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 2017

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Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Liang Jun
Mr. Fu Yongyuan
Mr. Lin Wenqing
Mr. Siu Miu Man (re-designated from Independent Non-Executive Director on 24 March 2018)

Non-Executive Director

Mr. Yu Baodong *(Chairman)*

Independent Non-Executive Directors

Mr. Chan Chi Yuen
Mr. Wong Cheuk Bun (appointed on 3 July 2017)
Mr. Wong Yin Shun (appointed on 24 March 2018)

COMPANY SECRETARY

Ms. Wong Man Kei, Maggie

AUDIT COMMITTEE

Mr. Chan Chi Yuen *(Chairman)*
Mr. Wong Cheuk Bun (appointed on 3 July 2017)
Mr. Wong Yin Shun (appointed on 24 March 2018)

REMUNERATION COMMITTEE

Mr. Chan Chi Yuen *(Chairman)*
Mr. Liang Jun
Mr. Wong Cheuk Bun

NOMINATION COMMITTEE

Mr. Yu Baodong *(Chairman)*
Mr. Chan Chi Yuen
Mr. Wong Cheuk Bun

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

http://www.aelg.com.hk

BUSINESS REVIEW

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.

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.

* *for identification purposes only*

Management Discussion and Analysis

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

Shipping and Logistics

Existing Vessels

The Group started its shipping business in May 2010 through the joint venture company (the "JV Company" and together with its subsidiaries the "JV Group"). The Group also started its own vessel owning and chartering business in November 2013 by the acquisition of M.V. Asia Energy, a bulk carrier with carrying capacity of approximately 28,000 DWT.

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

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

Pursuant to the joint venture agreement entered into on 1 December 2009 (as amended by a supplemental agreement dated 1 December 2009) (collectively, the "JV Agreement") among the parties to the JV Agreement, a total of four vessels are to be acquired. However, due to the continuing poor performance of the shipping market for the past few years, the JV Group has not made further acquisition of the remaining two vessels as planned since its acquisition of the first two vessels in 2010. The Group discussed with its joint venture partner in order to reach an agreement to withhold enforcement of or otherwise discharge the Group's financial obligations under the JV Agreement. Both the Company and the joint venture partner concluded their mutual intention on withholding the enforcement of the Group's obligation to acquire the two remaining vessels until the Group's financial position has improved and the shipping market recovers to a level which justifies the further acquisition.

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

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

Details of the business segment of the Group and the JV Group are set out in Note 7, Note 18 and Note 25 to the consolidated financial statements.

Acquisition of Heavy Lift Vessel

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

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

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

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

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

Acquisition of Dry Bulk Vessels

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

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

PROSPECTS

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

Management Discussion and Analysis

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

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

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

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

FINANCIAL REVIEW

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

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

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

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

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 2017, the Group had bank and cash balances of approximately HK$5,968,000 (2016: approximately HK$7,154,000).

As at 31 December 2017, the Group had secured bank loans of approximately HK$1,086,228,000 (2016: approximately HK$55,897,000) repayable within one year and approximately HK$Nil (2016: approximately HK$1,015,000,000) repayable within one to two years. The effective interest rate for the year was 5.75% (2016: 6.97%) per annum.

As at 31 December 2017, the Group had unsecured other borrowings of approximately HK$15,972,000 (2016: approximately HK$8,384,000) repayable within one year and approximately HK$555,075,000 (2016: approximately HK$404,301,000) repayable on demand. Other borrowings of approximately HK$40,795,000 (2016: approximately HK$31,581,000) are interest bearing at 1.5% to 8.0% (2016: 6.5% to 8.0%) per annum with the remaining balances of HK$530,252,000 (2016: HK$381,104,000) interest free.

The gearing ratio of the Group as at 31 December 2017, which is calculated as net debt divided by total capital, was approximately 111% (2016: approximately 106%).

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 year under review, convertible notes in the principal amount of HK$12,500,000 were converted into 91,843,538 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.

As at 31 December 2017, there were 1,525,780,526 Shares in issue (2016: 1,433,936,987 Shares, adjusted after Share Consolidation).

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$1,236 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$720 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 2017, the outstanding bank loans amounted to approximately RMB908 million (equivalent to approximately HK$1,086 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 RMB530 million (equivalent to approximately HK$634 million).

Capital Commitments

As at 31 December 2017, the Group had capital commitment of approximately HK$280 million (31 December 2016: approximately HK$262 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 minimising 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 M.V. Asia Energy trades internationally, it is required that the operation of the vessel shall comply with the requirements 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 requirements. 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.

FUNDRAISING ACTIVITIES

Convertible Notes

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

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

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

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

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

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

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

Dilution effect of the conversion of the Convertible Notes

The following table sets out the total number of Shares to be issued upon full conversion of the Tranche 2 Notes subscribed but remained unconverted as at 31 December 2017:

	As at 31 December 2017		Immediately upon full conversion of the Tranche 2 Notes subscribed but remained unconverted as at 31 December 2017 *(Note)*	
Shareholders	**Number of Shares**	**Approximately % of issued Shares**	**Number of Shares**	**Approximately % of issued Shares**
Substantial Shareholders				
Mr. Wong Kin Ting	455,297,032	29.84	455,297,032	29.34
Mr. Zhu Gongshan	113,745,000	7.45	113,745,000	7.33
Public Shareholders				
Subscriber	9,082,102	0.60	35,237,289	2.27
Other public Shareholders	947,656,392	62.11	947,656,392	61.06
Total	1,525,780,526	100	1,551,935,713	100

Note:

Assuming conversion of the Tranche 2 Notes subscribed but remained unconverted as at 31 December 2017 at the hypothetical conversion price of HK$0.1147, being 80% of the average of the closing prices per Share on 22 December 2017 to 28 December 2017 (being three consecutive business days with the lowest average Share price during the 45 business days immediately preceding 31 December 2017).

Dilution impact on loss per share

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

Loss for the year ended 31 December 2017 attributable to owners of the Company	HK$62,004,000
Weighted average number of Company's shares in issue as at 31 December 2017	1,464,329,953
Adjustment for:	
– Assumed conversion of the Tranche 2 Notes subscribed but remained unconverted as at 31 December 2017	26,155,187
Weight average number of Company's shares for diluted loss per share	1,490,485,140
Basic loss per share	4.23 HK cents
Diluted loss per share assuming full conversion of the Tranche 2 Notes subscribed remained unconverted as at 31 December 2017	4.23 HK cents *(Note)*

Note:

Diluted loss per share is the same as basic loss per share as the potential ordinary shares on exercise of the Convertible Notes are anti-dilutive.

According to the terms and conditions of the Tranche 2 Notes, only the Company may redeem the Tranche 2 Notes in cash at the redemption amount if the conversion price is less than or equal to HK$0.525.

Based on the cash and cash equivalent as at 31 December 2017 and the cash flow from the operation of the Company, the Company has an ability to meet its redemption obligations under the Tranche 2 Notes subscribed but remained unconverted as at 31 December 2017.

According to the terms and conditions of the Tranche 2 Notes, the securityholders do not have the right to redeem the Tranche 2 Notes. Thus, an analysis on the Company's share price at which it would be equally financially advantageous for the securityholders to convert or redeem the Tranche 2 Notes based on their implied rate of return at a range of dates in the future is not applicable.

Placing

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

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

Management Discussion and Analysis

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

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

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

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

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

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

Convertible Bonds

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

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

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

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

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2017, the Group had 83 (2016: 96) full-time employees, 65 (2016: 79) of whom were based in the PRC. Staff costs (including director's remuneration) of the Group for the year ended 31 December 2017 were approximately HK$17.6 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 39 to 48 of this Annual Report.

SUBSEQUENT EVENTS

Conversion of Convertible Notes

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

On 12 January 2018, the ninth sub-tranche of the Tranche 2 Notes in the principal amount of HK$2.5 million 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 million remained unconverted and the balance of Convertible Note of the Tranche 2 Notes in the principal amount of HK$15 million remained unsubscribed.

Second Placing, Convertible Bonds and Acquisition of the Vessels

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

(1) Second Placing

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

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

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

As at the date of the Annual Report, the Company had utilised approximately HK$16,733,000 of net proceeds from the Second Placing and the details are set out below:

Uses	**Original Allocation**	**Utilisation as at the date of this Annual Report**	**Remaining Balance**
	HK$	HK$	HK$
Down payment	58,100,000	8,233,000	49,867,000
Capital requirement	7,800,000	—	7,800,000
Working capital			
Administrative expenses	19,900,000	1,500,000	18,400,000
Repayment of loan	7,000,000	7,000,000	—
Total:	92,800,000	16,733,000	76,067,000

The remaining balance of HK$76,067,000 shall be utilised as intended.

(2) Convertible Bonds

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

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

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

As at the date of the Annual Report, the Company had utilised approximately HK$8,233,000 of net proceeds from the issue of the Convertible Bonds and the details are set out below:

Uses	Original Allocation	Utilisation as at the date of this Annual Report	Remaining Balance
	HK$	HK$	HK$
Acquisition of one dry bulk vessel	93,800,000	8,233,000	85,567,000
Working capital	4,900,000	—	4,900,000
Total:	98,700,000	8,233,000	90,467,000

The remaining balance of HK$90,467,000 shall be utilised as intended.

(3) *Acquisition of the Dry Bulk Vessels*

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

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

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

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

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

Changes in Directorship

On 24 March 2018, Mr. Siu Miu Man, an Independent Non-Executive Director, was re-designated as an Executive Director and Mr. Wong Yin Shun was appointed as an Independent Non-Executive Director.

Directors' Profile

EXECUTIVE DIRECTORS

Mr. Liang Jun ("Mr. Liang")

Mr. Liang, aged 51, 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. Fu Yongyuan ("Mr. Fu")

Mr. Fu Yongyuan, aged 61, 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 38, 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.

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

Mr. Siu, aged 60, was re-designated as an Executive Director on 24 March 2018. Previously, he was an Independent Non-Executive Director and members 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 Authorised Person under the Buildings 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 Excalibur Global Financial Holdings Limited (Stock Code: 8350). Prior to his appointment with the Company, he has been an Director of DBG Technology Co., Ltd (SZ Stock Code: 300735) who is recently listed on the Shenzhen Stock Exchange on 29 December 2017. 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. Mr. Siu is also a director of a consultancy firm and an engineering firm. He was an independent non-executive director of Sheung Yue Group Holdings Limited (Stock Code: 1633) from 1 November 2016 to 12 January 2018.

NON-EXECUTIVE DIRECTOR

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

Mr. Yu, aged 54, 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 51, 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 and chief executive officer of Noble Century Investment Holdings Limited (Stock Code: 2322), an executive director and chairman of Royal Century Resources Holdings Limited (Stock Code: 8125) and an executive director of 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 (Stock Code: 164), Media Asia Group Holdings Limited (Stock Code: 8075), Leyou Technologies Holdings Limited (Stock Code: 1089) and Affluent Partners Holdings Limited (Stock Code: 1466) all of which are listed either on the Main Board or GEM of the Stock Exchange. 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, Jun Yang Financial Holdings Limited (Stock Code: 397) from January 2005 to October 2017 and U-RIGHT International Holdings Limited (now known as Fullsun International Holdings Group Co., Limited) (Stock Code: 627) from November 2010 to December 2017, all of which are listed on the Main Board.

Directors' Profile

Mr. Wong Cheuk Bun ("Mr. Wong")

Mr. Wong, aged 43, has been an Independent Non-Executive Director and a member of the Audit Committee since 3 July 2017 and members of the Remuneration Committee and the Nomination Committee since 24 March 2018. He is a practising certified public accountant and currently a Lecturer specialising in accounting and finance areas of the College of Professional and Continuing Education of The Hong Kong Polytechnic University. Mr. Wong received a Master of Professional Accounting from the Hong Kong Polytechnic University. He is presently an associate member of the Hong Kong Institute of Certified Public Accountants, The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries and a fellow member of the Association of Chartered Certified Accountants. Mr. Wong has about 20 years of diversified experience in accounting and finance.

