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

INTERIM REPORT 2017

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Business Review and Prospects

During the period 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.

* *for identification purposes only*

As announced by the Company on 28 February 2014, the Company's indirectly wholly-owned subsidiary, China Railway Logistic Holdings Limited (the "Vendor"), and 河北建投交通投資有限責任公司 (Hebei Construction, Transportation and Investment Co., Ltd*) (the "Purchaser") entered into three disposal agreements (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 have been striving to address the outstanding issues in order to fulfill the conditions precedent to the completion of the Disposal collaboratively. However, as disclosed by the Company previously, the outstanding issues related mainly to the assessment of the scope of compensation payable to the overlaid mine owner have yet to be resolved by the parties involved.

As announced by the Company on 4 August 2016, the Vendor had been informed by a letter from the Purchaser stating that the Purchaser no longer has any further intention to proceed with the acquisition of the Relevant Interests due to the level of complexity of the Zunxiao Railway and the difficulties involved. In the circumstances, the Vendor has sought an advice from its legal advisers as to PRC law who, on the basis that the Purchaser has stated that the Purchaser no longer has any further intention to proceed with the acquisition of the Relevant Interests, opined that the Vendor may 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. Accordingly, the management considered that the 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 by value in use calculations based on the expected amount of the compensation to the overlaid mine owner, the expected payment terms of the compensation payable, the expected time of the resumption of the construction of the railway and the expected commencement date of the operation of the railway business. 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 were therefore recognised at 31 December 2016.

* *for identification purposes only*

Management Discussion and Analysis

As disclosed by the Company previously, the outstanding issue which caused the prolonged delay of the construction related mainly to the assessment of the scope of compensation payable to the overlaid mine owner. Although continuous effort has been made in negotiation with the overlaid mine owner throughout the years, no agreement has been reached by the parties involved in respect of the scope of compensation payable as at the date of the Report. The relevant authorities are now involved in coordinating the discussion and negotiation in respect of the compensation payable and with a view to resume the construction of the Zunxiao Railway, the railway companies are seeking for professionals with expertise in infrastructure construction management to assess the construction cost of the outstanding railway sections and to put forward any possible solutions to the Company and the relevant authorities to expedite the construction progress. Meanwhile, the Company is striving to explore different fundraising means in order to obtain sufficient capital commitment to sustain its railway construction and operations and will publish further announcements as and when appropriate.

Shipping and Logistics

Dry-Bulk Vessels

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

For the first half of 2017, due to the rebound of the general commodities price, the Baltic Dry Index (BDI) also recovered significantly from its record lows in February 2016. For the period under review, the average BDI improved to about 975 points as compared to an average BDI of about 486 points for the same period last year, an increase of over 100%. Despite the fact that there are no clear signals indicating any further improvement of the dry bulk market for the remaining half of 2017, it is expected that the BDI will at least keep at the same level as first half of 2017 and the Company is expecting a better performance from its shipping operation in 2017 against 2016.

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 vessels are to be acquired. However, due to the continuing poor performance of the shipping market for the past few years, the JV Group has not made further acquisition of the remaining two vessels as planned since its acquisition of the first two vessels in 2010. The Group 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 the JV Agreement and publish further announcements as and when appropriate.

For the period under review, the JV Group recorded revenue of approximately HK$33,780,000 (30 June 2016: approximately HK$18,999,000), representing an increase of approximately 78% as compared to the corresponding period of 2016. The Group's share of profit from the JV Group was approximately HK$2,849,000 (30 June 2016: loss of approximately HK$6,950,000).

For the period under review, MV Asia Energy recorded revenue of approximately HK$7,792,000 (30 June 2016: approximately HK$3,755,000), representing an increase of approximately 108% as compared to the corresponding period of 2016.

Details of the business segment of the Group are set out in Note 6 to the unaudited condensed consolidated interim financial statements.

Management Discussion and Analysis

Heavy lift Vessel, Dry-Bulk Vessels and Placing

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

On the same day of 8 February 2017, the Company entered into a placing agreement with the placing agent (the "Placing Agent"), pursuant to which the Placing Agent conditionally agreed to procure not less than six Placees, to subscribe for, and the Company conditionally agreed to allot and issue, on a best effort basis, a total of 4,000,000,000 shares (the "Placing Shares") at the price of HK$0.10 per share (the "Placing Price") (the "Placing"). The net proceeds of HK$384 million should be applied towards the settlement of partial Acquisition Consideration and as working capital.

On 27 March 2017, the acquisition of the Heavy Lift Vessel and the Placing were duly passed as ordinary resolutions of the Company by the Shareholders.

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

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

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

Subsequent to the unsuccessful implementation of business plans in respect of the acquisition of the Heavy Lift Vessel, the Placing Shares and also the acquisition of dry bulk vessels, the management has been actively discussing and exploring other possible options with a view to further developing the Group's existing business operations and to improving the Group's current financial position. In order to rectify the above-mentioned adverse situation faced by the Group and having considered the positive segment performance of the shipping and logistics business, the management is envisaging the possibility of enlarging the existing shipping and logistics business that may generate immediate cash inflow in near future. Further announcements will be published as and when appropriate.

Financial Review

For the period under review, the unaudited revenue of the Group was approximately HK$7,792,000 (30 June 2016: approximately HK$3,755,000), representing an increase of approximately 108% compared to the corresponding period of 2016. The increase in revenue was due to the improvement in global shipping market.

Management Discussion and Analysis

The Group recorded a loss after tax for the period under review of approximately HK$40,848,000 (30 June 2016: loss of approximately HK$261,307,000) representing a decrease in loss of approximately 84% as compared to the corresponding period of 2016. The decrease in loss was mainly attributable to the increase in the revenue, share of profit from the JV Group, the decrease in finance costs and general operating expenses, as well as the fact that the impairment losses recognised in the previous corresponding period no longer exist. The loss per share was HK1.96 cents (30 June 2016: HK11.63 cents).

