Ordinance which concern the preparation of financial statements. In addition, the consolidated financial statements included applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(b) Basis of measurement and going concern basis

i) 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.

ii) Going concern basis

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

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

The Directors expect that the Railway Companies will continue to rely on the financial support from certain companies (the "Lenders"), one of which is a guarantor (the "Guarantor"), Golden Concord Holdings Limited ("Golden Concord"), of their entire bank loans of approximately HK$1,071,000,000 as at 31 December 2016 as mentioned in Note 22(a)(iii) and all of them are beneficially owned by a director of certain subsidiaries of the Company including the Railway Companies who is a beneficiary of a discretionary trust which in turn is a substantial shareholder of the Company, in order to meet their financial obligations including payment of interests on bank loans, construction cost payables and other operating expenses.

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

The Group will discuss with its joint venture partner in order to reach an agreement to withhold enforcement of or otherwise discharge the Group's financial obligations under a shareholders' agreement as mentioned in Note 18 to the consolidated financial statements.

* English name for identification purposes only

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(b) Basis of measurement and going concern basis (Continued)

ii) Going concern basis (Continued)

In addition, as detailed in the circular of the Company dated 8 March 2017, the Company has entered into the placing agreement with the placing agent, pursuant to which the placing agent has conditionally agreed to procure not less than six placees, on a best effort basis, to subscribe for, and the Company has conditionally agreed to issue, a total of 4,000 million placing shares at the placing price of HK$0.10 per placing share. The estimated net proceeds from the placing are HK$384 million. The Company intends to apply the net proceeds for the acquisition of a heavy lift vessel with the remaining of approximately HK$46.5 million for the general working capital of the Group.

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

Notwithstanding the above, significant uncertainties exist as to whether the Group will be able to successfully implement its plans and measures as mentioned above. The appropriateness of preparation of the consolidated financial statements on the going concern basis depends on whether (i) the Lenders which have been providing financial support to the Railway Companies to meet their financial obligations have agreed to continue and would be able to do so and will not demand repayment of their loans made to the Railway Companies and related interests during the forecast period; (ii) the Group will be able to reach an agreement with the joint venture partner to withhold enforcement of or otherwise discharge the Group's financial obligations under a shareholders' agreement; (iii) the Group would be able to reach an agreement with the Mine Owner on the amount of compensation payable to the Miner Owner as planned so that the Group would be able to resume and complete the construction of the Zuanxiao Railway; and (iv) the remaining balance of approximately HK$46.5 million from the successful placing of shares of the Company after payments of the related acquisition of a heavy lift vessel as detailed in Note 40 to the consolidated financial statements will be available for general working capital purposes of the Group.

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

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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.

(d) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (the "Group"). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs.

Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(d) Business combination and basis of consolidation (Continued)

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

(e) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

Investments in subsidiaries are stated in the Company's statement of financial position at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(f) Joint arrangements

The Group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The Group classifies its interests in joint arrangements as either:

– Joint ventures: where the Group has rights to only the net assets of the joint arrangement; or

– Joint operations: where the group has both the rights to assets and obligations for the liabilities of the joint arrangement.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(f) Joint arrangements (Continued)

In assessing the classification of interests in joint arrangements, the Group considers:

– The structure of the joint arrangement;

– The legal form of joint arrangements structured through a separate vehicle;

– The contractual terms of the joint arrangement agreement; and

– Any other facts and circumstances (including any other contractual arrangements).

The Group accounts for its interests in joint ventures using the equity method.

Any premium paid for an investment in a joint venture above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the investment in joint venture. Where there is objective evidence that the investment in a joint venture has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

The Group accounts for its interests in joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

(g) Intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination or through acquisition of asset is stated at fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses.

Amortisation is provided on a straight-line basis over their useful lives as follows:

Contract of affreightment	25 years
Club membership	indefinite

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(h) Property, plant and equipment

Property, plant and equipment are stated at their historical costs, less any subsequent accumulated depreciation and accumulated impairment losses.

Historical cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the asset or a separate asset.

Depreciation is charged so as to write off the cost of assets other than construction in progress, net of expected residual value, over their estimated useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at each reporting date, with the effect of any changes in estimate accounted for on a prospective basis. The principal annual rates are as follows:

Buildings, plant, and equipment	2% - 5%
Leasehold improvements	Over the remaining term of the lease but not exceeding 5 years
Furniture, fixtures and office equipment	20% - 33%
Motor vehicles	20%
Locomotives	10%
Vessel	Over the estimated remaining useful life. i.e. 12.5 years

Upon acquisition of a vessel, the components of the vessel which are required to be replaced at the next dry-docking are identified and their costs are depreciated over the period to the next estimated dry-docking date. Costs incurred on subsequent dry-docking of vessels are capitalised and depreciated over the period to the next estimated dry-docking date. When significant dry-docking costs incurred prior to the expiry of the depreciation period, the remaining costs of the previous dry-docking are written off immediately.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Construction in progress is carried at cost less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(i) Impairment of other assets

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- intangible assets;
- construction in progress;
- investment in a joint venture

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(j) Financial assets

i) Financial assets at fair value through profit or loss

These assets represent trading securities which are acquired for the purpose of sale in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

ii) Loans and receivables

Other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(j) Financial assets (Continued)

iii) Impairment loss on financial assets

Loans and receivables are assessed for indicators of impairment at each reporting date. Loans and receivables are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been impacted.

Objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– default or delinquency in interest or principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– for other receivables, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which have been determined had no impairment loss been recognised in prior years.

Impairment losses recognised in respect of other receivables, whose recovery is considered doubtful but not remote, are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(j) Financial assets (Continued)

iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

v) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

(k) Financial liabilities and equity instruments issued by the Group

i) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangement.

ii) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(k) Financial liabilities and equity instruments issued by the Group (Continued)

iii) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

iv) Financial liabilities at amortised cost

The Group's other financial liabilities, including bank and other borrowings and the liability component of the convertible notes, are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method.

v) Convertible notes

Convertible notes issued by the Company that contain both liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that 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 instruments is a conversion option derivative. At the date of issue, the conversion option derivative is recognised at fair value. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as liability.

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method, until extinguished on conversion or maturity. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

When the convertible notes are converted, the carrying amount of the liability portion together with the fair value of the conversion derivative at the time of conversion are transferred to share capital as consideration for the shares issued. When the convertible notes are redeemed, the difference between the redemption amount and the carrying amounts of both components is recognised in profit or loss.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(k) Financial liabilities and equity instruments issued by the Group (Continued)

v) *Convertible notes (Continued)*

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and conversion option components in proportion to the allocation of the proceeds. Transaction costs relating to the conversion option derivative is recognised in profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

vi) *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

vii) *Derecognition of financial liabilities*

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(m) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments/receivables are recognised as an expense/income on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(o) Income tax

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(p) Foreign currencies

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(p) Foreign currencies (Continued)

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollar) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to non-controlling interests as appropriate).

Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operations concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

(q) Employees' benefits

i) Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

ii) Equity-settled share-based payments

The Group issues share options to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured using the Binomial Option Pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

(r) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(s) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

   (i) has control or joint control over the Group;

   (ii) has significant influence over the Group; or

   (iii) is a member of key management personnel of the Group.

(b) An entity is related to the Group if any of the following conditions apply:

   (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

   (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

   (iii) Both entities are joint ventures of the same third party.

   (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

   (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

   (vi) The entity is controlled or jointly controlled by a person identified in (a).

   (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

   (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

Notes to the Consolidated Financial Statements

31 December 2016

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and returns.

i) Charter-hire income is recognised on a straight-line basis over the period of lease.

ii) Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

iii) Dividend income is recognised when the right to receive the dividend is established.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The judgements, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(a) Going concern basis

As disclosed in Note 3(b)(ii), the consolidated financial statements have been prepared on a going concern basis. The appropriateness of the going concern basis is assessed after taking into consideration all relevant available information about the future of the Group, including cash flow forecasts of the Group covering a period up to 31 March 2018. Such forecasts about the future inherently involve uncertainties. Actual results could differ significantly and hence render the adoption of the going concern basis not appropriate.

(b) Contingent consideration payable

The Group has accounted for the contingent consideration in the acquisition of an intangible asset, through the acquisition of subsidiary as detailed in Note 24 in accordance with the provisions of HKFRS 3 (Revised) – Business Combinations. The number of shares of the Company which would be issued as consideration of the acquisition is subject to the results of the acquired subsidiary. The Group determines the provision to be made in respect of the contingent consideration based on the fair value of the shares of the Company at the date of acquisition of the subsidiary and the Directors' best estimate and weighted probability analysis of the future profit of the subsidiary. As the process requires input of subjective assumptions, any changes to the assumptions can materially affect the provision made. Subsequent gain or loss in fair value is recognised in profit or loss. As at 31 December 2016, the fair value of the contingent consideration payable is HK$Nil.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(c) Estimated impairment of vessel

An impairment exists when the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs to sell is based on available data from binding arm's length sales transactions of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

As the carrying amount of the vessel has been reduced to its estimated recoverable amount of HK$31,734,000 (2015:HK$35,057,000), any adverse change in the key assumptions used to calculate the recoverable amount would result in further impairment losses.

(d) Estimated impairment of construction in progress

The Group assesses whether there are any indicators of impairment for construction in progress at the end of each reporting period. They are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying amount exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs to sell is based on available data from binding arm's length sales transactions of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

As at 31 December 2016, the carrying amount of construction in progress was HK$1,575,512,000 (2015: HK$2,002,985,000), net of impairment of HK$314,015,000 (2015: HK$Nil) recognised during the year.

5. REVENUE

Revenue represents the amount received and receivable for time charters:

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

6. OTHER INCOME AND GAINS

	2016	2015
	HK$'000	HK$'000
Exchange gain	**568**	507
Bank interest income	**7**	91
Gain on disposal of property, plant and equipment	**329**	13
Others	**136**	334
	1,040	945

7. SEGMENT INFORMATION

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

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

– Railway construction and operations

– Shipping and logistics

7. SEGMENT INFORMATION (CONTINUED)

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

Year ended 31 December 2016	Railway construction and operations HK$'000	Shipping and logistics HK$'000	Total HK$'000
Segment revenue from external customers	–	10,392	10,392
Segment loss	(401,787)	(1,225)	(403,012)
Other segment information:			
Interest revenue	7	–	7
Interest expenses	(75,389)	–	(75,389)
Other income	–	16	16
Depreciation of property, plant and equipment	(882)	(2,827)	(3,709)
Gain on disposal of property, plant and equipment	235	–	235
Impairment loss on property, plant and equipment	(645)	(2,000)	(2,645)
Impairment loss on construction in progress	(314,015)	–	(314,015)
Impairment loss on 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

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

7. SEGMENT INFORMATION (CONTINUED)

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

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

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

Notes:

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

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

7. SEGMENT INFORMATION (CONTINUED)

Geographical information

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

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

Major customers

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

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

8. FINANCE COSTS

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

9. LOSS BEFORE INCOME TAX

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

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

10. INCOME TAX

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

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

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

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Members of senior management during the year comprised the directors only whose remuneration is set out below.

(a) Directors' emoluments

The emoluments paid or payable to each of the twelve (2015: nine) directors were as follows:

Year ended 31 December 2016

	Directors' fees HK$'000	Salaries, and other benefits HK$'000	Payments for loss of office HK$'000	Share-based payments HK$'000	Pension fund contributions HK$'000	Total HK$'000
Executive directors						
Liang Jun	–	1,820	–	–	18	1,838
Yu Sau Lai (Note 4)	–	336	–	–	12	348
Fung Ka Keung, David	–	650	–	–	18	668
Tse On Kin (Note 1)	–	1,560	–	–	18	1,578
Lin Wenqing (Note 2)	–	491	–	–	5	496
Fu Yongyuan (Note 2)	–	763	–	–	5	768
Non-executive directors						
Sun Wei (Note 4)	296	–	–	–	–	296
Yu Baodong	540	–	–	–	18	558
Independent non-executive directors						
Chan Chi Yuen	120	–	–	–	–	120
Zhang Xi (Note 4)	70	–	–	–	–	70
Sit Fung Shuen	120	–	–	–	–	120
Siu Miu Man (Note 3)	45	–	–	–	–	45
	1,191	5,620	–	–	94	6,905

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(a) Directors' emoluments (Continued)

Year ended 31 December 2015

	Directors' fees HK$'000	Salaries, and other benefits HK$'000	Payments for loss of office HK$'000	Share-based payments HK$'000	Pension fund contributions HK$'000	Total HK$'000
Executive directors						
Liang Jun	–	1,760	–	–	18	1,778
Yu Sau Lai	–	546	–	–	18	564
Fung Ka Keung	–	650	–	–	18	668
Tse On Kin (Note 1)	–	701	–	–	9	710
Non-executive directors						
Tse On Kin (Note 1)	245	–	–	–	–	245
Sun Wei	444	–	–	–	–	444
Yu Baodong	540	–	–	–	18	558
Independent non-executive directors						
Chan Chi Yuen	120	–	–	–	–	120
Zhang Xi	120	–	–	–	–	120
Sit Fung Shuen	120	–	–	–	–	120
	1,589	3,657	–	–	81	5,327

Notes:

1 Mr. Tse On Kin was re-designated from a non-executive director to an executive director on 20 July 2015. On 14 February 2017, Mr. Tse On Kin resigned as executive director.

2 Mr. Fu Yongyuan and Mr. Lin Wenqing were appointed as executive directors on 6 July 2016 and 12 July 2016 respectively.

3 Mr. Siu Miu Man was appointed as independent non-executive director on 15 August 2016.

4 Ms. Yu Sau Lai, Ms. Sun Wei and Mr. Zhang Xi resigned as executive director, non-executive director and independent non-executive director on 31 August 2016, 31 August 2016 and 5 July 2016 respectively.