Mr. Wong Yin Shun ("Mr. YS Wong")

Mr. YS Wong, aged 43, has been an Independent Non-Executive Director and member of the Audit Committee since 24 March 2018. He holds a Master of Arts degree in Law and Language (M.A.L.L.) from the City University of Hong Kong, a Postgraduate Certificate in Laws (P.C.L.L.) and a Bachelor of Laws (LL.B.) degree both from the University of Hong Kong. Mr. YS Wong is a Practising Solicitor in Hong Kong, an Associate Member of The Chartered Institute of Arbitrators (CIArb) and an Accredited Mediator in the Hong Kong International Arbitration Centre, Hong Kong Mediation Accreditation Association Limited and Law Society of Hong Kong. Mr. YS Wong has over 18 years of experience practising as a solicitor in Hong Kong. He is currently the managing partner of Messrs. Hon & Co. and an Adjunct Professor in the Department of Real Estate and Construction in the University of Hong Kong.

The board of Directors (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 2017.

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 2017 are set out in the section headed "Consolidated Statement of Comprehensive Income" on page 54 of this Annual Report. The Directors did not recommend the payment of a final dividend for the year ended 31 December 2017.

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 122 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 57 of this Annual Report and Note 38 to the consolidated financial statements, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2017, 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 under review.

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 CUSTOMER

The Group's largest customer accounted for 98.6% of the Group's revenue of the year under review and 100% 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 http://www.aelg.com.hk.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The composition of the Board during the year ended 31 December 2017 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. Yu Baodong, a Non-Executive Director, and Mr. Chan Chi Yuen, an Independent Non-Executive Director, will retire from office by rotation pursuant to Articles 101A and 101B of the Articles of Association. Mr. Wong Cheuk Bun and Mr. Wong Yin Shun, being Independent Non-Executive Directors appointed after the last annual general meeting of the Company shall hold office until the annual general meeting 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.

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' BIOGRAPHIES

Biographical details of the Directors are set out in the section headed "Directors' Profile" on pages 16 to 18 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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (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 (equivalent to 128,570,271 Shares after Share Consolidation), 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 (equivalent to 31,320,000 after Share Consolidation) share options were granted at an exercise price of HK$0.168 (equivalent to HK$1.68 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. For the year under review, 5,780,000 share options (2016: Nil) 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$ *(Note 1)*	**As at 1.1.2017** *(Note 1)*	**Granted during the year**	**Exercised during the year**	**Lapsed during the year** *(Note 1)*	**As at 31.12.2017** *(Note 1)*
Directors							
Mr. Liang Jun	21.4.2011 to 20.4.2021	1.68	2,000,000	—	—	—	2,000,000
	21.4.2012 to 20.4.2021	1.68	1,500,000	—	—	—	1,500,000
	21.4.2013 to 20.4.2021	1.68	1,500,000	—	—	—	1,500,000
Mr. Yu Baodong	21.4.2011 to 20.4.2021	1.68	2,000,000	—	—	—	2,000,000
	21.4.2012 to 20.4.2021	1.68	1,500,000	—	—	—	1,500,000
	21.4.2013 to 20.4.2021	1.68	1,500,000	—	—	—	1,500,000
Former Directors							
Mr. Fung Ka Keung, David *(Note 2)*	21.4.2011 to 20.4.2021	1.68	400,000	—	—	—	400,000
	21.4.2012 to 20.4.2021	1.68	300,000	—	—	—	300,000
	21.4.2013 to 20.4.2021	1.68	300,000	—	—	—	300,000
Ms. Yu Sau Lai *(Note 3)*	21.4.2011 to 20.4.2021	1.68	130,000	—	—	130,000	—
	21.4.2012 to 20.4.2021	1.68	300,000	—	—	300,000	—
	21.4.2013 to 20.4.2021	1.68	300,000	—	—	300,000	—
Ms. Sun Wei *(Note 3)*	21.4.2011 to 20.4.2021	1.68	2,000,000	—	—	2,000,000	—
	21.4.2012 to 20.4.2021	1.68	1,500,000	—	—	1,500,000	—
	21.4.2013 to 20.4.2021	1.68	1,500,000	—	—	1,500,000	—
Employees (in aggregate)	21.4.2011 to 20.4.2021	1.68	1,950,000	—	—	20,000	1,930,000
	21.4.2012 to 20.4.2021	1.68	1,695,000	—	—	15,000	1,680,000
	21.4.2013 to 20.4.2021	1.68	1,655,000	—	—	15,000	1,640,000
		Total	22,030,000	—	—	5,780,000	16,250,000

Notes:

(1) Adjusted after Share Consolidation with effect from 27 March 2017.

(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. As at the date of this Annual Report, the relevant share options were not exercised and accordingly lapsed on 1 March 2018.

(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. The relevant share options were not exercised and accordingly lapsed during the year under review.

During the year under review no share options had been exercised, 5,780,000 share options were lapsed and none of the share options was cancelled. The number of Shares which may be issued upon exercise of the share options which had been granted and outstanding on 31 December 2017 under the 2008 Option Scheme was 16,250,000 (2016: 22,030,000), representing approximately 1.07% (2016: approximately 1.54%) of the number of shares in issue as at 31 December 2017.

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 2017 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 2017, 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 26 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 2017 and details of which are set out in the section headed "Environmental, Social and Corporate Report" on page 39 of this Annual 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.

DIRECTORS' VIEW ON THE INDEPENDENT AUDITOR'S OPINION

In the course of preparing the financial statements, the Company had engaged an independent qualified valuer to assess the recoverable amounts of the property, plant and equipment, construction in progress and railway construction prepayment based on value in use calculations. The audit committee agreed about the auditor's disclaimer of opinion in relation to the valuation of the above assets. As mentioned in the section headed "Management Discussion and Analysis" of this Annual Report, the management is making continuous effort to solve the overlaid mine and other issues relating to the railway construction with a view to substantiating various assumptions adopted in the valuation of the above assets.

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2017 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 2018

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 2017, the Company has complied with the CG Code, save for the deviations specified and explained below.

Code Provision A.2.1

The post of chief executive (the "Chief Executive") of the Company has remained vacant since March 2009. The duties of Chief Executive have been performed by other Executive Directors. As there is a clear division of responsibilities of each Director, the vacancy of the post of Chief Executive did not have any material impact on the operations of the Group. However, the Board will review the current structure from time to time and if a candidate with suitable knowledge, skill and experience is identified, the Board will make an appointment to fill the post of Chief Executive as appropriate.

Code Provision A.2.7

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

Code Provision A.6.7

Code provision A.6.7 of the CG Code stipulates, among other things, that the Independent Non-Executive Directors and other Non-Executive Directors should attend the general meetings of the Company. Former Independent Non-Executive Director, Professor Sit Fung Shuen, Victor, did not attend the general meetings of the Company held on 24 March 2017 and 19 May 2017 due to his other business engagements. Existing Independent Non-Executive Director, Mr. Chan Chi Yuen, did not attend the general meeting of the Company held on 19 May 2017 due to his other business engagement.

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 2017 confirmed that they have complied with the code throughout the year ended 31 December 2017.

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

As at 31 December 2017, 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 *(Note 3)*	Number of underlying Shares held under equity derivatives *(Note 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	0.34%
Mr. Yu Baodong	Beneficial Owner	—	5,000,000	5,000,000	0.33%

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$1.68 (adjusted after Share Consolidation) per Share.

(2) The approximate percentage of shareholding was calculated based on the number of Shares in issue of 1,525,780,526 Shares as at 31 December 2017.

(3) Adjusted after the Share Consolidation.

Save as disclosed above, as at 31 December 2017, 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.

Corporate Governance Report

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 2017, 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 *(Note 5)*	Approximate percentage of shareholding *(Note 4)*
Mr. Wong Kin Ting ("Mr. Wong")	Interest of controlled corporations	455,297,032 *(Note 1)*	29.84%
Mr. Zhu Gongshan ("Mr. Zhu")	Beneficiary of discretionary trust & interest of controlled corporations	213,745,000 *(Note 2)*	14.01%
Credit Suisse Trust Limited ("CST")	Trustee	200,000,000 *(Note 3)*	13.11%

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 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 on 1 November 2013, 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 ("APEF") (as 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 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 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 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 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 1,525,780,526 Shares as at 31 December 2017.

(5) Adjusted after the Share Consolidation.

Save as disclosed above, as at 31 December 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 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 16 to 18 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 (resigned on 1 June 2017)
Mr. Tse On Kin (resigned on 14 February 2017)
Mr. Fu Yongyuan
Mr. Lin Wenqing
Mr. Siu Miu Man (re-designated from Independent Non-Executive Director on 24 March 2018)

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. Wong Cheuk Bun (appointed on 3 July 2017)
Mr. Wong Yin Shun (appointed on 24 March 2018)

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) Changes in Directorship

Mr. Tse On Kin and Mr. Fung Ka Keung, David resigned as the Executive Directors on 14 February 2017 and 1 June 2017. Professor Sit Fung Shuen, Victor resigned as the Independent Non-Executive Director on 3 July 2017.

The Directors who resigned as mentioned above have no disagreement with the Board and nothing relating to the affairs of the Company needed to be brought to the attention of the Shareholders.

Mr. Wong Cheuk Bun was appointed as the Independent Non-Executive Director on 3 July 2017 in replacement of Professor Sit Fung Shuen, Victor.

Mr. Siu Miu Man was re-designated as the Executive Director from Independent Non-Executive Director on 24 March 2018.

Mr. Wong Yin Shun was appointed as the Independent Non-Executive Director on 24 March 2018 in replacement of Mr. Siu Miu Man.

(3) 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.

(4) Board Meetings and General Meetings

There were nine board meetings and three 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	9/9	3/3
Mr. Fung Ka Keung, David (resigned on 1 June 2017)	3/3	2/3
Mr. Tse On Kin (resigned on 2 February 2017)	2/2	0/0
Mr. Fu Yongyuan	9/9	3/3
Mr. Lin Wenqing	8/9	3/3
Non-Executive Director		
Mr. Yu Baodong *(Chairman)*	6/9	3/3
Independent Non-Executive Directors		
Mr. Chan Chi Yuen	6/9	2/3
Professor Sit Fung Shuen, Victor (resigned on 3 July 2017)	5/6	1/3
Mr. Siu Miu Man	8/9	3/3
Mr. Wong Cheuk Bun (appointed on 3 July 2017)	3/3	0/0

(5) 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. 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 2017 was as follows:

	Updates on Laws, Rules & Regulations/Management or other professional Skills Self-Reading
Executive Directors	
Mr. Liang Jun	√
Mr. Fung Ka Keung, David (resigned on 1 June 2017)	√
Mr. Tse On Kin (resigned on 2 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)	√

(6) 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.

(7) 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.

During the year under review, 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 one meeting 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)*	1/1
Mr. Liang Jun	1/1
Mr. Siu Miu Man	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.

During the year under review, the members of the Audit Committee are Mr. Chan Chi Yuen (Chairman), Professor Sit Fung Shuen, Victor (resigned on 3 July 2017), Mr. Siu Miu Man and Mr. Wong Cheuk Bun (appointed on 3 July 2017).

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 two 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)*	2/2
Professor Sit Fung Shuen, Victor (resigned on 3 July 2017)	1/1
Mr. Siu Miu Man	2/2
Mr. Wong Cheuk Bun (appointed on 3 July 2017)	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.

During the year under review, 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 one meeting 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)*	1/1
Mr. Chan Chi Yuen	1/1
Mr. Siu Miu Man	1/1

(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 fee for audit services provided by BDO Limited, the external auditor of the Company, was HK$950,000 (2016: HK$950,000) and that for the non-audit services mainly representing non-assurance work in relation to the interim report and the reporting accountant's work in connection with a very substantial acquisition was HK$675,000 (2016: HK$120,000 mainly relating to interim report).