Financial Resources, Liquidity and Gearing Ratio

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

As at 30 June 2017, the Group had bank and cash balances of approximately HK$9,901,000 (31 December 2016: approximately HK$7,154,000).

As at 30 June 2017, the Group had secured bank loans of approximately HK$57,609,000 repayable within one year, approximately HK$1,046,168,000 repayable within one to two years. The effective interest rate for the period was 4.9% per annum.

As at 30 June 2017, the Group had unsecured other borrowings of approximately HK$15,641,000 repayable within one year and approximately HK$446,788,000 repayable on demand. Other borrowings of approximately HK$39,549,000 are interest bearing at 2% to 8% per annum with the remaining balances of HK$422,880,000 being interest free.

As at 30 June 2017, the Company had outstanding convertible notes in the principal amount of HK$500,000. The convertible notes due 1 April 2018 were issued at the coupon rate of 2% per annum.

As at 30 June 2017, the gearing ratio of the Group was approximately 108% (31 December 2016: approximately 106%). For this purpose, the gearing ratio is calculated as net debt divided by adjusted capital.

Share Capital

Pursuant to an ordinary resolution passed at the general meeting of the Company held on 24 March 2017, the proposed share consolidation (the "Share Consolidation") on the basis that every ten issued shares being consolidated into one consolidated share (the "Share") was approved. The Share Consolidation was completed and became effective on 27 March 2017.

During the period under review, convertible notes in the principal amount of HK$5,000,000 were converted into 24,680,765 Shares (adjusted after Share Consolidation), details of which are set out in the announcements of the Company published between January 2017 to June 2017.

As at 30 June 2017, the total number of Shares in issue was 1,458,617,753.

Details of the movement in the Company's share capital are set out in Note 15 to the unaudited condensed consolidated interim financial statements.

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 authorised representative, Advance Capital Partners Pte. Ltd ("ACP"), pursuant to which the Company agreed to issue and the Subscriber agreed to subscribe for the convertible notes (the "Convertible Notes") in the aggregate principal amount of up to HK$100 million at a price equivalent to 100% of the principal amount of the Convertible Notes. The principal terms and conditions of the Subscription Agreement are set out in the Company's circular dated 13 March 2015.

Management Discussion and Analysis

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"). As at 26 February 2016, the Tranche 1 Notes were fully issued, subscribed and converted and approximately HK$55 million (net of arrangement fee) was raised.

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

On 1 March 2016, the Company entered into a second supplemental agreement with the Subscriber and ACP to further amend certain terms and conditions of the Subscription Agreement and notified the Subscriber of its intention to exercise the Option to require the Subscriber to subscribe for the Tranche 2 Notes from the Company, details of which are set out in the Company's circular dated 11 April 2016.

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

During the period under review, Convertible Notes of the Tranche 2 Notes in the principal amount of HK$2,500,000 was subscribed and issued and approximately HK$2,325,000 (net of arrangement fee) was raised which had been applied towards the general working capital. As at 30 June 2017, Convertible Notes of the Tranche 2 Notes in the principal amount of HK$500,000 remained unconverted.

Given the revenue from the Zunxiao Railway business will only be generated after completion of the construction of the Zunxiao Railway which is mainly prolonged by the lengthy negotiation between the railway companies and the overlaid mine owner on compensation issues, the Group is exploring different fundraising means, including but not limited to the allotment of Shares under general mandate, to fund the growth of the existing shipping and logistics business that may generate immediate cash inflow and as working capital for the Group including the Zunxiao Railway business.

Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, and Future Plan for Material Investments or Capital Assets

Save for those disclosed in the section headed "Business Review and Prospects" above, there were no other significant investments held, nor were there any material acquisitions or disposals of subsidiaries during the period under review.

As at the date of this Report, there was no plan authorised by the board (the "Board") of directors (the "Directors") of the Company for any material investments or additions of capital assets.

Pledge of Assets and Contingent Liabilities

Golden Concord Holdings Limited ("GCL"), a company beneficially owned by Mr. Zhu Gongshan, a director of various subsidiaries of the Company, had provided guarantee to the Group's bank loan facilities in aggregate, up to RMB1,033 million (equivalent to approximately HK$1,190 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$694 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 30 June 2017, the outstanding bank loans amounted to approximately RMB958 million (equivalent to approximately HK$1,104 million). Therefore, according to the Group's percentage equity interest holdings in the subsidiaries, there was a contingent liability of approximately RMB559 million (equivalent to approximately HK$644 million).

Management Discussion and Analysis

Capital Commitments

As at 30 June 2017, the Group had capital commitment of approximately HK$270,000,000 (31 December 2016: approximately HK$262,000,000), details of which are set out in Note 16 to the unaudited condensed consolidated interim financial statements.

Exposure to Fluctuation in Exchange Rates

The Group's assets, liabilities and transactions are mainly denominated 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, the Directors consider that the Group's currency exchange risk is minimal. Therefore, no hedging devices or other alternatives have been implemented.

Employees

As at 30 June 2017, the Group had 87 (31 December 2016: 96) full-time employees, 68 of whom were based in the PRC. Staff costs of the Group for the period under review, including directors' remuneration, were approximately HK$8,192,000 (30 June 2016: approximately HK$8,899,000). The Group decides the remunerations 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.

During the period under review, the Company has one share option scheme, namely, the 2008 Option Scheme.

The 2008 Option Scheme was adopted on 20 August 2008 and is valid and effective for a period of ten years commencing on 20 August 2008. A shareholders' resolution was passed at the annual general meeting held on 3 June 2010 to refresh the scheme mandate limit such that the maximum number of Shares which may be issued upon exercise of all the options would amount to 1,285,702,710 Shares (equivalent to 128,570,271 Shares after Share Consolidation). As at the date of this Report, 31,220,000 (adjusted after Share Consolidation) share options were granted and accepted.

Details of the 2008 Option Scheme are set out in page 22 to 26 of this Report.

Changes in Directorship

During the period under review, Mr. Tse On Kin and Mr. Fung Ka Keung, David resigned as Executive Directors with effect from 14 February 2017 and 1 June 2017 respectively, details of which have been disclosed in the Company's announcements dated 14 February 2017 and 1 June 2017 respectively.

