亞洲能源物流
ASIAENERGY
Logistics

ASIA ENERGY LOGISTICS GROUP LIMITED
亞洲能源物流集團有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 351)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Asia Energy Logistics Group Limited (the "**Company**") announces the unaudited consolidated results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2018, together with the comparative figures for the previous corresponding period, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Notes	For the six months ended 30 June 2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Revenue	4	**18,826**	7,792
Cost of sales		**(13,894)**	(7,205)
Gross profit		**4,932**	587
Other income, gains and (losses)	5	**(16)**	510
Depreciation and amortisation		**(856)**	(922)
Staff costs		**(17,690)**	(8,192)
Change in fair value of contingent consideration payable		**867**	–
Change in fair value of derivative component of convertible notes	15	**(4)**	(7)
Change in fair value of options/commitment to issue convertible notes	15	**(16)**	(217)
Share of results of joint venture		**672**	2,849
Other operating expenses		**(10,336)**	(7,424)
Finance costs	7	**(34,168)**	(28,032)
Loss before income tax	8	**(56,615)**	(40,848)
Income tax	9	**–**	–
Loss for the period		**(56,615)**	(40,848)
Other comprehensive income			
Exchange difference arising on translation of financial statements of foreign operations which may be reclassified subsequently to profit or loss		**2,181**	(1,702)
Total comprehensive income for the period		**(54,434)**	(42,550)

	Notes	For the six months ended 30 June 2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Loss for the period attributable to:			
Owners of the Company		**(43,364)**	(28,294)
Non-controlling interests		**(13,251)**	(12,554)
		(56,615)	(40,848)
Total comprehensive income for the period attributable to:			
Owners of the Company		**(42,102)**	(29,255)
Non-controlling interests		**(12,332)**	(13,295)
		(54,434)	(42,550)
Loss per share			
– basic and diluted (HK cents per share)	*10*	**(1.96)**	(1.96)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

	Notes	At 30 June 2018 HK$'000 (Unaudited)	At 31 December 2017 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	*12*	**206,545**	41,753
Intangible assets		**1,000**	1,000
Construction in progress	*13*	**1,657,453**	1,671,728
Railway construction prepayment	*13*	**8,663**	8,737
Interest in a joint venture		**–**	–
		1,873,661	1,723,218
Current assets			
Other receivables and prepayments		**42,790**	38,988
Cash and cash equivalents		**16,642**	5,968
		59,432	44,956
Current liabilities			
Trade and other payables	*14*	**167,395**	164,527
Bank loans and other borrowings		**1,665,938**	1,657,275
Convertible notes	*15*	**–**	3,036
Amount due to a joint venture		**117,999**	118,680
Amounts due to minority equity owners of subsidiaries		**8,675**	8,750
		1,960,007	1,952,268
Net current liabilities		**(1,900,575)**	(1,907,312)
Total assets less current liabilities		**(26,914)**	(184,094)

	Notes	At 30 June 2018 HK$'000 (Unaudited)	At 31 December 2017 HK$'000 (Audited)
Non-current liabilities			
Contingent consideration payable		**7,061**	7,928
Convertible bonds	*16*	**66,272**	–
		73,333	7,928
Net liabilities		**(100,247)**	(192,022)
Capital and reserves attributable to owners of the Company			
Share capital	*17*	**1,709,316**	1,608,309
Other reserves		**(1,695,484)**	(1,698,583)
Equity attributable to owners of the Company		**13,832**	(90,274)
Non-controlling interests		**(114,079)**	(101,748)
TOTAL EQUITY		**(100,247)**	(192,022)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND GOING CONCERN ASSUMPTION

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

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

The financial information relating to year ended 31 December 2017 that is included in these unaudited condensed consolidated interim financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements for the year ended 31 December 2017 which had been delivered to the Registrar of Companies in Hong Kong. The auditor had reported and had disclaimed their opinion on those financial statements and had included a statement under section 407(3) of the Hong Kong Companies Ordinance.

During the period, the Group incurred a loss of HK$56,615,000 and had net current liabilities of HK$1,900,575,000 as at 30 June 2018. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern, and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Group's net current liabilities as at 30 June 2018 are mainly attributable to its three non-wholly owned subsidiaries, 承德寬平鐵路有限公司 (Chengde Kuanping Railway Limited*) ("Kuanping Company"), 承德遵小鐵路有限公司 (Chengde Zunxiao Railway Limited*) ("Zunxiao Company") and 唐山唐承鐵路運輸有限責任公司 (Tangshan Tangcheng Railway Transportation Company Limited*) ("Tangcheng Company") (collectively the "Railway Companies") which are principally engaged in the construction and operations of a railway connecting Tangshan City (唐山市) and Chengde City (承德市), Hebei Province (河北省), the People's Republic of China (the "PRC"), (the "Zunxiao Railway").