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, three (2015: two) were directors of the Company whose emoluments are included in the disclosures in (a) above. The emoluments of the remaining two (2015: three) individuals were as follows:

	2016 HK$'000	2015 HK$'000
Salaries and other benefits	**1,723**	2,424
Contributions to defined contribution retirement scheme	**36**	36
	1,759	2,460

The emolument of the highest paid individual, other than the Directors, was within the following bands:

	2016 Number of employee	2015 Number of employee
HK$Nil to HK$1,000,000	**2**	3

12. DIVIDENDS

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

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

13. LOSS PER SHARE

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

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

(ii) Weighted average number of ordinary shares

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

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

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

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings, plant and equipment HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Locomotives HK$'000	Vessel HK$'000 (Note)	Total HK$'000
Cost:							
As at 1 January 2015	411	1,631	3,116	7,480	6,683	70,207	89,528
Additions	–	–	7	–	–	–	7
Disposals	–	–	(3)	(269)	–	–	(272)
Exchange adjustment	(22)	(244)	(158)	(385)	(396)	–	(1,205)
As at 31 December 2015	389	1,387	2,962	6,826	6,287	70,207	88,058
Additions	**–**	**1,880**	**454**	**615**	**–**	**4,194**	**7,143**
Written off	**–**	**(1,391)**	**–**	**(99)**	**–**	**(5,699)**	**(7,189)**
Disposals	**–**	**–**	**(197)**	**(4,941)**	**–**	**–**	**(5,138)**
Exchange adjustment	**(25)**	**–**	**(154)**	**(108)**	**(318)**	**–**	**(605)**
As at 31 December 2016	**364**	**1,876**	**3,065**	**2,293**	**5,969**	**68,702**	**82,269**
Accumulated depreciation and impairment:							
As at 1 January 2015	211	1,222	2,335	5,594	2,258	4,821	16,441
Charge for the year	67	232	344	592	589	5,329	7,153
Impairment loss	–	–	–	–	–	25,000	25,000
Eliminated on disposals	–	–	(3)	(242)	–	–	(245)
Exchange adjustment	(17)	(166)	(121)	(328)	(238)	–	(870)
As at 31 December 2015	261	1,288	2,555	5,616	2,609	35,150	47,479
Charge for the year	**63**	**432**	**232**	**405**	**554**	**2,828**	**4,514**
Impairment loss	**12**	**–**	**12**	**113**	**508**	**2,000**	**2,645**
Reversal of impairment loss	**–**	**–**	**–**	**(55)**	**–**	**–**	**(55)**
Eliminated on disposals	**–**	**–**	**(197)**	**(4,511)**	**–**	**–**	**(4,708)**
Written off	**–**	**(1,253)**	**–**	**(89)**	**–**	**(3,010)**	**(4,352)**
Exchange adjustment	**(20)**	**–**	**(138)**	**(89)**	**(134)**	**–**	**(381)**
As at 31 December 2016	**316**	**467**	**2,464**	**1,390**	**3,537**	**36,968**	**45,142**
Carrying amount:							
As at 31 December 2016	**48**	**1,409**	**601**	**903**	**2,432**	**31,734**	**37,127**
As at 31 December 2015	128	99	407	1,210	3,678	35,057	40,579

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Note:

As at 31 December 2016, the management reviewed the fundamentals of dry bulk shipping market and considered the low freight rate environment shall persist for a longer time than previously expected and it is expected that the rebalancing of demand and supply of tonnage is unlikely to materialise in the near term. As a result, the management considered that impairment indicator of the carrying amount of the vessel existed as at 31 December 2016.

An independent expert was engaged to assess the recoverable amount of the vessel which was determined based on value in use which was less than its carrying amount. Accordingly, an impairment loss of HK$2,000,000 (2015: HK$25,000,000) on vessel was recognised as at 31 December 2016.

The recoverable amount of the vessel has been determined from value in use calculations based on cash flow projections from formally approved budgets covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3.30% (2015: 3.00%), which does not exceed the long-term growth rate for the worldwide shipping industry. The cash flows are discounted using a discount rate of 7.94% (2015: 6.75%). The discount rate used is pre-tax and reflect specific risks relating to the vessel.

15. INTANGIBLE ASSETS

	Contract of affreightment ("COA") HK$'000	Club membership HK$'000	Total HK$'000
Cost:			
As at 31 December 2015 and 31 December 2016	**126,900**	**1,000**	**127,900**
Accumulated amortisation and impairment:			
As at 1 January 2015	107,944	–	107,944
Charge for the year	457	–	457
Impairment loss	18,499	–	18,499
As at 31 December 2015 and 31 December 2016	**126,900**	**–**	**126,900**
Carrying amount:			
As at 31 December 2016	**–**	**1,000**	**1,000**
As at 31 December 2015	–	1,000	1,000

15. INTANGIBLE ASSETS (CONTINUED)

During the year ended 31 December 2015, although various efforts have been taken by management of the joint venture to negotiate with the COA provider to fix the COA rate for the year ended 31 December 2016, up to the date of approval of the consolidated financial statements for the year ended 31 December 2015, the joint venture has not yet been able to obtain the consent from the COA provider to fix the annual rate in accordance with the COA. In addition, the cargo volume offered by the COA provider during 2015 was significantly below the guaranteed annual cargo volume pursuant to the COA. The COA rate to be fixed annually and the guaranteed annual cargo volume under the COA are significant elements of the underlying value of the COA and the key factors used in the value in use calculations. Under these circumstances, the Directors of the Company have significant doubt as to whether the COA provider would continue to fulfill its obligations pursuant to the COA and accordingly consider it is appropriate to recognise impairment loss on the entire carrying amount of the COA.

During the year ended 31 December 2016, although various efforts have been taken by management to negotiate with the COA provider to fix the COA rate for the year ending 31 December 2017, guaranteed annual cargo volume with no annual fixed COA rate was agreed pursuant to the COA up to the date of approval of the consolidated financial statements for the year ended 31 December 2016. In addition, no cargo volume was offered by the COA provider during 2016. Under these circumstances, the Directors of the Company consider that the current recoverable amount of HK$Nil of COA is appropriate. However, the joint venture will further discuss with the COA provider regarding the COA contracts and will take appropriate steps to rectify the current situation.