Subsequent Events

Events subsequent to the period under review are as follows:

On 3 July 2017, Professor Sit Fung Shuen, Victor resigned as an Independent Non-Executive Director and a member of the Audit Committee. Mr. Wong Cheuk Bun has been appointed as an Independent Non-Executive Director and a member of the Audit Committee with effect from the same date.

On 31 July 2017, the Subscriber converted the Convertible Notes in an aggregate principal amount of HK$500,000 into conversion shares. On 11 August 2017, the fifth sub-tranche of the Tranche 2 Notes in the principal amount of HK$2,500,000 was subscribed and issued and approximately HK$2,325,000 (net of arrangement fee) was raised which will be applied towards the general working capital of the Group. As at the date of this Report, Convertible Notes of the Tranche 2 Notes in the principal amount of HK$2,500,000 remained unconverted.

Corporate Governance and Other Information

Corporate Governance

Compliance with Corporate Governance Code

It is one of the continuing commitments of the Board and the management of the Company to maintain high standards of corporate governance. The Company has adopted and applied the principles as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers that effective corporate governance makes significant contribution to corporate success and enhancement of shareholder value. Throughout the period of six months ended 30 June 2017, the Company has complied with the CG Code save as specified and explained below:

Code Provision A.2.1

The post of chief executive (the "Chief Executive") of the Company has remained vacant since March 2000. The duties of Chief Executive have been performed by other Executive Directors of the Company. As there is a clear division of responsibilities of each Director, the vacancy of the post of Chief Executive did not have any material impact on the operations of the Group. However, the Board will review the current board 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 stipulates, among other things, that the independent non-executive directors and other non-executive directors should attend general meetings. Mr. Chan Chi Yuen, an Independent Non-Executive Director, was absent from the general meeting of the Company held on 19 May 2017 due to a pre-arranged business engagement. Professor Sit Fung Shuen, Victor, an Independent Non-Executive Director until 3 July 2017, was absent from both the general meetings of the Company held on 24 March 2017 and 19 May 2017 due to his other business engagements.

Board of Directors

(1) Board Composition

Save and except for (i) the resignations of Mr. Tse On Kin and Mr. Fung Ka Keung, David as the Executive Directors and Professor Sit Fung Shuen, Victor as an Independent Non-Executive Director and (ii) the appointment of Mr. Wong Cheuk Bun as an Independent Non-Executive Director during the six months ended 30 June 2017, there are no changes in the composition of the Board since the last published annual report of the Company.

The composition of the Board as at the date of this Report is set out below and their biographies are available on the Company's website.

Executive Directors
Mr. Liang Jun
Mr. Fung Ka Keung, David (resigned on 1 June 2017)
Mr. Tse On Kin (resigned on 14 February 2017)
Mr. Fu Yongyuan
Mr. Lin Wenqing

Non-Executive Director
Mr. Yu Baodong *(Chairman)*

Independent Non-Executive Directors
Mr. Chan Chi Yuen
Professor Sit Fung Shuen, Victor (resigned on 3 July 2017)
Mr. Siu Miu Man
Mr. Wong Cheuk Bun (appointed on 3 July 2017)

Corporate Governance and Other Information

(2) Disclosure of Information on Directors

Save for the changes in the directorships and composition of Board committees of the Company disclosed in the sections headed "Management Discussion and Analysis" and "Corporate Governance and Other Information – Board of Directors" above, since the last published annual report of the Company, there is no change in the Director's information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

(3) Board Committees

The Board currently has three committees, namely the Audit Committee, the Nomination Committee and the Remuneration Committee. All the Board committees are empowered by the Board under their own written terms of reference which were published on the Company's website. Their respective role and function and the composition of these committees are also available on the Company's website.

Save and except for those mentioned in the respective written terms of reference of each Committee, as at the date of this Report, the Nomination Committee proposed the appointment of Mr. Wong Cheuk Bun as an Independent Non-Executive Director and the appointment was unanimously passed at the Board Meetings; the Remuneration Committee determined, with delegated power, the remuneration package of Mr. Wong Cheuk Bun; and the Audit Committee reviewed the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2017.

(4) Continuous Professional Development

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.

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 (the "Model Code"). Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the Model Code throughout the period under review.

Risk Management and Internal Control

During the period under review, 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.

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 providers 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.

Disclosure of Interests

Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures

As at 30 June 2017, the following persons 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 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:

Long Position in the Shares and underlying Shares

Name of Director	Capacity	Number of Shares held *(Note 3)*	Number of underlying Shares held under equity derivatives *(Notes 1 and 3)*	Total *(Note 3)*	Approximate percentage of Shareholding *(Note 2)*
Mr. Liang Jun	Beneficial Owner	200,000	5,000,000	5,200,000	0.36%
Mr. Yu Baodong	Beneficial Owner	—	5,000,000	5,000,000	0.34%

Notes:

(1) These are share options granted by the Company to the Directors under the share option scheme adopted by the shareholders of the Company 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$1.680 per Share (Note 3).

(2) The approximate percentage of shareholding was calculated based on the number of shares in issue of 1,458,617,753 Shares as at 30 June 2017.

(3) Adjusted after the Share Consolidation.

Save as disclosed above, as at 30 June 2017, as far as the Board was aware, none of the Directors 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 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.

Corporate Governance and Other Information

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2017, so far as is known to the Board, the following persons (other than a director or chief executive of the Company) had interests in the shares or underlying shares of the Company which were notified to the Company and the Stock Exchange pursuant to 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:

Long Position in the Shares and underlying Shares

Name	**Capacity**	**Number of Shares and underlying Shares held** *(Note 5)*	**Approximate percentage of Shareholding** *(Note 4)*
Mr. Wong Kin Ting ("Mr. Wong")	Interest of controlled corporations	455,297,032 *(Note 1)*	31.21
Mr. Zhu Gongshan ("Mr. Zhu")	Beneficiary of a discretionary trust & interest of controlled corporations	213,745,000 *(Note 2)*	14.65
Credit Suisse Trust Limited ("CST")	Trustee	200,000,000 *(Note 3)*	13.71

Notes:

(1) According to the individual substantial shareholder notice filed by Mr. Wong, Mr. Wong was deemed to be interested in 455,297,032 Shares through his interests in the following corporations which are 100% owned by him:

(i) 29,500,000 Shares held by Delight Assets Management Limited, and

(ii) 425,797,032 Shares held by King Castle Enterprises Limited.