The construction work 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 13. 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.

* *for identification purposes only.*

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$1,076,967,000 as at 30 June 2018. The Lenders and Guarantor are beneficially owned by a director of certain subsidiaries of the Company who is also a beneficiary of a discretionary trust which in turn owns Golden Concord, 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 are negotiating with the 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$588,971,000 as at 30 June 2018, 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.

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 more sustainable level which justifies acquisition of the two remaining vessels. In the absence of other unforeseen circumstances, the directors consider the mutual intention will remain unchanged.

Given the above circumstances, the management has taken certain actions to improve the financial position of the Group which included placing of shares of the Company with gross proceed of HK$100 million and issue of the convertible bonds in the aggregate principal amount of HK$100 million. The proceeds have been partially utilised to purchase two vessels at a total cost of HK$167,094,000 during the period, with the remaining proceeds to be utilised as working capital.

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 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 30 June 2018. Accordingly, the directors consider that it is appropriate to prepare the unaudited condensed consolidated interim financial statements on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether the Group will be able to successfully implement its plans and measures as mentioned above. The appropriateness of preparation of the unaudited condensed consolidated interim financial statements on the going concern basis depends on whether (i) the Group would be able to successfully negotiate with the 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 Group's financial position has improved and the shipping market recovers to a more sustainable level which justifies acquisition of the two remaining vessels, such that the Group and the joint venture partner's mutual understanding to withhold 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 Zunxiao Railway.

There are significant uncertainties as to the outcomes of the above events or conditions that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Should the use of the going concern basis in preparation of the unaudited condensed consolidated interim financial statements be determined to be not appropriate, adjustments would have to be made to write down the carrying amounts of the Group's assets to their 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 unaudited condensed consolidated interim financial statements.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the year ended 31 December 2017, which have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA (hereinafter collectively referred to as the "HKFRSs"), the provisions of the Hong Kong Companies Ordinance which concern the preparation of financial statements and included applicable disclosures required by the Listing Rules.

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

The accounting policies and methods of computation adopted in the 2017 annual consolidated financial statements have been applied consistently to the unaudited condensed consolidated interim financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual consolidated financial statements.

In the current period, the Group has adopted all the new/revised HKFRSs and amendments to HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2018. This is the first set of the Group's financial statements in which HKFRS 9 and HKFRS 15 have been adopted and the changes and impacts of the adoption of these two standards have been discussed below.

HKFRS 9 "Financial Instruments"

HKFRS 9 replaces HKAS 39 "Financial Instruments: Recognition and Measurement" for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassification and the adjustments arising from the new expected credit losses ("ECLs") rules are therefore not reflected in the condensed consolidated statement of financial position as at 31 December 2017, but are recognised in the condensed consolidated statement of financial position on 1 January 2018. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group, however, did not have significant impact on the Group's unaudited condensed consolidated interim financial statements for the current period as no reclassification of financial instruments has been made and the impact on recognition of expected credit loss is insignificant.

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 supersedes HKAS 11 "Construction Contracts", HKAS 18 "Revenue and related interpretations". HKFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients whereby any cumulative effect of initially applying HKFRS 15 is recognised as an adjustment to the opening balance of retained earnings at the date of initial application (that is, 1 January 2018). The adoption of HKFRS 15 from 1 January 2018 has resulted in changes in accounting policies of the Group, however, did not have significant impact on the Group's unaudited condensed consolidated interim financial statements for the current period as the Group continues to recognise the revenue from charter hire income on a straight-line basis over time during the unexpired period of the relevant leases.

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

3. USE OF JUDGEMENTS AND ESTIMATES

In preparing the unaudited condensed consolidated interim financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2017 annual consolidated financial statements.

4. REVENUE

Revenue represents the amounts received and receivable for time charters:

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Charter-hire income	**18,826**	7,792

Charter-hire income is recognised over time.

5. OTHER INCOME, GAINS AND (LOSSES)

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Sundry income	**26**	55
Exchange gain	**–**	455
Loss on redemption of convertible notes *(Note 15)*	**(42)**	–
	(16)	510

6. SEGMENT INFORMATION

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

– Railway construction and operations

– Shipping and logistics

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

Six months ended 30 June 2018 (Unaudited)	**Railway construction and operations**	**Shipping and logistics**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Segment revenue from external customers			
– Charter-hire income	**–**	**18,826**	**18,826**
Segment (loss)/profit	**(32,263)**	**5,461**	**(26,802)**
Other segment information:			
Interest expenses	**(28,510)**	**–**	**(28,510)**
Depreciation of property, plant, and equipment	**(316)**	**(2,474)**	**(2,790)**
Operating lease payments	**(49)**	**–**	**(49)**
Share of results of joint venture	**–**	**672**	**672**
Additions to non-current segment assets during the period	**–**	**167,094**	**167,094**