16. CONSTRUCTION IN PROGRESS AND RAILWAY CONSTRUCTION PREPAYMENT

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

16. CONSTRUCTION IN PROGRESS AND RAILWAY CONSTRUCTION PREPAYMENT (CONTINUED)

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

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

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

17. INTERESTS IN SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2016 are as follows:

Name of subsidiary	Place of incorporation/ establishment and operation	Issued and fully paid share capital/registered capital	Attributable equity interest		Principal activities
			Directly held	Indirectly held	
Teleroute Enterprises Limited	British Virgin Islands	1 ordinary share of US$1	100%	–	Investment holding
Palace View International Limited	British Virgin Islands	1 ordinary share of US$1	100%	–	Investment holding
Colour Sunlight Limited	British Virgin Islands	1 ordinary share of US$1	–	100%	Investment holding
Hillmax Enterprises Limited	British Virgin Islands	1 ordinary share of US$1	–	100%	Investment holding
CSCP Management Limited	Hong Kong	1 ordinary share with HK$1 paid up	–	100%	Investment holding
Talent Will Administration Limited	British Virgin Islands	1 ordinary share of US$1	–	100%	Investment holding
Bright Master Investments Limited	Hong Kong	1 ordinary share with HK$1 paid up	–	100%	Investment holding
Ocean Jade Investments Limited	British Virgin Islands	1 ordinary share of US$1	–	100%	Investment holding
Gofar Holdings Limited	British Virgin Islands	1 ordinary share of US$1	–	100%	Investment holding
China Railway Logistic Holdings Limited (Note a)	Hong Kong	1 ordinary share with HK$1 paid up	–	100%	Investment holding

17. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the Company's principal subsidiaries as at 31 December 2016 are as follows: - Continued

Name of subsidiary	Place of incorporation/ establishment and operation	Issued and fully paid share capital/registered capital	Attributable equity interest		Principal activities
			Directly held	Indirectly held	
Chengde Kuanping Railway Limited* (承德寬平鐵路有限公司) (Note b)	PRC, limited liability company	RMB129,000,000	–	62.5%	Railway construction and operations
Chengde Zunxiao Railway Limited* (承德遵小鐵路有限公司) (Note b)	PRC, limited liability company	RMB224,000,000	–	62.5%	Railway construction and operations
Tangshan Tangcheng Railway Transportation Company Limited* (唐山唐承鐵路運輸有限責任公司) (Note b)	PRC, limited liability company	RMB205,000,000	–	51%	Railway construction and operations
Treasure Delight Holdings Limited	British Virgin Islands	1 ordinary share of US$1	–	100%	Investment holding
Asia Energy Inc.	Liberia	1 ordinary share of US$1	–	100%	Shipping and Logistics

Notes:

(a) A share mortgage was executed in respect of this subsidiary in favour of a connected party as detailed in Notes 22(a)(iii) and 33(c).

(b) Equity and assets pledges were executed in respect of these subsidiaries in favour of a connected party as detailed in Notes 22(a)(iii) and 33(c).

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

* English name for identification purposes only

18. INTEREST IN A JOINT VENTURE

	2016 HK$'000	2015 HK$'000
Share of net assets in a joint venture		
– As at beginning and end of the year	–	–

The Group recognised 50% of the profit of a joint venture for the year ended 31 December 2016 of HK$8,549,000 (2015: loss of HK$93,427,000). As at 31 December 2016 and 2015, the Group's share of accumulated losses of the joint venture exceeded the Group's interest in the joint venture as the Group has legal obligations under the shareholders' agreement relating to the formation of the joint venture to acquire two vessels to be operated by the joint venture as set out in Note 24 and to make good such losses. The excess amount is accounted for as liabilities due to a joint venture as set out in Note 25.

In accordance with the shareholder's agreement, each of the joint venture partner and the Group are responsible to purchase two vessels for contribution to the joint venture as capital. Two vessels had been purchased by the joint venture partner while the Group has not yet purchased the remaining two vessels. In view of the downturn in the shipping business, the Group will discuss with the joint venture partner and expect to reach an agreement with the joint venture partner to withhold enforcement of or otherwise discharge the Group's obligations under a shareholders' agreement.

Details of the joint venture are as follows:

Name	Form of business structure	Place of incorporation and operation	Principal activity	Percentage of ownership interests
Ocean Pro Holdings Limited	Limited liability company	British Virgin Islands	Provide transportation services for shipment	50%

The summarised financial information related to the Group's interest in a joint venture is as follows:

	2016 HK$'000	2015 HK$'000
Non-current assets	213,294	186,569
Current assets	10,016	9,261
Current liabilities	(6,250)	(8,199)
Non-current liabilities	(475,559)	(464,377)
Net liabilities	(258,499)	(276,746)
Included in the above amounts are:		
Cash and cash equivalents	4,217	4,687
Current financial liabilities (excluding trade and other payables)	(778)	(687)
Non-current financial liabilities (excluding other payables and provisions)	(475,559)	(464,377)

18. INTEREST IN A JOINT VENTURE (CONTINUED)

	2016 HK$'000	2015 HK$'000
Income	44,960	43,660
Expenses	(27,861)	(230,514)
Profit/(loss) before tax	17,099	(186,854)
Income tax	–	–
Profit/(loss) after tax and total comprehensive income for the year	17,099	(186,854)
Included in the above amounts are:		
Reversal of impairment loss on property, plant and equipment (note)	35,071	–
Impairment loss on property, plant and equipment (note)	–	(164,000)
Depreciation and amortisation	(8,259)	(15,862)
Interest income	22	34
Interest expense	(20,903)	(24,810)

Note:

An independent expert was engaged to assess the recoverable amount of the vessels, which were determined based on 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 2.15% (2015: 3.00%), which does not exceed the long-term growth rate for the shipping industry in the PRC. The cash flows are discounted using a discount rate of 13.15% (2015: 12.65%). The discount rate used is pre-tax and reflect specific risks relating to the vessels.

As at 31 December 2015, the carrying amounts of vessels were approximately HK$186,559,000, net of impairment of approximately HK$164,000,000 which has been recognised in the financial statements of the joint venture during the year ended 31 December 2015.

As at 31 December 2016, the recoverable amount exceeds the carrying amount of the vessels, and reversal of impairment loss of approximately HK$35,071,000 has been recognised in the financial statements of the joint venture during the year ended 31 December 2016 as the recovery of the shipping market is better than expected in the year ended 31 December 2015.

19. OTHER RECEIVABLES AND PREPAYMENTS

	2016 HK$'000	2015 HK$'000
Third parties	18,579	26,753
Related party (Note 33(e))	23,163	24,769
	41,742	51,522

19. OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

The Group recognised impairment loss on other receivables based on the accounting policy stated in Note 3(j)(iii).

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

20. CASH AND CASH EQUIVALENTS

Cash at banks earns interest at floating rates based on daily bank deposit rates. The Directors consider the carrying amounts of cash and cash equivalents approximate their fair values.

21. TRADE AND OTHER PAYABLES

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

The Directors consider the carrying amounts of trade and other payables approximate their fair values due to short term maturity.