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 2017, 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 49 to 53 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 2017, 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 mitigate 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 2017, 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

On 1 June 2017, Ms. Ho Pui Man resigned as the Company Secretary and the financial controller of the Company and Ms. Wong Man Kei Maggie was appointed on the same day by the Board as the Company Secretary. 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.

Environmental, Social and Governance Report

ABOUT ESG REPORT

The Environmental, Social and Governance ("ESG") Report published by Asia Energy Logistics Group Limited (the "Company") summarizes the efforts and achievements made in corporate social responsibility and sustainable development by the Company and its subsidiaries (collectively the "Group" or "we"). The ESG report communicates the Group's sustainability strategies, management approaches and performances to our stakeholders, and introduce the Group's ongoing activities that forge the sustainability of the societies and the environment as a whole. For information of our corporate governance, please refer to the "Corporate Governance Report" on pages 26 to 38 of the Annual Report.

Reporting Scope

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 2017 (the "Year"). The environmental Key Performance Indicators (KPI) as disclosed in the ESG Report is based on the performance of the vessel — Asia Energy, owned by the Group. The Group will continue to step up information collection in order to disclose more information regarding its sustainable development and to enhance its performance in the environmental and social aspects.

Reporting Guidelines

The ESG Report was prepared in accordance with the "Environmental, Social and Governance Reporting Guide" under Appendix 27 of the Rules Governing the Listing of Securities issued by the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Stakeholder Engagement

The engagement of employees from different divisions of the Group and the staff from the ship management company helps us recognize our sustainability performance. The diligently collected and carefully analyzed data underscores not only the Group's sustainable initiatives for the Year, but also the Group's short-term and long-term sustainability strategies. The Group will continue to increase the involvement of stakeholders via constructive conversation with a view to charting a course for long-term prosperity.

Information and Feedbacks

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

Environmental, Social and Governance Report

ADOPTING HIGH-QUALITY SHIP MANAGEMENT

The Group recognizes the importance of the adoption of reliable ship management in maintaining a stable and smooth operation of its vessel. The ship management company we selected enjoys a high reputation in the global market and 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 seek to keep the ship management company aligned with our core values and visions on environmental and social issues. We also 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. Looking ahead, the Group will accord more importance to its continuous improvement of sustainable development.

PROMOTING GREEN OPERATION

From the perspective of environmental protection, avoiding or minimizing negative impacts to the environment and the marine ecosystem is our long-established goal in vessel operation. The Group, together with the selected ship management company, collectively shoulder the responsibility of monitoring the environmental footprint of the vessel, hence striving to promote green operation. We uphold the philosophy of low-carbon environmentally-friendly operation and adopt a top-down approach in its commitment to strengthening the Go Green Culture. With pragmatism, the Group has established an environmental management system and implemented a variety of innovative measures in an effort to reduce greenhouse gas emission, conserve energy, minimize air and water pollution, alleviate waste impact and avoid habitat destruction. Thanks to the aforementioned efforts and our full conformity to relevant laws, regulations and conventions, the Group's vessel has recorded zero incidences of environmental pollution and crew casualty during the Year.

Establishment of Environmental Management System

The ship management company is devoted to the establishment and execution of environmental management in the vessel's daily operation in a purposeful and planned manner to mitigate the adverse environmental impacts. 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 keep our crew members abreast of the environmental policies and guidelines promulgated from the head office, a corresponding manual 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 in an attempt to monitor and review the implementation of the environmental policies and guidelines. In addition to setting up well-structured 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. The Group has 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. Fuels combustion for powering engines is the major source of greenhouse gas of the Group's vessel. In addition, the use of refrigerant and the disposal of paper onshore to landfill also play a small part in the vessel's greenhouse gas emission. In an effort to reduce emission, our vessel runs only on low-sulfur fuel to reduce the emission of sulphur oxides (SOx), which is a type of greenhouse gas. The vessel also adopts weather routing, which is a means to minimize the usage of fuels by planning routes according to the weather, in a bid to lower the emission of greenhouse gas. Records of the fuels saved, as well as the amount of greenhouse gas reduced, resulted from the effort of weather routing have been clearly made so as to keep track of the effectiveness of such measure and to look for further improvement in the future.

Control of Air Pollution

The emission of air pollutants by vessels is relatively lower when compared with other means of transportations, air pollution is however unavoidable during the operation of our vessel, though not detrimental under control. The air pollutants emitted by our vessel include nitrogen oxides (NOx), sulphur oxides (SOx), carbon monoxide (CO) and particulate matter (PM). It is a requirement that our 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 also regularly conducts tank cleaning, cargo measurement, sampling and gas freeing operations to reduce the emission of cargo vapour and inert gas into the atmosphere. Moreover, by taking advantage of weather routing, fuel consumption, hence emission of all types of air pollutants as mentioned can also be reduced.

Prevention of Water Pollution

As sailing around the world, water pollution is always a major concern for vessels. It is also a focus of the Group and our ship management company. As an effective way to prevent water pollution, our vessel executes strict system controls and procedural safeguards to avoid any form of discharge or spillage of water pollutants, 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 into the sea. The officer assumes full responsibility of the cleanup work in the event of an accidental discharge or oil spillage. For sewage treatment on board, the vessel is recognized with the international sewage pollution prevention certificate from National Shipping Administrations. Regular surveys are also carried out to ensure the efficient operation of sewage treatment facilities on board. In the Year, there was not any discharge of water pollutants into the sea by our vessel, and incidence of oil or noxious liquid substances leakage was also not recorded.

Alleviation of Garbage Impact

It is generally acknowledged that garbage discharged by the vessel into the sea is as detrimental to marine life as oil or chemical, therefore the ship management company spares no effort in garbage management. Practically, a 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. Only categories allowed to be dumped into the sea will be discarded during sailing. In the Year, wastes generated by the vessel include plastic, food waste, domestic waste, cooking oil, incineration ash, operational waste and cargo residues, among which only food waste and biodegradable cargo residues were discarded into the sea, others were collected onshore by qualified parties. There was no discharge of hazardous substances including oil, noxious liquid substances or harmful substances.

The garbage management plan has been designed to specifically deal with different kinds of garbage. For instance, food waste is processed by the food waste decomposing machine to reduce the amount of waste generated. All expired medicine is identified and disposed of as special garbage which would be sent ashore to an authorized organization. By sending an officer-in-charge on board, the office ashore is responsible to review the effectiveness of the plan regularly in a bid to make improvement continuously.

To further increase the effectiveness of the garbage management plan, comprehensive training and detailed instructions about the plan are provided to crew members. The ship management company also provides technical training for staff who are responsible for handling equipment for waste disposal in an attempt to deepen their understanding of the equipment and the associated regulations.

In the aspect of waste reduction, the ship management company has also taken steps to exert itself in carrying out measures that include bulk ordering of consumable items, requesting suppliers to avoid the use of plastic and disposable packaging wherever possible and employing reusable coverings instead of disposable materials for cargo protection. Crew members are also encouraged to reduce the use of disposable items and to reuse daily necessities, shoring, lining and packing materials.

Conservation of Energy

In the battle against 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, technology is harnessed for better energy-saving effect, exemplified by the use of light-emitting diode lights which replaces 40% of the luminaries on board. Besides, the crew cabin and other working areas on the vessel are maintained at 25˚C to 26˚C. Furthermore, the speed of vessel is appropriately adjusted to a lower level in inclement weather to avoid excessive 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 corresponding remedial actions are taken.

In order to implement the approved measures effectively and efficiently, adequate trainings and briefings are arranged to raise the awareness of energy conservation of every crew member. The information from the seafarers' seminars is also given 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 and steam supplies 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 helps to monitor the energy efficiency of our vessel in the long-term. Our vessel is recognized with the international energy efficiency certificate (IECC).

Avoidance of Habitat Destruction

Scientific research has proved that the intake and discharge of ballast water, which contains various types of aquatic species, at distinct locations is possible in causing an ecological imbalance and disturbance to the environment. Thus, to reduce the damage caused by the spread of ballast water, 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. Ballast overboard discharge (BOD) valves are kept closed and locked with warning notices posted at the valves, engine and cargo control rooms prior to the entry 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

The Group derives stability from a comprehensive talent development. We strictly comply 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 (PRC) and International Convention on Standards of Training, Certification and Watch keeping for Seafarers (STCW). We 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 an attempt to help them develop and realize their full potential. We communicate with staff at all levels to strengthen employee engagement through various channels and activities.

Employment

Our staff is always the driving force for the Group's success and momentum, thereby we place emphasis on our human resources policies. The system for competition and selection of employees is underpinned by the principle of fairness and transparency. 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 the official commencement of employment, all staff is provided with the job descriptions of their positions, clearly stating the duties and responsibilities of their roles to prevent any form of forced labour. All persons shall not be unreasonably interfered in the course of performing their duties and responsibilities.

The Group also offers chances of promotion for all our staff having outstanding performance. Promotion decision is 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. Honest judgment about the performance of the staff is made based on the entire appraisal period rather than a single incident. Moreover, we provide recommendations on their training needs and career development during the appraisal process with a view to maintaining their productivity and competitiveness.

Environmental, Social and Governance Report

Welfare

Crew members play vital roles in the safe and efficient operation of the vessel. It is our primary goal to build our vessel as a second home for vessel crew. The group is devoted to providing a variety of welfare to employees relating to a number of aspects including: quality of food; standard of accommodation; adequacy of recreation facilities; condition of hygiene; maintaining of suitable temperature levels, sanitation, medical facilities and acceptability of working hours. We strictly comply with national laws and regulations related to staff welfare. Gambling on board is strictly prohibited.

Nurturing Talent and Succession Planning

The Group is committed to providing targeted, systematic and far-sighted training for vessel crews, exploring their potential to support the Group's sustainable development. The ship management company 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 newly joined seafarer, training covering topics pertained to emergency cases, safety and environment protection measures, fire-fighting system, life-saving appliances and garbage disposal policy are offered to ensure that 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 pivotal areas such as hazard identification and risk assessment. Training materials, in audio and visual form, are provided to facilitate the learning of seafarers. All senior officers on board are encouraged to attend seminars regularly related to topics such as 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, thus we put the safety of our staff as the first priority. We have set up a comprehensive work safety management and supervision system as it is vital for enhancing safety performance. The Group has also taken measures in accident prevention, fire precaution, workplace environment, hygiene, first aid and manual handling operations. In the Year, the Group recorded zero significant safety incidents, which was indicative of the pro-active management of safety of 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 the 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. Officers on board are required to continuously identify the risks associated with each voyage and the type of potential accidents through pre-voyage assessment, under which both physical and psychosocial risks are identified. After risk 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

The crew safety highly hinges on the working environment and the well-being of our seafarers. Therefore, crew members are strictly required to provide medical report as a proof of the ability to meet the minimum requirements for performing the routine and emergency duties before working on board. The ship management company is responsible for planning the routine work of the crew and providing flexible adjustment by taking into account their physical status to protect them against 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 Workplace Safety

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. Crew members are required to equip themselves with the correct sets of personal protective equipment provided on board when carrying out their duties to protect them from working accidents. To ensure the proper usage of the personal protective equipment, training regarding the operation, inspection and maintenance of the equipment is provided.

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 on board are responsible to ensure that all instruments and working gears are correctly rigged and are used in a safe manner that is compliant with the safe working limits, state and age of the equipment. The officers on board are also required to record all the shipboard accidents in the safety record book which is used as a reference for 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 daily operation.

Living Quality of the Crew

Apart from working safety, the ship management company is also dedicated to improving the living quality of the crew 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. Besides, the ship management company puts focus on food and catering that temperature of the cold room is strictly monitored and controlled. Sufficient amount of nutritious food of good quality on board is also ensured for every voyage. Complaints regarding food and water standard from crew members are handled with great attention and actions are taken to immediately rectify the situation if necessary. In the Year, steady progress has been made in an effort to improve crew members' living quality on board.