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

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

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss		
Segment loss	**(26,802)**	(26,031)
Change in fair value of contingent consideration payable	**867**	–
Change in fair value of derivative component of convertible notes	**(4)**	(7)
Change in fair value of options/commitment to subscribe for convertible notes	**(16)**	(217)
Other unallocated corporate expenses	**(30,660)**	(14,593)
Consolidated loss before income tax	**(56,615)**	(40,848)

	As at 30 June 2018	As at 31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Assets		
Railway construction and operations	**1,693,969**	1,708,459
Shipping and logistics	**219,298**	43,944
Segment assets	**1,913,267**	1,752,403
Intangible assets	**1,000**	1,000
Other unallocated corporate assets	**18,826**	14,771
Consolidated total assets	**1,933,093**	1,768,174
Liabilities		
Railway construction and operations	**1,823,033**	1,807,814
Shipping and logistics	**124,218**	120,748
Segment liabilities	**1,947,251**	1,928,562
Contingent consideration payable	**7,061**	7,928
Convertible notes	**–**	3,036
Convertible bonds	**66,272**	–
Other unallocated corporate liabilities	**12,756**	20,670
Consolidated total liabilities	**2,033,340**	1,960,196

Geographical information

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

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

Major customers

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

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Customer A	**9,049**	–
Customer B	**9,429**	7,565
	18,478	7,565

7. FINANCE COSTS

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on bank loans and other borrowings	**29,412**	28,026
Interest on convertible notes	**1**	6
Interest on convertible bonds	**4,755**	–
	34,168	28,032

8. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging:

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment		
– Recognised in cost of sales	**2,474**	1,394
– Recognised in administrative expenses	**856**	922
	3,330	2,316
Staff costs		
– Salaries, wages and other benefits	**9,554**	8,020
– Equity-settled share-based payments	**7,941**	–
– Contributions to defined contribution retirement scheme	**195**	172
	17,690	8,192
Operating lease rentals in respect of land and buildings	**1,220**	1,207

9. INCOME TAX

No provision for Hong Kong profits tax and PRC enterprise income tax has been made in the condensed consolidated interim financial statements as the Group's operations in Hong Kong and the PRC had no estimated assessable profits for the six months ended 30 June 2018 and 2017.

10. LOSS PER SHARE

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

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss for the year attributable to owners of the Company	**43,364**	28,294

	For the six months ended 30 June	
	2018	2017
Weighted average number of ordinary shares for the purposes of basic loss per share *(Note (a) & (b))*	**2,207,543,862**	1,443,586,605

Notes:

(a) The weighted average number ordinary shares for the purpose of basic loss per share for the six months ended 30 June 2018 has taken into account the effects of the placing of 923,361,034 shares of the Company completed on 23 February 2018 and the conversion of convertible notes into shares during the six months ended 30 June 2018.

(b) The weighted average number of ordinary shares for the purpose of basic loss per share for the six months ended 30 June 2017 has been adjusted for share consolidation on 27 March 2017.

Diluted loss and basic loss per share are the same for the six months ended 30 June 2018 and 2017 as the potential ordinary shares on exercise of share options, contingent consideration payable, convertible notes and convertible bonds are anti-dilutive.

11. DIVIDEND

No dividend was paid or declared by the Company during the six months ended 30 June 2018 and 2017.

The directors do not recommend the payment of any dividend in respect of the six months ended 30 June 2018 and 2017.

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group has completed the acquisition of two vessels with a total cost of HK$167,094,000. One of the vessels amounting to HK$82,916,000 was pledged to secure the Company's convertible bonds issued to GIC Investment Limited as mentioned in Note 16.

13. CONSTRUCTION IN PROGRESS AND RAILWAY CONSTRUCTION PREPAYMENT

	Construction in progress *HK$'000*	Railway construction prepayment *HK$'000*
Cost:		
As at 1 January 2017 (Audited)	1,875,798	9,804
Exchange adjustment	520,373	2,719
As at 31 December 2017 (Audited)	2,396,171	12,523
Exchange adjustment	(20,461)	(106)
As at 30 June 2018 (Unaudited)	2,375,710	12,417
Impairment:		
As at 1 January 2017 (Audited)	(300,286)	(1,569)
Impairment loss	(13,898)	(72)
Exchange adjustment	(410,259)	(2,145)
As at 31 December 2017 (Audited)	(724,443)	(3,786)
Exchange adjustment	6,186	32
As at 30 June 2018 (Unaudited)	(718,257)	(3,754)
Carrying amount:		
As at 30 June 2018 (Unaudited)	1,657,453	8,663
As at 31 December 2017 (Audited)	1,671,728	8,737

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

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

The recoverable amounts of the aforesaid assets as at 31 December 2017 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%, 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%. 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, any adverse change in the key assumptions used to determine the recoverable amounts would result in further impairment losses.