(2) According to the individual substantial shareholder notice filed by Mr. Zhu, Mr. Zhu was deemed to be interested in 213,745,000 Shares that comprised:

(i) 200,000,000 Shares indirectly held by Asia Pacific Energy Fund, a trust fund to which Mr. Zhu is both a founder and a beneficiary, details of which are described in Note 3 below, and

(ii) 13,745,000 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 200,000,000 Shares in its capacity as the trustee of these Shares. These 200,000,000 Shares were beneficially owned by Fast Sky Holdings Limited which in turn is 100% directly controlled by Golden Concord Group Limited ("Golden Concord"). Golden Concord is 100% controlled by Asia Pacific Energy Holdings Limited which in turn is 100% controlled by Asia Pacific Energy Fund Limited ("APEFL"). APEFL is 50% controlled by Serangoon Limited and 50% controlled by Seletar Limited and both Serangoon Limited and Seletar Limited are 100% controlled by CST.

Out of these 200,000,000 Shares, 100,000,000 Shares are consideration Shares which may be issued (in whole or in part as appropriate) to Golden Concord 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 (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 100,000,000 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 1,458,617,753 Shares as at 30 June 2017.

(5) Adjusted after the Share Consolidation.

Save as disclosed above, as at 30 June 2017, 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 Shares 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.

Corporate Governance and Other Information

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 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 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 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 Company's shareholders. The total number of Shares issued and to be issued upon exercise of the option granted and to be granted to each participant in any 12-month period shall not exceed 1% of the Shares in issue.

Since there was a substantial increase in the issued share capital of the Company after the adoption of the 2008 Option Scheme, a shareholders' resolution was passed at the annual general meeting held on 26 April 2010 to refresh the scheme mandate limit of the 2008 Option Scheme such that the total number of Shares which may be issued upon exercise of all the options to be granted under the 2008 Option Scheme (as refreshed) would amount to 1,285,702,710 Shares (equivalent to 128,570,271 Shares after Share Consolidation), representing 10% of the issued share capital of the Company as at the date of passing of the resolution. The exercise 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 option; or (iii) the nominal value of a 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 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 options) subject to any restrictions as may be imposed on the exercise of an option during the period in which an option may be exercised.

On 21 April 2011, 313,200,000 (equivalent to 31,320,000 after Share Consolidation) share options were granted at an exercise price of HK$0.168 (equivalent to HK$1.680 after Share Consolidation) per Share under the 2008 Option Scheme, of which 312,200,000 (equivalent to 31,220,000 after Share Consolidation) share options were accepted and 1,000,000 (equivalent to 100,000 after Share Consolidation) share options were lapsed due to non-acceptance by the grantee within the prescribed time limit.

Corporate Governance and Other Information

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

Directors or category of participants	Exercise period of the share options	Exercise price of share options HK$ (Note 1)	As at 1.1.2017 (Note 1)	Granted during the period	Exercised during the period	Lapsed during the period (Note 1)	As at 30.6.2017 (Note 1)
Directors							
Mr. Liang Jun	21.4.2011 to 20.4.2021	1.680	2,000,000	—	—	—	2,000,000
	21.4.2012 to 20.4.2021	1.680	1,500,000	—	—	—	1,500,000
	21.4.2013 to 20.4.2021	1.680	1,500,000	—	—	—	1,500,000
Mr. Fung Ka Keung, David	21.4.2011 to 20.4.2021	1.680	400,000	—	—	—	400,000
(Note 2)	21.4.2012 to 20.4.2021	1.680	300,000	—	—	—	300,000
	21.4.2013 to 20.4.2021	1.680	300,000	—	—	—	300,000
Mr. Yu Baodong	21.4.2011 to 20.4.2021	1.680	2,000,000	—	—	—	2,000,000
	21.4.2012 to 20.4.2021	1.680	1,500,000	—	—	—	1,500,000
	21.4.2013 to 20.4.2021	1.680	1,500,000	—	—	—	1,500,000

Directors or category of participants	Exercise period of the share options	Exercise price of share options HK$ (Note 1)	As at 1.1.2017 (Note 1)	Granted during the period	Exercised during the period	Lapsed during the period (Note 1)	As at 30.6.2017 (Note 1)
Former Directors							
Ms. Yu Sau Lai *(Note 3)*	21.4.2011 to 20.4.2021	1.680	130,000	—	—	130,000	—
	21.4.2012 to 20.4.2021	1.680	300,000	—	—	300,000	—
	21.4.2013 to 20.4.2021	1.680	300,000	—	—	300,000	—
Ms. Sun Wei *(Note 3)*	21.4.2011 to 20.4.2021	1.680	2,000,000	—	—	2,000,000	—
	21.4.2012 to 20.4.2021	1.680	1,500,000	—	—	1,500,000	—
	21.4.2013 to 20.4.2021	1.680	1,500,000	—	—	1,500,000	—
Employees (in aggregate)	21.4.2011 to 20.4.2021	1.680	1,950,000	—	—	—	1,950,000
	21.4.2012 to 20.4.2021	1.680	1,695,000	—	—	—	1,695,000
	21.4.2013 to 20.4.2021	1.680	1,655,000	—	—	—	1,655,000
Total			22,030,000	—	—	5,730,000	16,300,000

Corporate Governance and Other Information

Notes:

(1) Adjusted after Share Consolidation.

(2) Mr. Fung Ka Keung, David resigned as an Executive Director with effect from 1 June 2017 but is entitled to exercise his share options until 1 March 2018 pursuant to the terms of the 2008 Option Scheme.