Strict Guideline on Drug and Alcohol

The Group has recognized the negative impacts of drug and alcohol abuse on the health of people, especially seafarers. Therefore, neither drug nor alcohol abuse can be tolerated within the Group. In respect of vessel operation, the ship management company has put policy in place to combat 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 be alcohol or drug-abused or under circumstances where testing is required by law, unannounced test will be conducted. Staff who refuses to take the test or shows a positive result in the test are meted out to disciplinary actions.

In consideration of the serious consequences of drug and alcohol abuse during working hours, suspension or termination of employment will serve as a punishment for the staff who become unfit for work attributable to drug or alcohol abuse. The Group continuously provides lectures and information to illustrate the potential adverse effects of alcohol and drug abuse. In addition, educational materials in the form of video tapes and brochures are available on board. Confidential assistance is also provided to crew members in overcoming alcoholic problems if necessary.

Promotion of a Safety Culture

The Group truly believes that work-related accidents are preventable, thus the ship management company has carried out 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 displaying safety posters, booklets and related videos on board. Through the learning of consequences of possible mistakes during work, the ship management company educates crew members with behavior-based safety, from the perspective of mindset, behaviors and habits. Maintenance of good communication is also a cornerstone for the safety culture, so the ship management company highly values the feedbacks on safety measures from crew members. Regular meetings on vessel safety are arranged on a regular basis for the exchange of suggestions on safety measures between office ashore and the crew.

Safety training is essential in raising our crew members' occupational safety awareness. Apart from familiarization training, the ship management company constantly organizes simulated exercises and training regarding the use of life-saving, fire-fighting and pollution prevention and control equipment according to the requirement of international conventions for the SOLAS. All crew members are assured of a complete understanding of the proper use of all equipment in case of emergency. Besides, emergency drills are carried out periodically to further raise the safety awareness of the crew. Training materials related to emergency and pollution drills in audio-visual form are provided on board as a support for 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. A comprehensive supplier selection system is necessary and advantageous as it enables us to establish a safe workplace and provide services of high quality to our customers. The Group strives to drive improvements in ESG performance together with the suppliers, thereby we take their environmental performance into consideration during our supplier selection process. Apart from the cooperation with suppliers, we also attach great attention to business ethics during our business operation.

Supply Chain Value

The Group strives to embed its commitments to sustainable development in the entire supply chain. When selecting suppliers, a balanced judgment is made by considering factors from all aspects, with environmental factor being the most important part. Suppliers are required to provide certification of ISO 14001 or ISO 50001 Energy Management Systems standard or other environmental standards at the first stage of selection. Methods and distance of delivery are then being considered as we aim to achieve a lower carbon emission. In addition, the amount of materials use and whether the materials are recyclable are also taken into account in the supplier selection. We seek to establish standardized procedures and guidelines to ensure our value of sustainability is added into the entire supply chain.

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 have exerted every effort on the suppression of smuggling activities by spot check for contraband and drugs. The Group endeavours to deal fairly with its clients, competitors, suppliers and employees and 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. Thus, we pay special attention to the complaints from agents, authorities and clients and will immediately launch in-depth investigation after receiving any complaints.

COMMUNITY INVESTMENT

In the Year, the Group has focused on charitable activities to show our grateful hearts to the community by real contributions. We strongly encourage our staff to join various volunteer works.

APPENDIX: KEY PERFORMANCE INDICATORS (KPIs)

Environment	2017
Air Pollutants	(tones)
NOx	282
SOx	148
CO	25
PM	25
Greenhouse Gas	(tones CO_2)
Total emission	10,737
Combustion of fuels	10,633
Use of refrigerant	103
Paper Disposal	0.24
Emission/number of voyages	2,684
Wastes*	(m^3)
Total hazardous waste produced	1.45
Hazardous waste production/number of voyages	0.36
Total non-hazardous waste produced	23.67
Non-hazardous waste produced/number of voyages	5.92
Energy Consumption	(MWh)
Total energy consumption	16,842
Energy consumption/number of voyages	4,210
Water Consumption	(m^3)
Total water consumption	1,825
Water consumption/number of voyages	456

* Volume is used for measuring the amount of waste on the vessel and in ports hence weight is not available.

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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 54 to 121, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017 are certain property, plant and equipment with a carrying amount of HK$2,319,000, construction in progress with a carrying amount of HK$1,671,728,000 and the railway construction prepayment with a carrying amount of HK$8,737,000 (2016: HK$2,842,000, HK$1,575,512,000 and HK$8,235,000 respectively) (collectively referred to as the "Railway Assets") which are related to the construction of the Zunxiao railway (the "Zunxiao Railway") as explained further in Note 16 to the consolidated financial statements.

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 fact that the compensation payable to the overlaid mine owner (the "Mine Owner") has not yet been resolved as set out in Note 16 to the consolidated financial statements. As set out in Note 16 to the consolidated financial statements, the directors have performed an impairment review of the Railway Assets (the "Impairment Review"). Based on the Impairment Review, impairment losses of HK$20,000, HK$13,898,000 and HK$72,000 (2016: HK$645,000, HK$314,015,000 and HK$1,641,000, respectively) on the property, plant and equipment, the construction in progress and the railway construction prepayment respectively have been recognised for the year ended 31 December 2017 based on value in use calculation.

However, as detailed in Note 16 to the consolidated financial statements, although continuous effort has been made in negotiation with the Mine Owner, no agreement has been reached by the parties involved in respect of the terms of the compensation payable as at the date of issuance of these consolidated financial statements. Any agreement with the Mine Owner, the timing of such agreement and the amount of compensation payable to the Mine Owner are crucial in estimating the recoverable amount of the Railway Assets. Agreement with the Mine Owner must be reached before the construction of the Zunxiao Railway can be resumed. However, the directors have not made available to us details of the bases for determining the timing and amount of the compensation payable to the Mine Owner, and the timing of the expected resumption of the construction of the Zunxiao Railway. Accordingly, we were unable to obtain sufficient appropriate audit evidence we considered necessary to assess whether there should be any impairment or the amount of impairment loss recognised in the consolidated statement of comprehensive income for the year ended 31 December 2017 based on the result of the Impairment Review was appropriate and whether there should be any adjustments to the carrying amounts of the Railway Assets as at 31 December 2017. There were no other alternative audit procedures that we could perform to satisfy ourselves as to whether such impairment losses and carrying amounts of the Railway Assets were free from material misstatement. In our audit of the Company's consolidated financial statements for the year ended 31 December 2016 (the "2016 Consolidated Financial Statements"), the above-mentioned circumstances and limitations on our scope of work also existed. We did not express an opinion on the 2016 Consolidated Financial Statements.

Any adjustment to the carrying amounts of the Railway Assets determined to be necessary had we been able to obtain sufficient appropriate audit evidence would have consequential direct effect on the Group's net assets as at 31 December 2017, the Group's net loss for the year ended 31 December 2017 and the related note disclosures in the consolidated financial statements.

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

As shown in the consolidated financial statements as at 31 December 2017, the Group had net current liabilities of HK$1,907,312,000 and incurred a loss of HK$97,403,000 for the year ended 31 December 2017 (2016: HK$708,342,000 and HK$433,367,000 respectively). These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

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)

As detailed in Note 3(b)(ii) to the consolidated financial statements, in view of the above circumstances, the directors have prepared a cash flow forecast of the Group covering a period up to 30 June 2019 after taking into account the following major assumptions, (i) the Group would be able to successfully negotiate with a bank for an extension of the repayment date of the entire or partial amount of the bank loans of the Railway Companies which are due for repayment on 31 December 2018; (ii) the lenders (the "Lenders") which have been providing financial support to the Railway Companies to meet their financial obligations continue to have sufficient financial ability to provide the financial support to the Railway Companies; (iii) the shipping market conditions continue not to justify for further acquisition of vessels, such that the Group and the joint venture partner's mutual intention on withholding enforcement of or otherwise discharge the Group's financial obligations under a shareholders' agreement (as set out in Note 18 to the consolidated financial statements) would continue to remain unchanged during the forecast period; and (iv) the Group would be able to reach an agreement with the Mine Owner on the amount of compensation payable to the Mine Owner as planned so that the Group would be able to resume and complete the construction of the Zunxiao Railway. The directors consider the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the twelve months from 31 December 2017. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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

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

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

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)

The directors of the Company also have prepared the 2016 Consolidated Financial Statements on a going concern basis with underlying assumptions similar to those adopted in 2017 as stated above. In our audit of the 2016 Consolidated Financial Statements, we were also unable to obtain sufficient appropriate audit evidence to determine whether the underlying assumptions used in preparation of the cash flow forecast are reasonable. Together with the matter detailed under the heading "Impairment losses on property, plant and equipment, construction in progress and railway construction prepayment", we did not express an opinion on the 2016 Consolidated Financial Statements.

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.

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 auditor's 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 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

Wong Chi Wai
Practising Certificate Number P04945

Hong Kong, 23 March 2018

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	5	**15,797**	10,392
Cost of sales		**(14,894)**	(15,228)
Gross profit/(loss)		**903**	(4,836)
Other income and gains	6	**2,241**	1,040
Depreciation and amortisation	9	**(1,778)**	(1,687)
Staff costs	9	**(17,571)**	(19,211)
Impairment loss on property, plant and equipment	14	**(20)**	(2,645)
Impairment loss on construction in progress	16	**(13,898)**	(314,015)
Impairment loss on railway construction prepayment	16	**(72)**	(1,641)
Reversal of impairment loss on property, plant and equipment	14	**9,000**	—
Change in fair value of contingent consideration payable	24	**(7,928)**	—
Change in fair value of derivative component of convertible notes	23	**(77)**	882
Change in fair value of options/commitment to issue convertible notes	23	**(261)**	(2,620)
Share of results of joint venture	25	**9,718**	8,549
Other operating expenses		**(16,283)**	(21,061)
Finance costs	8	**(61,377)**	(76,122)
Loss before income tax	9	**(97,403)**	(433,367)
Income tax	10	**—**	—
Loss for the year		**(97,403)**	(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		**(6,169)**	(5,904)
Total comprehensive income for the year		**(103,572)**	(439,271)
Loss for the year attributable to:			
Owners of the Company		**(62,004)**	(267,385)
Non-controlling interests		**(35,399)**	(165,982)
		(97,403)	(433,367)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(65,523)**	(269,840)
Non-controlling interests		**(38,049)**	(169,431)
		(103,572)	(439,271)
			(restated)
Loss per share — basic and diluted (HK cents per share)	13	**(4.23)**	(18.80)

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	14	**41,753**	37,127
Intangible assets	15	**1,000**	1,000
Construction in progress	16	**1,671,728**	1,575,512
Railway construction prepayment	16	**8,737**	8,235
Interest in a joint venture	18	**—**	—
		1,723,218	1,621,874
Current assets			
Other receivables and prepayments	19	**38,988**	41,742
Cash and cash equivalents	20	**5,968**	7,154
		44,956	48,896
Current liabilities			
Trade and other payables	21	**164,527**	148,781
Bank loans and other borrowings	22	**1,657,275**	468,582
Convertible notes	23	**3,036**	3,278
Amount due to a joint venture	25	**118,680**	128,420
Amounts due to minority equity owners of subsidiaries	33(a)	**8,750**	8,177
		1,952,268	757,238
Net current liabilities		**(1,907,312)**	(708,342)
Total assets less current liabilities		**(184,094)**	913,532
Non-current liabilities			
Bank loans	22	**—**	1,015,070
Contingent consideration payable	24	**7,928**	—
		7,928	1,015,070
NET LIABILITIES		**(192,022)**	(101,538)

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Capital and reserves attributable to owners of the Company			
Share capital	27	**1,608,309**	1,595,221
Other reserves		**(1,698,583)**	(1,633,060)
Equity attributable to owners of the Company		**(90,274)**	(37,839)
Non-controlling interests	28	**(101,748)**	(63,699)
TOTAL EQUITY		**(192,022)**	(101,538)

These consolidated financial statements were approved and authorised for issue by the directors on 23 March 2018.