22. BANK LOANS AND OTHER BORROWINGS

	2016 HK$'000	2015 HK$'000
Current liabilities		
Bank loans (Note (a))	55,897	283,482
Other bank loans (Note (a))	–	3,580
Other borrowings		
– Railway construction and operations (Note (b))	404,301	321,648
– other corporate borrowing (Note (b))	8,384	8,952
	468,582	617,662
Non-current liabilities		
Bank loans (Notes (a))	1,015,070	889,846

22. BANK LOANS AND OTHER BORROWINGS (CONTINUED)

Notes:

(a) At 31 December 2016, total bank loans were scheduled to be repaid as follows:

	2016	2015
	HK$'000	HK$'000
On demand or within one year	**55,897**	287,062
More than one year but not exceeding two years	**1,015,070**	283,481
More than two years but not exceeding five years	**–**	606,365
	1,070,967	1,176,908
Current liabilities	**(55,897)**	(287,062)
Non-current liabilities	**1,015,070**	889,846

(i) During the year ended 31 December 2016, the Group signed revised bank loan agreements for bank loans which remained outstanding as at 31 December 2016 and amended corresponding repayment schedules and interest rates.

(ii) All bank loans were denominated in Renminbi. The Directors estimated that the fair values of the bank loans are not significantly different from their carrying amounts.

(iii) The amount of bank loans and other bank loans in the original denominated currency is RMB957,990,000 equivalent to HK$1,070,967,000 (2015: RMB985,990,000 equivalent to HK$1,176,908,000). In addition to the guarantee given by a wholly-owned subsidiary of the Company in respect of its respective equity interest in each of the relevant non wholly-owned subsidiaries for the bank loans of HK$1,070,967,000 (2015: HK$1,173,328,000) as at 31 December 2016, the bank loans were secured by guarantee provided by a connected party, Golden Concord, in aggregate up to RMB1,033,000,000 equivalent to HK$1,154,822,000 (2015: RMB1,033,000,000 equivalent to HK$1,233,021,000). In return, the Company agreed to provide a counter-guarantee to indemnify this connected party to the extent of the percentage of equity interest held by the Group in each of the subsidiaries of up to approximately RMB558,528,000 equivalent to HK$624,396,000 (2015: RMB573,003,000 equivalent to HK$683,954,000), share mortgage, equity and assets pledges in favour of the connected party (Note 33(c)).

(b) Other borrowings of HK$412,685,000 (2015: HK$330,600,000) are unsecured and repayable on demand or within one year, of which HK$412,685,000 (2015: HK$330,600,000) were borrowed from Golden Concord and its subsidiaries.

The interest rate profile of bank loans and other borrowings is set out in Note 35(c).

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

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

The Tranche 1 Notes

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

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

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

23. CONVERTIBLE NOTES (CONTINUED)

The Tranche 1 Notes (Continued)

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

	Liability component HK$'000	Derivative component HK$'000	Total HK$'000
Issuance of the convertible notes	2,659	152,188	154,847
Interest expense	16	–	16
Fair value gain	–	(11,760)	(11,760)
Transfer to share capital on conversion of convertible notes (Note 39)	(2,663)	(140,076)	(142,739)
At 31 December 2015	12	352	364
Fair value gain	**–**	**(32)**	**(32)**
Transfer to share capital on conversion of convertible notes (Note 39)	**(12)**	**(320)**	**(332)**
At 31 December 2016	**–**	**–**	**–**

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

The Tranche 2 Notes

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

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

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

23. CONVERTIBLE NOTES (CONTINUED)

The Tranche 2 Notes (Continued)

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

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

	Liability component HK$'000	Derivative component HK$'000	Total HK$'000
Issuance of the convertible notes	298	12,322	12,620
Interest expense	18	–	18
Fair value gain	–	(850)	(850)
Transfer to share capital on conversion of convertible notes (Note 39)	(232)	(8,278)	(8,510)
At 31 December 2016	84	3,194	3,278

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

24. CONTINGENT CONSIDERATION PAYABLE

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) are as follows:

	2016 HK$'000	2015 HK$'000
Fair value:		
At beginning of the year	–	17,836
Change in fair value	–	(17,836)
At end of the year	–	–
Gain recognised in profit or loss relating to financial instruments held by the Group at reporting date	–	(17,836)

24. CONTINGENT CONSIDERATION PAYABLE (CONTINUED)

On 19 May 2010, the Group completed the acquisition of 100% equity interest in Ocean Jade Investments Limited ("Ocean Jade") which holds 50% equity interest in a joint venture ("JV") as mentioned in Note 18 from the vendor, Golden Concord. The acquisition is to be satisfied by the issuance of 1,000,000,000 consideration shares to the vendor, when the net profit after tax of Ocean Jade is not less than HK$20 million for the first 12 months after the start of commercial operation of all four vessels in accordance with the agreements. In the event that this profit target is not met, the number of consideration shares to be issued shall be reduced pro-rata to the actual shortfall.

The number of consideration shares to be issued is based on the results of profit forecasts on the expected performance of all the four vessels operated by the joint venture, of which two of them are yet to be acquired. Estimated charter rate adopted in the forecast as at 31 December 2016 is similar to 2015 as there was only slight increase in 2016 when compares with 2015. The Company's own share price of HK$0.047 per share (2015: HK$0.113 per share) adopted in the calculation is the Company's quoted share price as at 31 December 2016.

The Company's obligation to issue a variable number of shares is accounted for as a liability and carried at fair value at the end of each reporting period, with resulting gain or loss recognised in profit or loss.

An increase in the charter rates and the Company's own share price would result in an increase in the fair value of the contingent consideration payable, and vice versa.

As at 31 December 2016, it is estimated that a general increase of 10% in charter rate, with all other variables held constant, the changes in fair value of the contingent consideration payable would increase the Group's loss for the year and accumulated losses by approximately HK$5,971,000 (2015: increase the Group's loss for the year and accumulated losses by approximately HK$13,800,000). It is estimated that a general decrease of 10 % in charter rate, with all other variables held constant, will have no impact on the Group's loss for the year and accumulated losses (2015: no impact on the Group's loss for the year and accumulated losses).

Sensitivity analysis of change in the Company's own share price for the fair value of the contingent consideration payable is disclosed in Note 35(e).

As at 31 December 2016, only two (2015: two) vessels had started commercial operation and there was no change of the fair value of contingent consideration (2015: decreased by HK$17,836,000) as a result of the Directors' re-estimation of the fair value of contingent consideration payable.

25. AMOUNT DUE TO A JOINT VENTURE

	2016 HK$'000	2015 HK$'000
Amount due to a joint venture		
At beginning of the year	**(137,060)**	(43,734)
Share of results of joint venture	**8,549**	(93,427)
Advance to a joint venture	**91**	101
At end of the year	**(128,420)**	(137,060)

Amount due to a joint venture, mainly representing the excess of the Group's share of losses over its interest in the joint venture as mentioned in Note 18, is unsecured, non-interest-bearing and repayable within one year.

26. DEFERRED TAX

No deferred tax asset has been recognised in the Group's financial statements in respect of estimated tax losses available to offset future taxable profits due to the uncertainty of the future profits streams against which the asset can be utilised.

At the end of reporting period, the Group had unused tax losses of HK$493,476,000 (2015: HK$471,324,000), available for offset against future profits, that can be carried forwarded indefinitely.