(3) Ms. Yu Sau Lai and Ms. Sun Wei resigned on 31 August 2016 as an Executive Director and a Non-Executive Director but are entitled to exercise their share options until 31 May 2017 pursuant to the terms of the 2008 Option Scheme. As at 30 June 2017, the relevant share options were not exercised and accordingly lapsed during the period under review.

During the period under review, 5,730,000 share options were lapsed and no share options were exercised and cancelled. The number of Shares which may be issued upon exercise of the options which had been granted and outstanding on 30 June 2017 under the 2008 Option Scheme was 16,300,000 (31 December 2016: 22,030,000), representing approximately 1.12% (31 December 2016: approximately 1.56%) of the number of shares in issue as at 30 June 2017.

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the period under review.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2017

	Notes	For the six months ended 30 June 2017 HK$'000 (Unaudited)	2016 HK$'000 (Unaudited)
Revenue	4	**7,792**	3,755
Cost of sales		**(7,205)**	(8,092)
Gross profit/(loss)		**587**	(4,337)
Other income, gains and (losses)	5	**510**	(1,640)
Depreciation and amortisation		**(922)**	(799)
Staff costs		**(8,192)**	(8,899)
Impairment loss on property, plant and equipment		**–**	(420)
Impairment loss on construction in progress		**–**	(187,076)
Impairment loss on railway construction prepayment		**–**	(978)
Change in fair value of derivative component of convertible notes	14	**(7)**	356
Change in fair value of options/commitment to issue convertible notes	14	**(217)**	(1,544)
Share of results of joint venture		**2,849**	(6,950)
Other operating expenses		**(7,424)**	(8,148)
Finance costs	7	**(28,032)**	(40,872)
Loss before income tax	8	**(40,848)**	(261,307)
Income tax	9	**–**	–
Loss for the period		**(40,848)**	(261,307)

Condensed Consolidated Statement of Comprehensive Income

	Notes	For the six months ended 30 June 2017 HK$'000 (Unaudited)	2016 HK$'000 (Unaudited)
Other comprehensive income			
Exchange difference arising on translation of financial statements of foreign operations which may be reclassified subsequently to profit or loss		**(1,702)**	(3,494)
Total comprehensive income for the period		**(42,550)**	(264,801)
Loss for the period attributable to:			
Owners of the Company		**(28,294)**	(164,750)
Non-controlling interests		**(12,554)**	(96,557)
		(40,848)	(261,307)
Total comprehensive income for the period attributable to:			
Owners of the Company		**(29,255)**	(166,800)
Non-controlling interests		**(13,295)**	(98,001)
		(42,550)	(264,801)
Loss per share			
– basic and diluted (HK cents per share)	10	**(1.96)**	(11.63)

Condensed Consolidated Statement of Financial Position

As at 30 June 2017

	Notes	At 30 June 2017 HK$'000 (Unaudited)	At 31 December 2016 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		34,930	37,127
Intangible assets		1,000	1,000
Construction in progress	12	1,623,856	1,575,512
Railway construction prepayment	12	8,487	8,235
Interest in a joint venture		–	–
		1,668,273	1,621,874
Current assets			
Other receivables and prepayments		37,211	41,742
Cash and cash equivalents		9,901	7,154
		47,112	48,896
Current liabilities			
Trade and other payables	13	153,274	148,781
Bank loans and other borrowings		520,038	468,582
Convertible notes	14	535	3,278
Amount due to a joint venture		125,558	128,420
Amounts due to minority equity owners of subsidiaries		8,427	8,177
		807,832	757,238
Net current liabilities		(760,720)	(708,342)
Total assets less current liabilities		907,553	913,532

Condensed Consolidated Statement of Financial Position

	Notes	At 30 June 2017 HK$'000 (Unaudited)	At 31 December 2016 HK$'000 (Audited)
Non-current liabilities			
Bank loans		**1,046,168**	1,015,070
Contingent consideration payable		**–**	–
		1,046,168	1,015,070
Net liabilities		**(138,615)**	(101,538)
Capital and reserves attributable to owners of the Company			
Share capital	15	**1,600,694**	1,595,221
Other reserves		**(1,662,315)**	(1,633,060)
Equity attributable to owners of the Company		**(61,621)**	(37,839)
Non-controlling interests		**(76,994)**	(63,699)
TOTAL EQUITY		**(138,615)**	(101,538)

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

	Attributable to owners of the Company							
	Share capital HK$'000 (Note 15)	Capital reserves HK$'000	Share option reserve HK$'000	Foreign exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
As at 1 January 2017 (Audited)	1,595,221	4,190	25,270	23,245	(1,685,765)	(37,839)	(63,699)	(101,538)
Loss for the period	–	–	–	–	(28,294)	(28,294)	(12,554)	(40,848)
Other comprehensive income – Exchange difference arising on translation of financial statements of foreign operations which may be reclassified subsequently to profit or loss	–	–	–	(961)	–	(961)	(741)	(1,702)
Total comprehensive income for the period	–	–	–	(961)	(28,294)	(29,255)	(13,295)	(42,550)
Shares issued on the conversion of convertible notes	5,473	–	–	–	–	5,473	–	5,473
Lapse of share options	–	–	(6,743)	–	6,743	–	–	–
As at 30 June 2017 (Unaudited)	1,600,694	4,190	18,527	22,284	(1,707,316)	(61,621)	(76,994)	(138,615)

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

	Attributable to owners of the Company							
	Share capital HK$'000	Capital reserves HK$'000	Share option reserve HK$'000	Foreign exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
As at 1 January 2016 (Audited)	1,586,379	4,190	25,270	25,700	(1,418,380)	223,159	105,732	328,891
Loss for the period	–	–	–	–	(164,750)	(164,750)	(96,557)	(261,307)
Other comprehensive income – Exchange difference arising on translation of financial statements of foreign operations which may be reclassified subsequently to profit or loss	–	–	–	(2,050)	–	(2,050)	(1,444)	(3,494)
Total comprehensive income for the period	–	–	–	(2,050)	(164,750)	(166,800)	(98,001)	(264,801)
Shares issued on the conversion of convertible notes	1,632	–	–	–	–	1,632	–	1,632
As at 30 June 2016 (Unaudited)	1,588,011	4,190	25,270	23,650	(1,583,130)	57,991	7,731	65,722