Liang Jun
Director

Fu Yongyuan
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	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 2016	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)
Loss for the year	**—**	**—**	**—**	**—**	**(62,004)**	**(62,004)**	**(35,399)**	**(97,403)**
Other comprehensive income								
– Exchange difference arising on translation of financial statements of foreign operations which may be reclassified subsequently to profit or loss	**—**	**—**	**—**	**(3,519)**	**—**	**(3,519)**	**(2,650)**	**(6,169)**
Total comprehensive income for the year	**—**	**—**	**—**	**(3,519)**	**(62,004)**	**(65,523)**	**(38,049)**	**(103,572)**
Shares issued on the conversion of convertible notes	**13,088**	**—**	**—**	**—**	**—**	**13,088**	**—**	**13,088**
Forfeiture/lapse of share options	**—**	**—**	**(6,796)**	**—**	**6,796**	**—**	**—**	**—**
As at 31 December 2017	**1,608,309**	**4,190**	**18,474**	**19,726**	**(1,740,973)**	**(90,274)**	**(101,748)**	**(192,022)**

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 2017

	Notes	2017 HK$'000	2016 HK$'000
Operating activities			
Loss before income tax		**(97,403)**	(433,367)
Adjustments for:			
Bank interest income		**—**	(7)
Depreciation of property, plant and equipment	14	**4,567**	4,514
Gain on disposal of property, plant and equipment	6	**—**	(329)
Written off of property, plant and equipment		**—**	2,837
Finance costs	8	**61,377**	76,122
Change in fair value of contingent consideration payable	24	**7,928**	—
Change in fair value of options/commitment to issue convertible notes	23	**261**	2,620
Change in fair value of derivative component of convertible notes	23	**77**	(882)
Impairment loss on construction in progress	16	**13,898**	314,015
Impairment loss on property, plant and equipment	14	**20**	2,645
Reversal of impairment loss on property, plant and equipment	14	**(9,000)**	—
Impairment loss on railway construction prepayment	16	**72**	1,641
Share of results of joint venture	25	**(9,718)**	(8,549)
Effect of foreign exchange rate changes		**(10,271)**	8,930
Operating cash flows before working capital changes		**(38,192)**	(29,810)
(Increase)/decrease in other receivables and prepayments		**(2,246)**	4,780
Increase/(decrease) in trade and other payables		**12,777**	(9,527)
Cash used in operations		**(27,661)**	(34,557)
Interest paid on bank loans and other borrowings		**(58,409)**	(72,328)
Interest received		**—**	7
Net cash used in operating activities		**(86,070)**	(106,878)
Investing activities			
Purchase of property, plant and equipment		**(39)**	(7,143)
Proceeds from disposal of property, plant and equipment		**—**	702
Partial consideration received from disposal of a subsidiary		**5,000**	5,000
Net cash generated from/(used in) investing activities		**4,961**	(1,441)

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Financing activities			
Interest on convertible notes	39(a)	8	18
Proceeds from other borrowings	39(a)	125,124	275,790
Proceeds from issue of convertible notes	39(a)	12,500	10,000
Repayment of bank loans	39(a)	(57,711)	(32,733)
Repayment of other borrowings		—	(168,026)
Net cash generated from financing activities		79,921	85,049
Net decrease in cash and cash equivalents		(1,188)	(23,270)
Cash and cash equivalents at beginning of the year		7,154	30,512
Effect of foreign exchange rate changes		2	(88)
Cash and cash equivalents at end of the year		5,968	7,154

Reconciliation of liabilities arising from financing activities and details of major non-cash transactions are set out in Note 39(a) and 39(b) to the consolidated financial statements respectively.

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 business.

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2017

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 except for the additional disclosure has been included in Note 39(a) to the consolidated financial statements to satisfy the new disclosure requirements introduced by the amendments to HKAS 7 – Statement of cash flows: Disclosure initiative. It requires the Group to provide additional disclosure that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

(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
Annual Improvements to HKFRSs 2014–2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures	(i)
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions	(i)
HKFRS 9	Financial Instruments	(i)
HKFRS 15	Revenue from Contracts with Customers	(i)
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS15)	(i)
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration	(i)
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	(ii)
HKFRS 16	Leases	(ii)
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments	(ii)
Amendment to HKFRS 3	Business Combinations	(ii)
Amendment to HKFRS 11	Joint Arrangements	(ii)
Amendment to HKAS 12	Income Taxes	(ii)
Amendment to HKAS 23	Borrowing Costs	(ii)
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	(iii)

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

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

Effective date:

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

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

(iii) 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 of the amendments continue to be permitted.

Annual Improvements to HKFRSs 2014–2016 Cycle – Amendments to HKAS 28, Investments in Associates and Joint Ventures

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organisation's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

Amendments to HKFRS 2 – Classification and Measurement of Share-Based Payment Transactions

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

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.

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 9 – Financial Instruments (Continued)

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.

The directors of the Company have reviewed the Group's financial assets as at 31 December 2017 and anticipate that the application of HKFRS 9 in the future may result in early recognition of credit losses based on expected loss model in relation to the Group's financial assets measured at amortised cost but is not likely to have other material impact on the results and financial position of the Group based on an analysis of the Group's existing business model.

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.

The directors of the Company anticipate that the application of HKFRS 15 in the future will not have a material impact on the amounts reported to the consolidated financial statements of the Company in the future based on the existing business model of the Group as at 31 December 2017.

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 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.

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

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

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 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 or finance leases, and to account for those two types of leases differently.

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 (Continued)

At 31 December 2017, the Group, as lessee, has non-cancellable operating lease commitments of HK$2,205,000 as disclosed in Note 31. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result in changes in measurement, presentation and disclosure in the Group's financial statements.

HK(IFRIC)-Int 23 – Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Amendment to HKFRS 3 – Business Combinations

The amendment clarifies that a company remeasures its previously held interest in a joint operation that is a business when it obtains control of the business.

Amendment to HKFRS 11 – Joint Arrangements

The amendment clarifies that a company that participates in but does not have joint control over a joint operation, does not remeasure its previously held interest in the joint operation which is a business when it obtains joint control of the business.

Amendment to HKAS 12 – Income Taxes

The amendment clarifies that a company accounts for all income tax consequences of dividend payments in the same way as the entity recognised the originating transaction or event that generated the distributable profit giving rise to the dividend.

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

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

Amendment to HKAS 23 – Borrowing Costs

The amendment clarifies that when a qualifying asset is ready for its intended use or sale and (some of) the related specific borrowing remains outstanding, that borrowing is treated as general borrowings.

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.

Other than HKFRS 9, HKFRS 15 and HKFRS 16 as discussed above, the Group is in the process of making an assessment of what the impact of other 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").

(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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

ii) *Going concern basis*

As at 31 December 2017, the Group had net current liabilities of HK$1,907,312,000 and incurred a loss of HK$97,403,000 for the year ended 31 December 2017. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The Group's net current liabilities as at 31 December 2017 are mainly attributable to its three non-wholly owned subsidiaries, 承德寬平鐵路有限公司 (Chengde Kuanping Railway Limited*) ("Kuanping Company"), 承德遵小鐵路有限公司 (Chengde Zunxiao Railway Limited*) ("Zunxiao Company") and 唐山唐承鐵路運輸有限責任公司 (Tangshan Tangcheng Railway Transportation Company Limited*) ("Tangcheng Company") (collectively the "Railway Companies") which are principally engaged in the construction and operations of a railway connecting Tangshan City (唐山市) and Chengde City (承德市), Hebei Province (河北省), the People's Republic of China (the "PRC"), (the "Zunxiao Railway").

The construction work has been suspended since July 2013 due to the fact that the compensation payable to the overlaid mine owner (the "Mine Owner") around the Tangcheng section of the Zunxiao Railway has not yet been resolved as mentioned in Note 16. Although continuous effort has been made by the Group in negotiation with the Mine Owner, no agreement has been reached by the parties involved in respect of the scope of compensation payable. The Group will continue to negotiate with the Mine Owner in order to reach an agreement on the amount of compensation payable so that it will be able to resume and complete the construction of the Zunxiao Railway.

The directors expect that the Railway Companies will continue to rely on the financial support from certain companies (the "Lenders"), one of which is a guarantor (the "Guarantor"), Golden Concord Holdings Limited ("Golden Concord"), of their entire bank loans of approximately HK$1,086,228,000 as at 31 December 2017 as mentioned in Note 22(a)(iii) and all of them are beneficially owned by a director of certain subsidiaries of the Company who is also a beneficiary of a discretionary trust which in turn is a substantial shareholder of the Company, in order to meet their financial obligations including payment of interests on bank loans, construction cost payables and other operating expenses.

In addition, the Railway Companies will also negotiate with a bank for extension of the repayment date of the entire or partial amount of the aforementioned bank loans which are due for repayment on 31 December 2018.

In this connection, the Guarantor which is also the holding company of the other companies comprising the Lenders has confirmed that it will continue to provide such financial support to the Railway Companies and will not demand them for repayment of the Lenders' loans, which amounted to HK$555,075,000 as at 31 December 2017, and related interests until the financial position of the Railway Companies has improved and the loan repayments will not affect the construction and operation of the Zunxiao Railway.

* English name for identification purposes only

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

ii) *Going concern basis (Continued)*

As for the shipping and logistics operations, the Group and the joint venture partner had preliminary discussions and concluded the mutual intention on withholding enforcement of or otherwise discharge the Group's financial obligations to acquire the two remaining vessels under a shareholders' agreement until the Group's financial position has improved and the shipping market recovers to a level which justifies acquisition of the two remaining vessels as mentioned in Note 18 to the consolidated financial statements. In the absence of other unforeseen circumstances, the directors consider the mutual intention will remain unchanged.

Given the above circumstances, the management had taken the following actions to improve the financial position of the Group. As detailed in the circular of the Company dated 5 January 2018, on 30 November 2017, the Company entered into a placing agreement with a placing agent, whereby the placing agent had conditionally agreed to place, on a best effort basis, and the Company had conditionally agreed to allot and issue, a total of 923,361,034 shares of the Company (the "Shares"). On the same date of 30 November 2017, the Company also entered into a subscription agreement with a subscriber, whereby the Company had conditionally agreed to issue, and the subscriber had conditionally agreed to subscribe for the convertible bonds in the aggregate principal amount of up to HK$100 million (the "Convertible Bonds"). On 23 February 2018, the placing was completed with 923,361,034 shares of the Company being successfully placed at an aggregate gross proceeds of HK$100 million as detailed in Note 40(a). On 2 March 2018, the conditions precedent to the subscription agreement were fulfilled, and the Convertible Bonds in the aggregate principal amount of HK$100 million were issued to and subscribed by the subscriber as detailed in Note 40(b). The proceeds from the issues of the Shares and the Convertible Bonds will be mainly applied for the acquisition of two handysize dry bulk vessels by the Group with the remaining balance of approximately HK$31.8 million for the general working capital of the Group.

In view of the above circumstances and the plans to be taken by the Group to address the going concern issue, the directors have prepared a cash flow forecast of the Group covering a period up to 30 June 2019 on the basis that the Group has successfully implemented or will successfully implement the aforementioned plans and measures and are satisfied that the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the twelve months from 31 December 2017. Accordingly, the directors consider that it is appropriate to prepare the consolidated financial statements on a going concern basis.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

ii) Going concern basis (Continued)

Notwithstanding the above, significant uncertainties exist as to whether the Group will be able to successfully implement its plans and measures as mentioned above. The appropriateness of preparation of the consolidated financial statements on the going concern basis depends on whether (i) the Group would be able to successfully negotiate with a bank for an extension of the repayment date of the entire or partial amount of the bank loans of the Railway Companies which are due for repayment on 31 December 2018; (ii) the Lenders which have been providing financial support to the Railway Companies to meet their financial obligations continue to have sufficient financial ability to provide the financial support to the Railway Companies; (iii) the shipping market conditions continue not to justify further acquisition of vessels, such that the Group and the joint venture partner's mutual intention on withholding enforcement of or otherwise discharge the Group's financial obligations under a shareholders' agreement would continue to remain unchanged during the forecast period; and (iv) the Group would be able to reach an agreement with the Mine Owner on the amount of compensation payable to the Miner Owner as planned so that the Group would be able to resume and complete the construction of the Zuanxiao Railway.