27. SHARE CAPITAL

Issued and fully paid share capital

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

28. NON-CONTROLLING INTERESTS

The Group has three significant subsidiaries with material non-controlling interests ("NCI"), namely, Kuanping Company, Zunxiao Company and Tangcheng Company i.e. the Railway Companies. The other details of each of the Railway Companies are set out in Note 17. For the purpose of presentation of their summarised financial information, the Directors consider it would be more meaningful and appropriate to aggregate their financial information given the facts that they are engaged in the construction and operations of three parts of the rail track of the Zunxiao Railway and therefore share similar risk and return.

	2016 HK$'000	2015 HK$'000
For the year ended 31 December		
Revenue	–	–
Loss for the year	(399,588)	(112,497)
Total comprehensive income	(408,338)	(134,481)
Loss allocated to NCI	(165,982)	(46,326)
Total comprehensive income allocated to NCI	(169,431)	(55,740)
Dividends paid to NCI	–	–
For the year ended 31 December		
Cash flows used in operating activities	(96,275)	(114,235)
Cash flows from investing activities	608	–
Cash flows from financing activities	91,260	117,095
Net cash (outflow)/inflow	(4,407)	2,860

	2016 HK$'000	2015 HK$'000
As at 31 December		
Current assets	293,842	301,445
Non-current assets	1,589,061	2,020,902
Current liabilities	(945,207)	(1,107,415)
Non-current liabilities	(1,020,947)	(889,846)
Net (liabilities)/assets	(83,251)	325,086
Accumulated non-controlling interests	(63,699)	105,732

29. SHARE OPTIONS

2002 Share Option Scheme

On 27 May 2002, a share option scheme (the "2002 Share Option Scheme") was adopted by the Company. The purpose of the 2002 Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contributions to the Group.

The 2002 Share Option Scheme was terminated with the passing of an ordinary resolution at the extraordinary general meeting of the Company held on 20 August 2008.

(a) The terms and conditions of the options granted that were outstanding at 31 December 2016 and 2015:

	Number of options ('000)		
Options granted to employees	**2016**	2015	**Contractual life of options**
On 26 May 2005	–	–	10 years

As at 31 December 2016 and 2015, no options were exercised or cancelled and that all outstanding options were lapsed on 25 May 2015.

(b) The number and weighted average exercise prices of share options under 2002 Share Option Scheme are as follows:

	2016		2015	
	Number of options '000	**Weighted average exercise price HK$**	Number of options '000	Weighted average exercise price HK$
Outstanding at the beginning of the year	–	–	700	0.6900
Lapsed during the year	–	–	(700)	0.6900
Outstanding at the end of the year	–	–	–	–
Outstanding and exercisable at the end of the year	–	–	–	–

29. SHARE OPTIONS (CONTINUED)

2008 Share Option Scheme

On 20 August 2008, a new share option scheme (the "2008 Share Option Scheme") was adopted by the Company. The purpose of the 2008 Share Option Scheme is to attract, retain and motivate talented participants to strive for future developments and expansion of the Group. The participants are as follows:

(i) any full-time employee and director (including non-executive director and independent non-executive director) of the Group; and any part time employee with weekly working hours of ten hours and above of the Group (collectively "Employee");

(ii) any advisor or consultant to the Group; any provider of goods and/or services to the Group; or any other person who, at the sole determination of the Board, has contributed to the Group (the assessment criteria of which are (a) such person's contribution to the development and performance of the Group; (b) the quality of work performed by such person for the Group; and (c) the initiative and commitment of such person in performing his or her duties; and (d) the length of service or contribution of such person to the Group) (collectively "Business Associate"); and

(iii) the trustee of any trust (whether family, discretionary or otherwise) whose beneficiaries or objects include any Employee or Business Associate of the Group.

The total number of shares which may be issued upon exercise of all options to be granted under the 2008 Share Option Scheme and any other scheme of the Company shall not in aggregate exceed 10% of the issued share capital of the Company as at the date on which the 2008 Share Option Scheme was adopted, without prior approval from the Company's shareholders. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant in any 12-month period shall not exceed 1% of the shares in issue.

The subscription price will be determined by the Directors, which shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant of options; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five days immediately preceding the date of grant of options; or (iii) the nominal value of an ordinary share.

On 21 April 2011, 313,200,000 share options carrying the rights to subscribe for a total of 313,200,000 ordinary shares of HK$0.01 each of the Company were granted to 51 individuals under the 2008 Share Option Scheme and as refreshed on 3 June 2010. 312,200,000 share options granted were accepted by the grantees and 1,000,000 share options were lapsed due to non-acceptance by the grantees within the prescribed time limit. The contractual life of options is 10 years.

29. SHARE OPTIONS (CONTINUED)

2008 Share Option Scheme (Continued)

The number and weighted average exercise price of share options under 2008 Share Option Scheme are as follows:

	2016		2015	
	Number of options '000	Weighted average exercise price HK$	Number of options '000	Weighted average exercise price HK$
Outstanding at the beginning of the year	**220,300**	**0.1680**	250,700	0.1680
Lapsed during the year	**–**	**–**	(1,500)	0.1680
Exercised during the year	**–**	**–**	(28,900)	0.1680
Outstanding at the end of the year	**220,300**	**0.1680**	220,300	0.1680
Exercisable at the end of the year	**220,300**	**0.1680**	220,300	0.1680

The options granted under the 2008 Share Option Scheme had fully vested and wholly exercisable as at 31 December 2016 and 2015. As at 31 December 2016, these outstanding options have an exercise price of HK$0.168 (2015: HK$0.168) and an average remaining contractual life of 4.30 years (2015: 5.30 years).

No options were lapsed, forfeited or exercised during the year ended 31 December 2016.

30. CAPITAL COMMITMENTS

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

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

31. OPERATING LEASE COMMITMENTS

Lessee

	2016 HK$'000	2015 HK$'000
Minimum lease payments for office premises and staff quarters under operating leases charged as expenses in the year	**2,458**	3,779

At the end of reporting period, the Group had outstanding minimum commitments under non-cancellable operating leases, which fall due as follows:

	2016 HK$'000	2015 HK$'000
Within one year	**2,475**	1,983
In the second to fifth years inclusive	**2,295**	2,588
	4,770	4,571

Operating lease payments represent rentals payable by the Group for certain of its office premises and staff quarters. The leases typically run for lease term of one to three years, with an option to renew the lease at which time all terms are renegotiated. None of the lease includes contingent rentals.

Lessor

The Group leases out its vessel under operating lease, and vessel lease receipts recognised as income during the year ended 31 December 2016 was approximately HK$10,392,000 (2015: approximately HK$21,922,000). As at 31 December 2016, the Group leased out its vessel to customers with fixed charter rate for lease term of 20 to 50 days (2015: one to eight months).