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

	For the six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities	**(41,258)**	(40,798)
Net cash generated from/(used in) investing activities	**4,961**	(6,008)
Cash flows from financing activities		
Interest on convertible notes	**6**	5
Proceeds from other borrowings	**36,538**	195,128
Proceeds from issue of convertible notes	**2,500**	5,000
Repayment of bank loans	**–**	(3,510)
Repayment of other borrowings	**–**	(168,170)
Net cash generated from financing activities	**39,044**	28,453
Net increase/(decrease) in cash and cash equivalents	**2,747**	(18,353)
Cash and cash equivalents at beginning of the period	**7,154**	30,512
Effect of foreign exchange rate changes	**–**	(19)
Cash and cash equivalents at end of the period	**9,901**	12,140

Notes to the Condensed Consolidated Interim Financial Statements

1. BASIS OF PREPARATION AND GOING CONCERN ASSUMPTION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34"), issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited ("Listing Rules").

The preparation of these unaudited condensed consolidated interim financial statements in compliance with HKAS 34 requires the use of certain judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The areas where significant judgments and estimates have been made in preparing these unaudited condensed consolidated interim financial statements and their effect are disclosed in note 3.

The financial information relating to year ended 31 December 2016 that is included in these unaudited condensed consolidated interim financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements for the year ended 31 December 2016 which had been delivered to the Registrar of Companies in Hong Kong. The auditor had reported and had disclaimed their opinion on those financial statements and had included a statement under section 407(3) of the Hong Kong Companies Ordinance.

1. BASIS OF PREPARATION AND GOING CONCERN ASSUMPTION *(continued)*

During the period, the Group incurred a loss of approximately HK$40,848,000 and had net current liabilities of approximately HK$760,720,000 as at 30 June 2017. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern, and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Group's net current liabilities as at 30 June 2017 principally included bank loans and construction costs payable and 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").

* *for identification purposes only*

Notes to the Condensed Consolidated Interim Financial Statements

1. BASIS OF PREPARATION AND GOING CONCERN ASSUMPTION *(continued)*

The Directors expect that the Railway Companies will continue to rely on the financial support from certain companies (the "Lenders") and Golden Concord Holdings Limited ("Golden Concord") as a guarantor (the "Guarantor"), of their entire bank loans of approximately HK$1,103,777,000 as at 30 June 2017. The Lenders and Guarantor 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$455,429,000 as at 30 June 2017, and related interests until the operation of the 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 relating to the shipping operations.

1. BASIS OF PREPARATION AND GOING CONCERN ASSUMPTION *(continued)*

In view of the above circumstances, the Directors have prepared a cash flow forecast of the Group covering a period up to 30 June 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 30 June 2017. Accordingly, the Directors consider that it is appropriate to prepare the unaudited condensed consolidated interim 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 unaudited condensed consolidated interim 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 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 overlaid mine owner (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.

Notes to the Condensed Consolidated Interim Financial Statements

1. BASIS OF PREPARATION AND GOING CONCERN ASSUMPTION *(continued)*

Should the use of the going concern basis in the preparation of the unaudited condensed consolidated interim 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 recoverable amounts, 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 unaudited condensed consolidated interim financial statements.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the year ended 31 December 2016, which have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA (hereinafter collectively referred to as the "HKFRSs"), the provisions of the Hong Kong Companies Ordinance which concern the preparation of financial statements and included applicable disclosures required by the Listing Rules.

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

The accounting policies and methods of computation adopted in the 2016 annual consolidated financial statements have been applied consistently to the unaudited condensed consolidated interim financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual consolidated financial statements.

In the current period, the Group has adopted all the new/revised HKFRSs and amendments to HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2017. The adoption of these new/revised HKFRSs and amendments to HKFRSs did not result in significant changes to the Group's financial statements for the current period and prior periods.

The Group has not applied the new/revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these pronouncements but is not yet in a position to state whether these pronouncements would have a material impact on its results of operations and financial position.

Notes to the Condensed Consolidated Interim Financial Statements

3. USE OF JUDGEMENTS AND ESTIMATES

In preparing this condensed consolidated interim financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2016 annual consolidated financial statements.

4. REVENUE

Revenue represents the amounts received and receivable for time charters:

	For the six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Charter-hire income	**7,792**	3,755

5. OTHER INCOME, GAINS AND (LOSSES)

	For the six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Loss on disposal of property, plant and equipment	**–**	(44)
Sundry income	**55**	139
Exchange gain	**455**	–
Written off of property, plant and equipment	**–**	(1,735)
	510	(1,640)

6. SEGMENT INFORMATION

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

- Railway construction and operations
- Shipping and logistics

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

Six months ended 30 June 2017 (Unaudited)	Railway construction and operations HK$'000	Shipping and logistics HK$'000	Total HK$'000
Segment revenue from external customers	–	7,792	7,792
Segment profit/(loss)	(29,419)	3,388	(26,031)
Other segment information:			
Interest expenses	(27,600)	–	(27,600)
Depreciation of property, plant, and equipment	(339)	(1,394)	(1,733)
Operating lease payments	(37)	–	(37)
Share of results of joint venture	–	2,849	2,849
Additions to non-current segment assets during the period	–	–	–