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

(c) Functional and presentation currency

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

(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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

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.

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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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.

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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(f) Joint arrangements (Continued)

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

(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

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(h) Property, plant and equipment (Continued)

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.

(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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(j) Financial assets

i) Financial assets at fair value through profit or loss

These assets represent financial assets 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.

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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(j) Financial assets (Continued)

iii) Impairment loss on financial assets (Continued)

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.

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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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.

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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

v) *Convertible notes (Continued)*

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.

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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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.

(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, associates and jointly controlled entities, 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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) 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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(q) Employees' benefits (Continued)

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.

(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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(s) Related parties (Continued)

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

(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.

(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 30 June 2019. 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 each subsequent reporting period, 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 2017, the fair value of the contingent consideration payable is HK$7,928,000 (2016: HK$Nil).

(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 in an arm's length transaction 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 increased to its estimated recoverable amount of HK$37,945,000 (2016: reduced to HK$31,734,000) as at 31 December 2017, any change in the key assumptions used to calculate the recoverable amount would result in further impairment losses, or reversal of an impairment loss.

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

(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 2017, the carrying amount of construction in progress was HK$1,671,728,000 (2016: HK$1,575,512,000), net of impairment of HK$13,898,000 (2016: HK$314,015,000) recognised during the year.

5. REVENUE

Revenue represents the amount received and receivable for time charters:

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

6. OTHER INCOME AND GAINS

	2017 HK$'000	2016 HK$'000
Exchange gains, net	1,762	568
Bank interest income	—	7
Gain on disposal of property, plant and equipment	—	329
Others	479	136
	2,241	1,040

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

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

Year ended 31 December 2017	Railway construction and operations HK'000	Shipping and logistics HK'000	Total HK'000
Segment revenue from external customers	—	15,797	15,797
Segment (loss)/profit	(77,536)	19,523	(58,013)
Other segment information:			
Interest expenses	(59,924)	—	(59,924)
Other income and gains	2,379	15	2,394
Depreciation of property, plant and equipment	(677)	(2,789)	(3,466)
Impairment loss on property, plant and equipment	(20)	—	(20)
Impairment loss on construction in progress	(13,898)	—	(13,898)
Impairment loss on railway construction prepayment	(72)	—	(72)
Reversal of impairment loss on property, plant and equipment	—	9,000	9,000
Share of results of joint venture	—	9,718	9,718
Operating lease payments	(153)	—	(153)

7. SEGMENT INFORMATION (CONTINUED)

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

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

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

7. SEGMENT INFORMATION (CONTINUED)

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

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

Geographical information

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

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

7. SEGMENT INFORMATION (CONTINUED)

Major customers

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

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

8. FINANCE COSTS

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

9. LOSS BEFORE INCOME TAX

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

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

10. INCOME TAX

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

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

Hong Kong profits tax, if any, is calculated at 16.5% (2016: 16.5%) on the estimated assessable profits for the year. PRC subsidiaries are subjected to PRC Enterprise Income Tax at 25% (2016: 25%). No provision for income tax has been made as the Group has no estimated assessable profits for both years.

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 ten (2016: twelve) directors were as follows:

Year ended 31 December 2017

	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
Fung Ka Keung, David (Note 5)	—	249	—	—	10	259
Tse On Kin (Note 1)	—	180	—	—	3	183
Lin Wenqiang (Note 2)	—	1,040	—	—	18	1,058
Fu Yongyuan (Note 2)	—	1,560	—	—	18	1,578
Non-executive directors						
Yu Baodong	540	—	—	—	18	558
Independent non-executive directors						
Chan Chi Yuen	120	—	—	—	—	120
Sit Fung Shuen, Victor (Note 5)	61	—	—	—	—	61
Wong Cheuk Bun (Note 6)	60	—	—	—	—	60
Siu Miu Man (Note 3)	120	—	—	—	—	120
	901	4,849	—	—	85	5,835

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

(a) Directors' emoluments (Continued)

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 (Note 5)	—	650	—	—	18	668
Tse On Kin (Note 1)	—	1,560	—	—	18	1,578
Lin Wenqiang (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, Victor (Note 5)	120	—	—	—	—	120
Siu Miu Man (Note 3)	45	—	—	—	—	45
	1,191	5,620	—	—	94	6,905

Notes:

1 Mr. Tse On Kin resigned as executive director on 14 February 2017.

2 Mr. Fu Yongyuan and Mr. Lin Wenqiang 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, Mr. 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.

5 Mr. Fung Ka Keung, David and Professor Sit Fung Shuen, Victor resigned as executive director and non-executive director on June 1 2017 and 3 July 2017 respectively.

6 Mr. Wong Cheuk Bun was appointed as executive director on 3 July 2017.

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 (2016: three) were directors of the Company whose emoluments are included in the disclosures in (a) above. The emoluments of the remaining two (2016: two) individuals were as follows:

	2017 HK$'000	2016 HK$'000
Salaries and other benefits	1,656	1,723
Contributions to defined contribution retirement scheme	36	36
	1,692	1,759

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

	2017 Number of employees	2016 Number of employees
HK$Nil to HK$1,000,000	2	2

12. DIVIDENDS

No dividend was paid or declared by the Company during the year ended 31 December 2017 (2016: Nil).

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

13. LOSS PER SHARE

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

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

(ii) Weighted average number of ordinary shares

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

Note:

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

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

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

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

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 2016	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
Additions	—	—	39	—	—	—	39
Exchange adjustment	26	—	161	113	412	—	712
As at 31 December 2017	390	1,876	3,265	2,406	6,381	68,702	83,020
Accumulated depreciation and impairment:							
As at 1 January 2016	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
Charge for the year	40	712	153	326	547	2,789	4,567
Impairment loss	—	—	—	—	20	—	20
Reversal of impairment loss	—	—	—	—	—	(9,000)	(9,000)
Exchange adjustment	18	—	146	106	268	—	538
As at 31 December 2017	374	1,179	2,763	1,822	4,372	30,757	41,267
Carrying amount:							
As at 31 December 2017	16	697	502	584	2,009	37,945	41,753
As at 31 December 2016	48	1,409	601	903	2,432	31,734	37,127

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Note:

As at 31 December 2017, the management reviewed the fundamentals of dry bulk shipping market and considered the freight rate has shown an increasing trend and there is potential recovery of the shipping market. As a result, the management considered that impairment loss recognised in prior periods may no longer exist or may have decreased.

An independent expert was engaged to assess the recoverable amount of the vessel, which involved value in use calculations based on cash flow projections from formally approved budgets covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3.13% (2016: 3.30%), which does not exceed the long-term growth rate for the worldwide shipping industry. The cash flows are discounted using a discount rate of 9.65% (2016: 7.94%). The discount rate used is pre-tax and reflect specific risks relating to the vessel.

During the year ended 31 December 2016, an impairment loss of HK$2,000,000 on vessel was recognised.

As at 31 December 2017, the recoverable amount exceeds the carrying amount of the vessel, and therefore reversal of impairment loss of approximately HK$9,000,000 was recognised during the year ended 31 December 2017 as the recovery of the shipping market is better than expected in the year ended 31 December 2016.

Impairment losses recognised on other property, plant and equipment other than the vessel during the years ended 31 December 2017and 2016 are disclosed in Note 16.

15. INTANGIBLE ASSETS

	Contract of affreightment ("COA") HK$'000	Club membership HK$'000	Total HK$'000
Cost:			
As at 31 December 2016 and 31 December 2017	126,900	1,000	127,900
Accumulated amortisation and impairment:			
As at 1 January 2016, 31 December 2016 and 31 December 2017	126,900	—	126,900
Carrying amount:			
As at 31 December 2017	**—**	**1,000**	**1,000**
As at 31 December 2016	—	1,000	1,000

During the years ended 31 December 2017 and 2016, although various efforts have been taken by management to negotiate with the COA provider to fix the COA rate, 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, no cargo volume was offered by the COA provider during 2017 and 2016. 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. As such, the directors of the Company consider that the recoverable amount/carrying amount of the COA to be HK$ Nil as at 31 December 2016 and 2017 is appropriate. Nevertheless, the joint venture will further discuss with the COA provider regarding the COA and will take appropriate steps to rectify the current situation.

16. CONSTRUCTION IN PROGRESS AND RAILWAY CONSTRUCTION PREPAYMENT

	Construction in progress HK$'000	Railway construction prepayment HK$'000
Cost:		
As at 1 January 2016	2,002,985	10,468
Exchange adjustment	(127,187)	(664)
As at 31 December 2016	1,875,798	9,804
Exchange adjustment	**520,373**	**2,719**
As at 31 December 2017	**2,396,171**	**12,523**
Impairment:		
As at 1 January 2016	—	—
Impairment loss	(314,015)	(1,641)
Exchange adjustment	13,729	72
As at 31 December 2016	(300,286)	(1,569)
Impairment loss	**(13,898)**	**(72)**
Exchange adjustment	**(410,259)**	**(2,145)**
As at 31 December 2017	**(724,443)**	**(3,786)**
Carrying amount:		
As at 31 December 2017	**1,671,728**	**8,737**
As at 31 December 2016	1,575,512	8,235

Construction in progress and railway construction prepayment represent railway construction costs and related prepaid construction costs of the Zunxiao Railway in the PRC. The construction work has been suspended since July 2013 due to the fact that the compensation payable to the Mine Owner has not yet been resolved. The Mine Owner has requested for an amount of compensation which management of the Company considers to be exaggerated and unreasonable. Although continuous effort has been made in negotiation with the Mine Owner, no agreement has been reached by the parties involved in respect of the scope of compensation payable.

An independent expert was engaged to assess the recoverable amounts of the aforesaid assets which were determined based on value in use calculations and were determined to be less than their carrying amounts. Accordingly, impairment losses of HK$20,000, HK$13,898,000 and HK$72,000 (2016: HK$645,000, HK$314,015,000 and HK$1,641,000 respectively) on the property, plant and equipment, construction in progress and the railway construction prepayment in relation to Zunxiao Railway respectively were recognised during the year ended 31 December 2017.

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

The recoverable amounts of the aforesaid assets as at 31 December 2017 and 2016 involved value in use calculations based on cash flow projections from formally approved budgets covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3.00% (2016:3.00%), which does not exceed the long-term growth rate for the railway industry. The cash flows are discounted using a discount rate of 17.33% (2016:17.80%). The discount rate used is pre-tax and reflects specific risks relating to the aforesaid assets. The cash flows are estimated based on various assumptions, mainly included the expected amount of the compensation payable 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$2,319,000, HK$1,671,728,000 and HK$8,737,000 respectively (2016: HK$2,842,000, HK$1,575,512,000 and HK$8,235,000 respectively), any adverse change in the key assumptions used to determine the recoverable amounts would result in further impairment losses.

17. INTERESTS IN SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2017 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 2017 are as follows: – Continued

Name of subsidiary	Place of incorporation/ establishment and operation	Issued and fully paid share capital/registered capital	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities
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
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
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 Note 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 Note 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

	2017 HK$'000	2016 HK$'000
Share of net assets in a joint venture		
– As at beginning and end of the year	—	—

The Group recognised 50% share of the profit of a joint venture for the year ended 31 December 2017 amounting to HK$9,718,000 (2016: HK$8,549,000). As at 31 December 2017 and 2016, 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 by acquiring 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 shareholders' 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 current market conditions in the shipping business, the Group and the joint venture partner had preliminary discussions and concluded the mutual intention on withholding the enforcement of the Group's obligations under the shareholders' agreement to acquire the two remaining vessels until the Group's financial position has improved and the shipping market recovers to a level which justifies the acquisition of the two remaining vessels or otherwise discharge the Group's obligations under the shareholders' agreement to acquire the two remaining vessels.