The minimum charter income receivables under non-cancellable operating leases are as follows:

	2016 HK$'000	2015 HK$'000
Not later than one year	**6,888**	132

32. FINANCIAL GUARANTEE CONTRACT ISSUED BY THE COMPANY

The Company has executed a counter-guarantee to indemnify Golden Concord up to approximately RMB558,528,000 equivalent to approximately HK$624,396,000 (2015: approximately RMB573,003,000 equivalent to approximately HK$683,954,000) (excluding all related accrued interest, costs and expenses incurred, if any), in return for which Golden Concord has agreed to execute guarantees to a bank in respect of bank loans granted to certain non-wholly owned subsidiaries of the Company in the PRC (Note 22(a)(iii) and Note 33(c)). Under the counter-guarantee, the Company would be liable to pay Golden Concord in the event of any default. The counter-guarantee was issued by the Company at HK$Nil consideration. The Directors considered that the fair value of the financial guarantee at the initial date of providing this guarantee was insignificant.

As at the end of reporting period, no provision for the Company's obligation under the guarantee contract has been made as the Directors do not consider it to be probable that a claim will be made against the Company under the counter-guarantee issued.

33. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

(a) The amounts due to minority equity owners of subsidiaries are unsecured, interest-free and repayable on demand.

(b) Members of key management during the year comprised the directors only whose remuneration is set out in Note 11.

(c) As disclosed in Notes 22(a)(iii) and 32, the Company has provided a counter-guarantee to Golden Concord, a company incorporated in Hong Kong which is beneficially owned by Mr. Zhu Gongshan, a director of certain subsidiaries including the Railway Companies of the Company. Mr. Zhu is a beneficiary of a discretionary trust which in turn owns Golden Concord and a substantial shareholder of the Company.

(d) Interest expenses of other borrowings of approximately HK$5,674,000 (2015: approximately HK$13,679,000) were charged by Golden Concord and its subsidiaries as disclosed in Note 22(b).

(e) The amount due from related party, Golden Concord as disclosed in Note 19 is unsecured, interest-free, repayable on demand.

Transactions disclosed in Notes 33(c) constitute connected transactions as defined under the Listing Rules, and the Directors confirmed that it has complied with the relevant disclosure requirements of the Listing Rules. The related party transactions disclosed in Notes 33(a), 33(d) and 33(e) constitute connected transactions exempted from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

34. CAPITAL RISK MANAGEMENT

The Group's objectives of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity owners and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustment to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings including borrowings and other payables, as shown in the consolidated statement of financial position less cash and bank balances. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

During the year ended 31 December 2016, the Group's strategy, which was unchanged from 2015, was to maintain a gearing ratio of not more than 100%. At set out in Note 40 (iii) to the consolidated financial statements, the Group entered into the placing agreement with a placing agent, on a best effort basis to place 4,000 million new consolidated shares to strengthen the capital structure of the Group.

The gearing ratio as at 31 December 2016 and 2015 were as follows:

	2016 **HK$'000**	2015 HK$'000
Current liabilities	**757,238**	918,329
Non-current liabilities	**1,015,070**	889,846
Total liabilities	**1,772,308**	1,808,175
Less: Cash and bank balances	**(7,154)**	(30,512)
Net debt	**1,765,154**	1,777,663
Total equity	**(101,538)**	328,891
Total capital	**1,663,616**	2,106,554
Gearing ratio	**106%**	84%

35. FINANCIAL RISK MANAGEMENT

Exposure to credit, liquidity, interest rate, currency and equity price risks arises in the normal course of the Group's business.

The main risks arising from the Groups' financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk, currency risk and equity price risk arising from movements in its own equity share price and the fair value changes of its trading securities. The Group does not consider it necessary to use derivative financial instruments to hedge these risk exposures.

These risks are limited by the Group's financial management policies and practices described below:

(a) Credit risk

The Group has policies in place to ensure that the sales of goods and services are made to customers with appropriate credit history and the Group performs credit evaluation of its customers. The Group also has policies that limit the amount of credit exposure to any financial institution.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At 31 December 2016 and 2015, since the Group does not have any trade receivable, the Group has no concentration of credit risk.

The Group has concentration of credit risk from other receivables relating to two entities as at 31 December 2016 (2015: two entities) which amounted to approximately HK$38,013,000 (2015: HK$44,618,000). Taking into account the financial position of these entities, the Directors consider the balances will be fully recoverable.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

The following table details the remaining contractual maturities at the end of reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of reporting period) and the earliest date the Group can be required to pay:

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (Continued)

2016	**Carrying amount HK$'000**	**Total contractual undiscounted cash flow HK$'000**	**Within 1 year or on demand HK$'000**	**More than 1 year but less than 2 years HK$'000**	**More than 2 years but less than 5 years HK$'000**	**More than 5 years HK$'000**
Trade and other payables	**148,781**	**148,781**	**148,781**	**–**	**–**	**–**
Amount due to a joint venture	**128,420**	**128,420**	**128,420**	**–**	**–**	**–**
Amounts due to minority equity owners of subsidiaries	**8,177**	**8,177**	**8,177**	**–**	**–**	**–**
Bank loans and other borrowings	**1,483,652**	**1,587,553**	**522,745**	**1,064,808**	**–**	**–**
Convertible notes	**3,278**	**3,075**	**60**	**3,015**	**–**	**–**
	1,772,308	**1,876,006**	**808,183**	**1,067,823**	**–**	**–**

2015	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000
Trade and other payables	154,512	154,512	154,512	–	–	–
Amount due to a joint venture	137,060	137,060	137,060	–	–	–
Amounts due to minority equity owners of subsidiaries	8,731	8,731	8,731	–	–	–
Bank loans and other borrowings	1,507,508	1,687,490	694,190	335,804	657,496	–
Convertible notes	364	261	5	5	251	–
	1,808,175	1,988,054	994,498	335,809	657,747	–

As shown in the above analysis, bank loans and other financial liabilities of the Group amounting to approximately HK$808,183,000 (2015: HK$994,498,000) are expected to be repaid within the next twelve months from 31 December 2016. The short-term liquidity risk inherent in this contractual maturity profile has been addressed in Note 3(b)(ii).

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Interest rate risk

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period.

	2016		2015	
	Effective interest rate (%)	HK$'000	Effective interest rate (%)	HK$'000
Fixed rate borrowings				
Other bank loan	**9.18% to 10.08%**	**–**	9.18% to 10.08%	3,580
Other borrowings	**6.50% to 8.00%**	**31,581**	6.47% to 20.00%	205,281
Other bank loan and other borrowings		**31,581**		208,861
Interest free				
Other borrowings	**0%**	**381,104**	0%	125,319
Floating rate borrowings				
Bank loans	**4.90% to 5.88%**	**1,070,967**	5.88% to 7.38%	1,173,328
Total borrowings		**1,483,652**		1,507,508
Fixed rate borrowings as a percentage of total borrowings		**28%**		22%

Sensitivity analysis

As at 31 December 2016, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's loss for the year and accumulated losses by approximately HK$8,032,000 (2015: increase/decrease the Group's loss for the year and accumulated losses by approximately HK$8,800,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for the borrowings in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis is performed on the same basis for 2015.