Notes to the Condensed Consolidated Interim Financial Statements

6. SEGMENT INFORMATION *(continued)*

Six months ended 30 June 2016 (Unaudited)	Railway construction and operations HK$'000	Shipping and logistics HK$'000	Total HK$'000
Segment revenue from external customers	–	3,755	3,755
Segment loss	(233,445)	(13,201)	(246,646)
Other segment information:			
Interest expenses	(40,510)	–	(40,510)
Impairment loss on property, plant and equipment	(420)	–	(420)
Impairment loss on construction in progress	(187,076)	–	(187,076)
Impairment loss on railway construction prepayment	(978)	–	(978)
Depreciation of property, plant, and equipment	(479)	(2,330)	(2,809)
Written off of property, plant and equipment	–	(1,735)	(1,735)
Operating lease payments	(203)	–	(203)
Share of results of joint venture	–	(6,950)	(6,950)
Additions to non-current segment assets during the period	–	4,194	4,194

6. SEGMENT INFORMATION *(continued)*

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

	For the six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Loss		
Segment loss	**(26,031)**	(246,646)
Change in fair value of derivative component of convertible notes	**(7)**	356
Change in fair value of options/commitment to subscribe for convertible notes	**(217)**	(1,544)
Other unallocated corporate expenses	**(14,593)**	(13,473)
Condensed consolidated loss before income tax	**(40,848)**	(261,307)

Notes to the Condensed Consolidated Interim Financial Statements

6. SEGMENT INFORMATION *(continued)*

	As at 30 June 2017 HK$'000 (Unaudited)	As at 31 December 2016 HK$'000 (Audited)
Assets		
Railway construction and operations	**1,659,308**	1,609,904
Shipping and logistics	**36,050**	36,858
Segment assets	**1,695,358**	1,646,762
Intangible assets	**1,000**	1,000
Other unallocated corporate assets	**19,027**	23,008
Condensed consolidated total assets	**1,715,385**	1,670,770
Liabilities		
Railway construction and operations	**1,706,439**	1,626,100
Shipping and logistics	**127,476**	130,170
Segment liabilities	**1,833,915**	1,756,270
Convertible notes	**535**	3,278
Other unallocated corporate liabilities	**19,550**	12,760
Condensed consolidated total liabilities	**1,854,000**	1,772,308

6. 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 operating profit to specific geographical segments.

Major customers

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

	For the six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Customer A	**–**	1,520
Customer B	**–**	851
Customer C	**–**	584
Customer D	**–**	441
Customer E	**7,565**	–
	7,565	3,396

Notes to the Condensed Consolidated Interim Financial Statements

7. FINANCE COSTS

	For the six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Interest on bank loans and other borrowings	**28,026**	40,867
Interest on convertible notes	**6**	5
	28,032	40,872

8. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging:

	For the six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment		
– Recognised in cost of sales	**1,394**	2,330
– Recognised in administrative expenses	**922**	799
	2,316	3,129
Staff cost		
– Salaries, wages and other benefits	**8,020**	8,732
– Contributions to defined contribution retirement scheme	**172**	167
	8,192	8,899
Operating lease rentals in respect of land and buildings	**1,207**	1,376

9. INCOME TAX

No provision for Hong Kong profits tax and PRC enterprise income tax has been made in the condensed consolidated interim financial statements as the Group's operations in Hong Kong and PRC respectively had no estimated assessable profit for the six months ended 30 June 2017 and 2016.

10. LOSS PER SHARE

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

	For the six months ended 30 June	
	2017 HK$'000 (Unaudited)	2016 HK$'000 (Unaudited)
Loss for the period attributable to owners of the Company	**28,294**	164,750

	For the six months ended 30 June	
	2017	2016 (Restated)
Weighted average number of ordinary shares for the purposes of basic loss per share (Note)	**1,443,586,605**	1,416,527,010

Note:

The weighted average number of ordinary shares for the purpose of basic loss per share has been adjusted for share consolidation on 27 March 2017. The basic loss per share for 2016 had been restated accordingly.

Diluted loss and basic loss per share are the same for the six months ended 30 June 2017 and 2016 as the potential ordinary shares on exercise of share options, contingent consideration payable and convertible notes are anti-dilutive.

Notes to the Condensed Consolidated Interim Financial Statements

11. DIVIDEND

No dividend was paid or declared by the Company during the six months ended 30 June 2017 and 2016.

The directors do not recommend the payment of any dividend in respect of the six months ended 30 June 2017 and 2016.

12. CONSTRUCTION IN PROGRESS AND RAILWAY CONSTRUCTION PREPAYMENT

	Construction in progress HK$'000	Railway construction prepayment HK$'000
Cost:		
As at 1 January 2016 (Audited)	2,002,985	10,468
Impairment loss	(314,015)	(1,641)
Exchange adjustment	(113,458)	(592)
As at 31 December 2016 (Audited)	1,575,512	8,235
Exchange adjustment	48,344	252
As at 30 June 2017 (Unaudited)	**1,623,856**	**8,487**

12. CONSTRUCTION IN PROGRESS AND RAILWAY CONSTRUCTION PREPAYMENT *(continued)*

During the year ended 31 December 2016, 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 the end of the reporting period. 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 the Zunxiao Railway respectively were recognised as at 31 December 2016.

The recoverable amounts of the aforesaid assets as at 31 December 2016 have been determined from value in use calculations based on cash flows 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 reflect specific risks relating to the construction in progress. The cash flows are estimated based on various assumptions, mainly included the expected amount of the compensation to the Mine Owner, the expected payment terms of the compensation, the expected time of resumption of the construction of the Zunxiao Railway and the expected commencement date of the operation of the Zunxiao Railway. Although the carrying amounts of the property, plant and equipment, construction in progress and the railway construction prepayment in relation to the 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 calculate the recoverable amounts would result in further impairment losses.

12. CONSTRUCTION IN PROGRESS AND RAILWAY CONSTRUCTION PREPAYMENT *(continued)*

As at 30 June 2017, the management considered that there is no further 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.