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%

18. INTEREST IN A JOINT VENTURE (CONTINUED)

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

	2017 HK$'000	2016 HK$'000
Non-current assets	222,511	213,294
Current assets	14,254	10,016
Current liabilities	(8,495)	(6,250)
Non-current liabilities	(467,332)	(475,559)
Net liabilities	(239,062)	(258,499)
Included in the above amounts are:		
Cash and cash equivalents	9,809	4,217
Current financial liabilities (excluding trade and other payables)	(800)	(778)
Non-current financial liabilities (excluding other payables and provisions)	(467,332)	(475,559)
Income	79,360	44,960
Expenses	(59,923)	(27,861)
Profit before tax	19,437	17,099
Income tax	—	—
Profit after tax and total comprehensive income for the year	19,437	17,099
Included in the above amounts are:		
Reversal of impairment loss on property, plant and equipment (note)	15,290	35,071
Depreciation and amortisation	(10,661)	(8,259)
Interest income	37	22
Interest expense	(20,468)	(20,903)

18. INTEREST IN A JOINT VENTURE (CONTINUED)

Note:

An independent expert was engaged to assess the recoverable amount of the vessels, which involved value in use calculations based on cash flow projections from formally approved budgets covering a five-year period. Cash flow beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3.00% (2016: 2.15%), 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 12.56% (2016: 13.15%). The discount rate used is pre-tax and reflect specific risks relating to the vessels.

As at 31 December 2017, the recoverable amount exceeds the carrying amount of the vessels, and reversal of impairment loss of approximately HK$15,290,000 (2016: HK$35,071,000) has been recognised in the financial statements of the joint venture during the year ended 31 December 2017 as the recovery of the shipping market are better than expected in the year ended 31 December 2016.

19. OTHER RECEIVABLES AND PREPAYMENTS

	2017 **HK$'000**	2016 HK$'000
Third parties	**14,165**	18,579
Related party (Note 33(e))	**24,823**	23,163
	38,988	41,742

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

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

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

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

22. BANK LOANS AND OTHER BORROWINGS

	2017 HK$'000	2016 HK$'000
Current liabilities		
Bank loans (Note (a))	**1,086,228**	55,897
Other borrowings		
– Railway construction and operations (Note (b))	**555,075**	404,301
– other corporate borrowing (Note (b))	**15,972**	8,384
	1,657,275	468,582
Non-current liabilities		
Bank loans (Notes (a))	**—**	1,015,070
Total	**1,657,275**	1,483,652

22. BANK LOANS AND OTHER BORROWINGS (CONTINUED)

Notes:

(a) At 31 December 2017, total bank loans were scheduled to be repaid as follows:

	2017 HK$'000	2016 HK$'000
On demand or within one year	**1,086,228**	55,897
More than one year but not exceeding two years	**—**	1,015,070
	1,086,228	1,070,967
Current liabilities	**(1,086,228)**	(55,897)
Non-current liabilities	**—**	1,015,070

(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 rate.

(ii) All bank loans were denominated in Renminbi. The directors estimated that the fair value of the bank loans is not significantly different from their carrying amount.

(iii) The amount of bank loans in the original denominated borrowing currency is RMB907,990,000 equivalent to HK$1,086,228,000 (2016: RMB957,990,000 equivalent to HK$1,070,967,000). 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$1,086,228,000 (2016: HK$1,070,967,000) as at 31 December 2017, 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$1,235,778,000 (2016: RMB1,033,000,000 equivalent to HK$1,154,822,000). 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 RMB529,578,000 equivalent to HK$633,534,000 (2016: RMB558,528,000 equivalent to HK$624,396,000), share mortgage, equity and assets pledges in favour of the connected party (Note 33(c)).

(b) Other borrowings of HK$571,047,000 (2016: HK$412,685,000) are unsecured and repayable on demand or within one year, of which HK$564,047,000 (2016: HK$412,685,000) are 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 authorized representative of the Subscriber) pursuant to which the Company had conditionally agreed to issue, and the Subscriber had conditionally agreed to subscribe for, the convertible notes in the aggregate principal amount of up to HK$100 million at the issue price, being 100% of the principal amount of the convertible notes (the "Convertible Notes"). On 12 February 2015, the Company entered into a supplemental agreement (the "Supplemental Agreement") with the Subscriber and Advance Capital Partners Pte. Ltd to amend certain terms and conditions of the Subscription Agreement. The Convertible Notes comprise two tranches with principal amounts of HK$60 million comprising 24 equal sub-tranches of HK$2.5 million each ("Tranche 1 Notes") and HK$40 million ("Tranche 2 Notes") comprising 8 equal sub-tranches of HK$5 million each, respectively. On 1 March 2016, the Company entered into a second supplemental agreement (the "Second Supplemental Agreement") with the Subscriber and Advance Capital Partners Pte. Ltd to further amend certain terms and conditions of the Subscription Agreement. The Convertible Notes comprise two tranches with principal amounts of HK$60 million comprising 24 equal sub-tranches of HK$2.5 million each ("Tranche 1 Notes") and HK$40 million ("Tranche 2 Notes") comprising one sub-tranche of HK$5 million for the first sub-tranche and 14 equal sub-tranches of HK$2.5 million each.

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

The Tranche 1 Notes

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

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

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

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 ended 31 December 2016 are set out below:

	Liability component HK'000	Derivative component HK'000	Total HK'000
At 1 January 2016	12	352	364
Fair value gain	—	(32)	(32)
Transfer to share capital on conversion of convertible notes (Note 39)	(12)	(320)	(332)
At 31 December 2016	—	—	—

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

The Tranche 2 Notes

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

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

The Tranche 2 Notes with principal amount of HK$40,000,000 comprise the first sub-tranche of HK$5,000,000 and 14 equal subsequent sub-tranches of HK$2,500,000 each.

During the year ended 31 December 2017, the sub-tranches of the Tranche 2 Notes with principal amount of HK$12,500,000 (2016: HK$10,000,000) were subscribed by and issued to the Subscriber, of which HK$9,500,000 (2016: 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 (2016: HK$3,000,000) outstanding as at 31 December 2017. As at 31 December 2017, an outstanding principal amount of HK$17,500,000 (2016: HK$30,000,000) of Tranche 2 Notes remained unsubscribed.

In this connection, the Group incurred a loss amounting to HK$261,000 (2016: loss of HK$2,620,000) arising from change in fair value of options/commitment to issue the Tranche 2 Notes from the date of the Second Supplemental Agreement to the date of issuance of respective sub-tranches of the Tranche 2 Notes, being the difference between the aggregate fair values of the sub-tranches of the Tranche 2 Notes of HK$12,761,000 (2016: HK$12,620,000) as at the date of its issuance and their principal amount of HK$12,500,000 (2016: HK$10,000,000).

23. CONVERTIBLE NOTES (CONTINUED)

The Tranche 2 Notes (Continued)

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

	Liability component HK'000	**Derivative component** HK'000	**Total** HK'000
Issuance of the convertible notes during the year ended 31 December 2016	298	12,322	12,620
Interest expense	18	—	18
Fair value gain	—	(850)	(850)
Transfer to share capital on conversion of convertible notes (Note 39)	(232)	(8,278)	(8,510)
At 31 December 2016	84	3,194	3,278
Issuance of the convertible notes	**186**	**12,575**	**12,761**
Interest expense	**8**	**—**	**8**
Fair value loss	**—**	**77**	**77**
Transfer to share capital on conversion of convertible notes (Note 39)	**(248)**	**(12,840)**	**(13,088)**
At 31 December 2017	**30**	**3,006**	**3,036**

The fair value of the derivative component of convertibles notes is categorised as a Level 3 measurement in accordance with HKFRS 13 Fair Value Measurement. During the years ended 31 December 2017 and 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

24. CONTINGENT CONSIDERATION PAYABLE

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

	2017 **HK$'000**	2016 HK$'000
Fair value:		
At beginning of the year	**—**	—
Change in fair value	**7,928**	—
At end of the year	**7,928**	—
Loss recognised in profit or loss relating to the financial instrument held by the Group at the end of reporting period	**7,928**	—

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 issue of 10,000,000 consideration shares (after adjustment for the Company's share consolidation as mentioned in Note 27) to the vendor, when the net profit after tax of Ocean Jade shall not be 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 2017 increased as the charter rate in shipping and logistics business has increased when compared with the trend observed as at 31 December 2016. The Company's own share price of HK$0.154 per share (2016: HK$0.47 per share after adjustment for the Company's share consolidation as mentioned in Note 27) adopted in the calculation is the Company's quoted share price as at 31 December 2017.

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 resultant 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 2017, it is estimated that a general increase of 10% in charter rate, with all other variables held constant, the change in fair value of the contingent consideration payable would increase the Group's loss for the year and accumulated losses by approximately HK$5,531,000 (2016: HK$5,971,000). It is estimated that a general decrease of 10% in charter rate, with all other variables held constant, the change in fair value of the contingent consideration payable would decrease the Group's loss for the year and accumulated losses by approximately HK$5,531,000 (2016: 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 2017, only two (2016: two) vessels had started commercial operation, the fair value of contingent consideration increased by HK$7,928,000 (2016: no change) as a result of the directors' re-estimation of the fair value of contingent consideration payable.

25. AMOUNT DUE TO A JOINT VENTURE

	2017 HK$'000	2016 HK$'000
Amount due to a joint venture		
At beginning of the year	**(128,420)**	(137,060)
Share of results of joint venture	**9,718**	8,549
Advance to a joint venture	**22**	91
At end of the year	**(118,680)**	(128,420)

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. UNRECOGNISED DEFERRED TAXATION

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 estimated unused tax losses of HK$516,724,000 (2016: HK$493,476,000), available for offset against future profits, that can be carried forward indefinitely.

27. SHARE CAPITAL

Issued and fully paid share capital

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

Note:

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

28. NON-CONTROLLING INTERESTS

The Group has three significant subsidiaries with material non-controlling interests ("NCI"), namely, Kuanping Company, Zunxiao Company and Tangcheng Company (the "Railway Companies"). The other details of each of the Railway Companies, principally engaged in railway construction and operations, 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 rail track of the Zunxiao Railway and therefore share similar risk and return.

	2017 HK$'000	2016 HK$'000
For the year ended 31 December		
Revenue	—	—
Loss for the year	(87,988)	(399,588)
Total comprehensive income	(94,270)	(408,338)
Loss allocated to NCI	(35,399)	(165,982)
Total comprehensive income allocated to NCI	(38,049)	(169,431)
Dividends paid to NCI	—	—
For the year ended 31 December		
Cash flows used in operating activities	(143,168)	(96,275)
Cash flows from investing activities	—	608
Cash flows from financing activities	143,181	91,260
Net cash inflow/(outflow)	13	(4,407)

	2017 HK$'000	2016 HK$'000
As at 31 December		
Current assets	318,103	293,842
Non-current assets	1,685,257	1,589,061
Current liabilities	(2,174,592)	(945,207)
Non-current liabilities	(6,289)	(1,020,947)
Net liabilities	(177,521)	(83,251)
Accumulated non-controlling interests	(101,748)	(63,699)

29. SHARE OPTIONS

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 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 grantee 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 weighed average exercise price of share options under 2008 Share Option Scheme are as follows:

	2017		2016	
	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**	**Note**	220,300	0.1680
Adjustment for share consolidation (Note 27)	**(198,270)**	**Note**		
Lapsed during the year	**(5,780)**	**Note**	—	
Outstanding at the end of the year	**16,250**	**Note 1.6800**	220,300	0.1680
Exercisable at the end of the year	**16,250**		220,300	

Note: At the date of grant, the exercise price of the share options was HK$0.1680. The exercise price was adjusted to HK$1.6800 following the share consolidation effective on 27 March 2017 (Note 27).