For the year ended 31 December 2016, the convertible notes issued at fixed rate of 2%, exposes the Group to fair value interest rate risk which is considered by the Directors to be insignificant.

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Currency risk

Currency risk to the Group is minimal as most of the Group's transactions are carried out in the functional currency of the operations to which the transactions relate and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

All the Group's borrowings are denominated in the functional currency of the entity taking out the loan. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings.

(e) Equity price risk

The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of the contingent consideration payable of the Group (Note 24) and the derivatives component of the Company's convertible notes (Note 23) at the end of reporting period.

As at 31 December 2016 and 2015, it is estimated that a reasonably possible changes in the Company's own share price with other variables held constant would have insignificant impact on the aforementioned financial instruments, net loss for the year and accumulated losses.

(f) Fair values estimation

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

36. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2016 and 2015 may be categorised as follows:

	2016	2015
	HK$'000	HK$'000
Financial assets		
Loans and receivables (including cash and bank balances)	**48,380**	80,150
Financial liabilities		
Fair value through profit or loss		
– Contingent consideration payable	**–**	–
– Derivative component of convertible notes	**3,194**	352
Financial liabilities measured at amortised cost	**1,769,114**	1,807,823

HKFRS 13 requires disclosure for financial instruments that are carried at fair value by level of the following fair value measurement hierarchy:

Level 1 – Quoted price (unadjusted) in active markets for identical assets or liabilities.
Level 2 – Inputs other than quoted price included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.
Level 3 – Inputs for the asset or liability that are not based on observable market data.

The Group's contingent consideration payable and derivative component of convertible notes are measured at fair value. There were no transfers between levels during the years ended 31 December 2016 and 2015.

	Level 1	**Level 2**	**Level 3**	**Total**
At 31 December 2016	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Liabilities				
Contingent consideration payable	**–**	**–**	**–**	**–**
Derivative component of convertible notes	**–**	**–**	**3,194**	**3,194**

	Level 1	Level 2	Level 3	Total
At 31 December 2015	HK$'000	HK$'000	HK$'000	HK$'000
Liabilities				
Contingent consideration payable	–	–	–	–
Derivative component of convertible notes	–	–	352	352

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2016 HK$'000	2015 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries		**69,955**	530,356
Current assets			
Other receivables and prepayments		**15,079**	20,041
Cash and cash equivalents		**3,325**	17,446
		18,404	37,487
Current liabilities			
Other payables		**2,646**	1,967
Convertible notes		**3,278**	364
		5,924	2,331
Net current assets		**12,480**	35,156
Net assets		**82,435**	565,512
EQUITY			
Share capital	27	**1,595,221**	1,586,379
Other reserves	38	**(1,512,786)**	(1,020,867)
Total equity		**82,435**	565,512

The statement of financial position was approved and authorised for issue by the Directors on 24 March 2017.

Liang Jun	**Fu Yongyuan**
Director	*Director*

38. RESERVES OF THE COMPANY

	Capital Reserve* HK$'000	Share option Reserve* HK$'000	Accumulated Losses* HK$'000	Total HK$'000
As at 1 January 2015	4,190	31,862	(937,795)	(901,743)
Total comprehensive income for the year	–	–	(115,989)	(115,989)
Share issued upon exercise of share options	–	(3,135)	–	(3,135)
Forfeiture/lapse of share options	–	(3,457)	3,457	–
As at 31 December 2015	4,190	25,270	(1,050,327)	(1,020,867)
Total comprehensive income for the year	**–**	**–**	**(491,919)**	**(491,919)**
As at 31 December 2016	**4,190**	**25,270**	**(1,542,246)**	**(1,512,786)**

* As at 31 December 2016, these reserves constituted the other reserves balance of HK$1,512,786,000 (2015: HK$1,020,867,000) per the Company's statement of financial position.

The Company did not have any reserves available for distribution to shareholders as at 31 December 2016 and 2015.

39. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2016, carrying amounts of the liability component of HK$244,000 (2015: HK$2,663,000) and derivative components of HK$8,598,000 (2015: HK$140,076,000) of the convertible notes were transferred to share capital amounting to HK$8,842,000 (2015: HK$142,739,000) at their respective dates of conversion.

40. EVENTS AFTER THE END OF REPORTING PERIOD

As set out in the Company's circular dated 8 March 2017, the Group have proposed the following transactions which were approved by the shareholders at the general meeting held on 24 March 2017.

(i) The Group entered into the memorandum of agreement with GPO Grace Limited ("the Vendor") pursuant to which the Company agreed to acquire and the Vendor agreed to sell the heavy lift vessel, for the acquisition consideration of US$103.3 million (equivalent to approximately HK$803.67 million) (the "Acquisition"). The completion of the Acquisition is subject to fulfilment of certain conditions as stipulated in the memorandum of agreement, including the obtaining by the Company of the shareholders' approval at a general meeting.

(ii) The Group entered into the placing agreement with Eternal Pearl Securities Limited (the "Placing Agent") pursuant to which the Placing Agent has conditionally agreed to procure not less than six placees, to subscribe for, and the Company has conditionally agreed to allot and issue, on the best effort basis, a total of 4,000 million placing shares (based on the consolidated share as referred to (iii) below) at the placing price of HK$0.10 per placing share. The estimated net proceeds from placing are HK$384 million. The placing of new shares is subject to approval by shareholders of the Company. The remaining amount of the proceeds after the payments for the acquisition of the heavy lift vessel and related expenses of approximately HK$46.5 million are expected to be used for general working capital of the Group.

(iii) The directors propose to implement the share consolidation of every ten existing shares into one consolidated share (the "Share Consolidation"). If the Share Consolidation is approved by the shareholders in the general meeting, the expected effective date of the Share Consolidation will be on 27 March 2017.

Five-Year Financial Summary

Year ended 31 December 2016

	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**10,392**	21,922	36,680	19,084	–
Loss before income tax	**(433,367)**	(344,190)	(242,344)	(128,846)	(54,762)
Income tax credit	**–**	–	6,579	–	–
Loss for the year	**(433,367)**	(344,190)	(235,765)	(128,846)	(54,762)
Non-controlling interests	**(165,982)**	(46,326)	(50,953)	(27,777)	(6,766)
Loss attributable to owners of the Company	**(267,385)**	(297,864)	(184,812)	(101,069)	(47,996)
ASSETS AND LIABILITIES					
Total assets	**1,670,770**	2,137,066	2,297,123	2,302,879	2,216,247
Total liabilities	**(1,772,308)**	(1,808,175)	(1,745,422)	(1,511,644)	(1,356,647)
	(101,538)	328,891	551,701	791,235	859,600
Equity attribute to owners of the Company	**(37,839)**	223,159	390,229	577,668	625,482
Non-controlling interests	**(63,699)**	105,732	161,472	213,567	234,118
	(101,538)	328,891	551,701	791,235	859,600