13. TRADE AND OTHER PAYABLES

	At 30 June 2017 HK$'000 (Unaudited)	At 31 December 2016 HK$'000 (Audited)
Trade payables		
– current and up to 30 days	**616**	606
Construction cost payables	**141,660**	135,143
Other payables and accruals	**10,998**	13,032
	153,274	148,781

14. CONVERTIBLE NOTES

On 16 January 2015, the Group entered into a subscription agreement (the "Subscription Agreement") with two independent third parties, namely, Advance Opportunities Fund (the "Subscriber") and Advance Capital Partners Pte. Ltd (being the authorised representative of the Subscriber) pursuant to which the Company 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 (the "Tranche 1 Notes") and HK$40 million 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 the Tranche 1 Notes of principal amounts of HK$60 million comprising 24 equal sub-tranches of HK$2.5 million each and HK$40 million (the "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.

Notes to the Condensed Consolidated Interim Financial Statements

14. CONVERTIBLE NOTES *(continued)*

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

The Tranche 1 Notes

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

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

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

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

14. CONVERTIBLE NOTES *(continued)*

The Tranche 2 Notes

On 1 March 2016, the Company notified the Subscriber of its intention to exercise the option granted by the Subscriber to the Company to require the Subscriber to subscribe for the Tranche 2 Notes from the Company.

The Tranche 2 Notes are interest bearing at 2% per annum, with a maturity date falling 36 months from the closing date (that is, 2 April 2018) and entitle the holder to convert them, in tranches into ordinary shares of the Company at either 50% of the closing price immediately preceding the conversion date or floating conversion price at any time before the maturity date. The principal terms and conditions of the subscription agreement 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 six months ended 30 June 2017, the sub-tranches of the Tranche 2 Notes with principal amount of HK$2.5 million were subscribed by and issued to the Subscriber, of which HK$2 million were converted into ordinary shares of the Company, with remaining principal amount of the issued Tranche 2 Notes of HK$0.5 million remained unconverted as at 30 June 2017.

Notes to the Condensed Consolidated Interim Financial Statements

14. CONVERTIBLE NOTES *(continued)*

The Tranche 2 Notes *(continued)*

In this connection, the Group incurred a loss amounting to HK$217,000 (30 June 2016: loss of HK$1,544,000) arising from change in fair value of options/commitment to issue the Tranche 2 Notes during the six months ended 30 June 2017, being the difference between the aggregate fair values of the sub-tranches of the Tranche 2 Notes of HK$2,717,000 as at the date of its issuance and their principal amount of HK$2,500,000.

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

	Liability component HK$'000 (Unaudited)	Derivative component HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
At 31 December 2016 (audited)	84	3,194	3,278
Issuance of the convertible notes	67	2,650	2,717
Interest expense	6	–	6
Fair value loss	–	7	7
Transfer to share capital on conversion of convertible notes (Note 15)	(143)	(5,330)	(5,473)
At 30 June 2017 (unaudited)	**14**	**521**	**535**

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 six months ended 30 June 2017 and 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

15. SHARE CAPITAL

	At 30 June 2017		At 31 December 2016	
	Number of shares (Unaudited)	HK$'000 (Unaudited)	Number of shares (Audited)	HK$'000 (Audited)
Issued and fully paid ordinary shares:				
At 1 January 2017/1 January 2016	**14,339,369,875**	**1,595,221**	14,159,265,469	1,586,379
Shares issued on the conversion of convertible notes (Note 14)	**121,109,337**	**5,473**	180,104,406	8,842
Share consolidation (Note)	**(13,001,861,459)**	**–**	–	–
At 30 June 2017/31 December 2016	**1,458,617,753**	**1,600,694**	14,339,369,875	1,595,221

Note:

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

Notes to the Condensed Consolidated Interim Financial Statements

16. CAPITAL COMMITMENTS

	At 30 June 2017 HK$'000 (Unaudited)	At 31 December 2016 HK$'000 (Audited)
Authorised and contracted for in respect of construction of railway:		
– Zunxiao Company	**157,041**	152,373
– Tangcheng Company	**112,516**	109,172
	269,557	261,545

These commitments were entered into by two PRC non-wholly owned subsidiaries. The Group's effective interests in Zunxiao Company and Tangcheng Company are 62.50% and 51% respectively as at 30 June 2017 and 31 December 2016.

17. RELATED PARTY 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.

The Group had entered into the following significant related party transactions during the six months ended 30 June 2017:

a) Compensation of key management personnel of the Group comprised the directors only whose remuneration is set out below.

	For the six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Salaries and other benefits	**2,919**	2,784
Contributions to defined contribution retirement scheme	**48**	45
	2,967	2,829

b) Interest expenses on other borrowings of approximately HK$1,112,000 (30 June 2016: approximately HK$1,168,000) for the six months ended 30 June 2017 were charged by Golden Concord and its subsidiaries. They are beneficially owned by Mr. Zhu Gongshan, a director of certain subsidiaries of the Company. Mr. Zhu is a beneficiary of a discretionary trust which in turns owns Golden Concord and a substantial shareholder of the Company. Mr. Zhu also indirectly controls a company which is a shareholder of the Company.

Notes to the Condensed Consolidated Interim Financial Statements

18. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 30 June 2017 and 31 December 2016 may be categorised as follows:

	At 30 June 2017 HK$'000 (Unaudited)	At 31 December 2016 HK$'000 (Audited)
Financial assets		
Loans and receivables (including cash and bank balances)	**45,707**	48,380
Financial liabilities		
Fair value through profit or loss		
– Contingent consideration payable	**–**	–
– Derivative component of convertible notes	**521**	3,194
Financial liabilities measured at amortised cost	**1,853,479**	1,769,114

18. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY *(continued)*

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.

At 30 June 2017 (Unaudited)	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Liabilities				
Contingent consideration payable	–	–	–	–
Derivative component of convertible notes	–	–	521	521

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

Notes to the Condensed Consolidated Interim Financial Statements

18. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY *(continued)*

The Group's contingent consideration payable and derivative component of convertible notes are measured at fair value. During the six months ended 30 June 2017, there was no transfer between level 1 and level 2 fair value hierarchy (six months ended 30 June 2016: nil) or transfer into or out of level 3 (six months ended 30 June 2016: nil). There was no additions, disposals or change in fair value of contingent consideration payables during the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

19. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved and authorised for issue by the directors on 18 August 2017.