The options granted under the 2008 Share Option Scheme had fully vested and wholly exercisable as at 31 December 2017 and 2016. As at 31 December 2017, these outstanding options have an exercise price of HK$1.6800 (2016: HK$0.1680) and an average remaining contractual life of 3.30 years (2016: 4.30 years).

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

30. CAPITAL COMMITMENTS

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

These commitments were entered into by two PRC non-wholly owned subsidiaries. The Group's effective interests in Zunxiao Company and Tangcheng Company are 62.50% and 51.00% respectively as at 31 December 2017 and 2016.

31. OPERATING LEASE COMMITMENTS

Lessee

	2017 HK$'000	2016 HK$'000
Minimum lease payments for office premises and staff quarters under operating leases charged as expenses in the year	**2,494**	2,458

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

	2017 HK$'000	2016 HK$'000
Within one year	**2,205**	2,475
In the second to fifth years inclusive	**—**	2,295
	2,205	4,770

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 six months to three year, 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 2017 were approximately HK$15,797,000 (2016: HK$10,392,000). As at 31 December 2017 the Group leases out its vessel to customers with fixed charter rate for lease term of five to seven months (2016: 20 to 50 days).

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

	2017 HK$'000	2016 HK$'000
Not later than one year	**1,020**	6,888

32. FINANCIAL GUARANTEE CONTRACT ISSUED BY THE COMPANY

The Company has executed a counter-guarantee to indemnify Golden Concord up to approximately RMB529,578,000 equivalent to approximately HK$633,534,000 (2016: approximately RMB558,528,000 equivalent to approximately HK$624,396,000) (excluding all related accrued interest, costs and expenses incurred, if any), in which Golden Concord has agreed to execute guarantees to a bank in respect of bank loans granted to certain non-wholly owned subsidiaries of the Company in the PRC (Note 22(a)(iii) and Note 33(c)). Under the counter-guarantee, the Company would be liable to pay Golden Concord in the event of any default. The counter-guarantee was issued by the Company at HK$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 Note 22(a)(iii) and Note 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 is a substantial shareholder of the Company.

(d) Interest expenses of other borrowings of approximately HK$2,241,000 (2016: approximately HK$5,674,000) were charged by Golden Concord and its subsidiaries as disclosed in Note 22(b).

(e) The amount due from a 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 2017, the Group's strategy, which was unchanged from 2016, was to maintain a gearing ratio of not more than 100%. At set out in Note 40(a) to the consolidated financial statements, the Company has subsequently completed the placing of 923,361,034 new shares to strengthen the capital structure and reduce the gearing ratio of the Group.

The gearing ratio as at 31 December 2017 and 2016 were as follows:

	2017 HK$'000	2016 HK$'000
Current liabilities	**1,952,268**	757,238
Non-current liabilities	**7,928**	1,015,070
Total liabilities	**1,960,196**	1,772,308
Less: Cash and bank balances	**(5,968)**	(7,154)
Net debt	**1,954,228**	1,765,154
Total equity	**(192,022)**	(101,538)
Total capital	**1,762,206**	1,663,616
Gearing ratio	**111%**	106%

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 financial instruments carried at fair value. 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 2017 and 2016, 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 2017 (2016: two entities) which amounted to approximately HK$34,673,000 (2016: HK$38,013,000). Taking into account the financial position and repayment history of these entities, the directors consider the balances will be wholly 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.

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (Continued)

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:

2017	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	164,527	164,527	164,527	—	—	—
Amount due to a joint venture	118,680	118,680	118,680	—	—	—
Amounts due to minority equity owners of subsidiaries	8,750	8,750	8,750	—	—	—
Bank loans and other borrowings	1,657,275	1,712,919	1,712,919	—	—	—
Liability component of convertible notes	3,036	3,015	3,015	—	—	—
	1,952,268	2,007,891	2,007,891	—	—	—

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	—	—
Liability component of convertible notes	3,278	3,075	60	3,015	—	—
	1,772,308	1,876,006	808,183	1,067,823	—	—

As shown in the above analysis, bank loans and other financial liabilities of the Group amounting to approximately HK$2,007,891,000 (2016: HK$808,183,000) are expected to be repaid within the next twelve months from 31 December 2017. The short-term liquidity risk inherent in this contractual maturity date 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.

	2017		2016	
	Effective interest rate (%)	HK$'000	Effective interest rate (%)	HK$'000
Fixed rate borrowings				
Other borrowings	1.50% to 8.00%	40,795	6.50% to 8.00%	31,581
Interest free				
Other borrowings	0%	530,252	0%	381,104
Floating rate borrowings				
Bank loans	4.90%	1,086,228	4.90% to 5.88%	1,070,967
Total borrowings		1,657,275		1,483,652
Fixed rate borrowings as a percentage of total borrowings		34%		28%

Sensitivity analysis

As at 31 December 2017, 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$8,147,000 (2016:HK$8,032,000).

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 2017.

For the year ended 31 December 2017, 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 entities taking out the loans. 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 and the derivatives component of the Company's convertible notes (Note 23) at the end of reporting period.

As at 31 December 2017 and 2016, it is estimated that the possible increase of 10% in the Company's own share price with other variables held constant would have increase the Group's loss for the year and accumulated losses by approximately HK$793,000 (2016: HK$Nil/insignificant). Had the relevant equity prices been 10% lower, there would be an equal and opposite effect on the loss for the year and accumulated losses (2016: HK$Nil/insignificant).

(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 2017 and 2016 may be categorised as follows:

	2017 HK$'000	2016 HK$'000
Financial assets		
Loans and receivables (including cash and bank balances)	**44,312**	48,380
Financial liabilities		
Fair value through profit or loss		
– Contingent consideration payable	**7,928**	—
– Derivative component of convertible notes	**3,006**	3,194
Financial liabilities measured at amortised cost	**1,949,262**	1,769,114

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 2017 and 2016.

At 31 December 2017	**Level 1 HK$'000**	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Liabilities				
Contingent consideration payable	**—**	**—**	**7,928**	**7,928**
Derivative component of convertible notes	**—**	**—**	**3,006**	**3,006**

At 31 December 2016	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

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2017 HK$'000	2016 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries		54,370	69,955
Current assets			
Other receivables and prepayments		10,008	15,079
Cash and cash equivalents		1,201	3,325
		11,209	18,404
Current liabilities			
Other payables		2,484	2,646
Convertible notes		3,036	3,278
		5,520	5,924
Net current assets		5,689	12,480
Net assets		60,059	82,435
EQUITY			
Share capital	27	1,608,309	1,595,221
Other reserves	38	(1,548,250)	(1,512,786)
Total equity		60,059	82,435

The statement of financial position was approved and authorised for issue by the directors on 23 March 2018.

Liang Jun
Director

Fu Yongyuan
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 2016	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)
Total comprehensive income for the year	**—**	**—**	**(35,464)**	**(35,464)**
Forfeiture/lapse of share options	**—**	**(6,796)**	**6,796**	**—**
As at 31 December 2017	**4,190**	**18,474**	**(1,570,914)**	**(1,548,250)**

* As at 31 December 2017, these reserves constituted the other reserves balance of HK$1,548,250,000 (2016: HK$1,512,786,000) per the Company's statement of financial position.

The Company did not have any reserves available for distribution to shareholders as at 31 December 2017 and 2016.

39. NOTES SUPPORTING CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of liabilities arising from financing activities:

	Bank loans and other borrowings (Note 22) HK$	Convertible notes (Note 23) HK$	Contingent consideration payable (Note 24) HK$
At 1 January 2017	1,483,652	3,278	—
Changes from cash flows:			
Proceeds from other borrowings	125,124	—	—
Repayment of bank loans	(57,711)	—	—
Proceeds from issue of convertible notes	—	12,500	—
Interest element on convertible notes	—	8	—
Total changes from financing cash flows:	67,413	12,508	—
Exchange adjustments:	106,210	—	—
Changes in fair value:	—	338	7,928
Other changes:			
Conversion of convertible notes (Note 23)	—	(13,088)	—
At 31 December 2017	**1,657,275**	**3,036**	**7,928**

(b) Major non-cash transactions

During the year ended 31 December 2017, carrying amounts of the liability component of HK$248,000 (2016: HK$244,000) and derivative components of HK$12,840,000 (2016: HK$8,598,000) of the convertible notes were transferred to share capital amounting to HK$13,088,000 (2016: HK$8,842,000) at their respective dates of conversion.

40. EVENTS AFTER THE END OF REPORTING PERIOD

On 30 November 2017 and 23 January 2018, the Company announced its intention regarding (a) the placing of new shares ("Placing"); (b) the subscription of the Convertible Bonds ("Subscription"); and (c) the acquisition of vessels as set out below.

a. On 23 February 2018, the completion of the Placing took place and a total number of 923,361,034 new shares at the placing price of HK$0.1083 per placing share were placed to not fewer than six placees. The net proceeds from the placing are approximately HK$92.8 million. The remaining amount of the proceeds, after the payments for the acquisition of the dry bulk vessel (Vessel A) and related expenses as mentioned in Note 40 (c), of approximately HK$26.9 million are expected to be used for general working capital of the Group. Details of the placing of shares are set out in the Company's circular dated 5 January 2018 and the Company's announcement dated on 23 February 2018.

b. On 2 March 2018, the conditions precedent to the Subscription have been fulfilled, and the Convertible Bonds in the aggregate principal amount of HK$100 million have been issued to and subscribed by the subscriber. The remaining amount of the proceeds, after the payments for the acquisition of the dry bulk vessel (Vessel B) and related expenses as mentioned in Note 40 (c), of approximately HK$4.9 million are expected to be used for general working capital of the Group. Details of the Subscription are set out in the Company's circular dated 5 January 2018 and the Company's announcement dated on 2 March 2018.

c. As set out in the Company's circular dated on 23 February 2018, the Group entered into two memorandum of agreements ("MOA 1" and "MOA 2") with (i) CFCL Handy Clip III LLC ("Vendor A") to acquire a handysize bulk carrier vessel ("Vessel A") at a consideration of US$10.3 million (equivalent to about HK$80.34 million); and (ii) CFCL Handy Clip IV LLC ("Vendor B") to acquire a handysize bulk carrier vessel ("Vessel B"), at a consideration of US$10.3 million (equivalent to about HK$80.34 million) (collectively the "Acquisition"). On 16 March 2018, the Acquisition was duly passed as ordinary resolutions of the Company by the Shareholders. The Group had lodged a deposit in the sum of US$2.06 million (equivalent to about HK$16.07 million) representing 10% of the consideration in an escrow account and the remaining balance would be settled at the time of deliveries of the vessels in or around April 2018.

Five-Year Financial Summary

Year ended 31 December 2017

	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**15,797**	10,392	21,922	36,680	19,084
Loss before income tax	**(97,403)**	(433,367)	(344,190)	(242,344)	(128,846)
Income tax credit	**—**	—	—	6,579	—
Loss for the year	**(97,403)**	(433,367)	(344,190)	(235,765)	(128,846)
Loss attributable to non-controlling interests	**(35,399)**	(165,982)	(46,326)	(50,953)	(27,777)
Loss attributable to owners of the Company	**(62,004)**	(267,385)	(297,864)	(184,812)	(101,069)
ASSETS AND LIABILITIES					
Total assets	**1,768,174**	1,670,770	2,137,066	2,297,123	2,302,879
Total liabilities	**(1,960,196)**	(1,772,308)	(1,808,175)	(1,745,422)	(1,511,644)
	(192,022)	(101,538)	328,891	551,701	791,235
Equity attribute to owners of the Company	**(90,274)**	(37,839)	223,159	390,229	577,668
Non-controlling interests	**(101,748)**	(63,699)	105,732	161,472	213,567
	(192,022)	(101,538)	328,891	551,701	791,235