As at 30 June 2018, management considered that there have been no material changes in the circumstances since 31 December 2017 that would have required recognition of additional impairment loss or reversal of impairment loss on the carrying amounts of the property, plant and equipment, construction in progress and the railway construction prepayment in relation to the Zunxiao Railway as at 30 June 2018.

14. TRADE AND OTHER PAYABLES

	At 30 June 2018 *HK$'000* **(Unaudited)**	At 31 December 2017 *HK$'000* (Audited)
Trade payables		
– current and up to 30 days	**2,250**	672
Construction cost payables	**143,384**	144,617
Other payables and accruals	**20,577**	19,114
Contract liabilities *(Note)*	**1,184**	124
	167,395	164,527

Note:

Contract liabilities represent charter-hire income received in advance which was previously included in other payables and accruals.

15. CONVERTIBLE NOTES

On 16 January 2015, the Group entered into a subscription agreement (the "Subscription Agreement"), which was amended and further amended on 12 February 2015 and 1 March 2016 respectively, with two independent third parties, namely, Advance Opportunities Fund (the "Subscriber") and Advance Capital Partners Pte. Ltd (being the authorised representative of the Subscriber) pursuant to which the Company had conditionally agreed to issue, and the Subscriber had conditionally agreed to subscribe for, the convertible notes in the aggregate principal amount of up to HK$100 million at the issue price, being 100% of the principal amount of the convertible notes (the "Convertible Notes").

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 were 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

The Tranche 1 Notes were fully converted into ordinary shares of the Company before the end of reporting period of 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 subscription agreement are set out in the Company's circular dated 11 April 2016.

In this connection, the Group incurred a loss amounting to HK$16,000 (six months ended 30 June 2017: HK$217,000) arising from change in fair value of options/commitment to issue the Tranche 2 Notes during the six months ended 30 June 2018, being the difference between the aggregate fair values of the relevant sub-tranches of the Tranche 2 Notes of HK$2,516,000 as at the date of its issuance and their principal amount of HK$2,500,000.

During the six months ended 30 June 2018, the sub-tranches of the Tranche 2 Notes with principal amount of HK$2,500,000 were subscribed by and issued to the Subscriber, of which HK$500,000 were converted into ordinary shares of the Company. On 8 May 2018, the Company mutually agreed with the Subscriber to redeem in full the remaining outstanding Tranche 2 Notes in the aggregate principal amount of HK$2,000,000 together with the interests accrued thereon for a consideration of HK$2,056,000 pursuant to the terms of the Tranche 2 Notes.

The movements of the liability component and derivative component of the Tranche 2 Notes since 31 December 2017 to 30 June 2018 are set out below:

	Liability component *HK$'000*	Derivative component *HK$'000*	Total *HK$'000*
At 31 December 2017 (Audited)	30	3,006	3,036
Movements during the period (Unaudited)			
Issuance of the convertible notes	24	2,492	2,516
Interest expense *(Note 7)*	1	–	1
Fair value loss	–	4	4
Transfer to share capital on conversion of convertible notes *(Note 17)*	(34)	(3,509)	(3,543)
Loss on redemption of convertible notes *(Note 5)*	42	–	42
Redemption of convertible notes	(63)	(1,993)	(2,056)
At 30 June 2018 (Unaudited)	–	–	–

The fair value of the derivative component of convertibles notes is categorised as a Level 3 measurement in accordance with HKFRS 13 Fair Value Measurement. During the six months ended 30 June 2018 and 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

16. CONVERTIBLE BONDS

On 30 November 2017, the Company entered into another subscription agreement with a subscriber, GIC Investment Limited, pursuant to which the Company has conditionally agreed to issue, and the subscriber has conditionally agreed to subscribe for, the convertible bonds ("Convertible Bonds") in an aggregate principal amount of HK$100,000,000. The Convertible Bonds bear 5.5% interest per annum and carry a right to convert the aggregate principal amount into conversion shares at the initial conversion price of HK$0.1701 per conversion share (subject to adjustments) during the period from eighteen months after 2 March 2018, the date on which the Convertible Bonds were issued, and ending on 1 March 2021. The conversion price is subject to adjustment on the occurrence of dilutive or concentration event. Both the Company and the subscriber have the early redemption rights at any time on or after two years from the issue date at an amount equal to the aggregate of 105.5% of the principal amount of the Convertible Bonds and any outstanding interests and amounts due. As the early redemption options are closely related to the host debt contract, they are not accounted for separately.

One of the vessels of the Group is pledged to the Convertible Bonds as mentioned in note 12. The Convertible Bonds contain two components: liability and equity components.

The equity component and the liability component are presented in the equity as "convertible bonds reserve" and liability at amortised cost respectively in the condensed consolidated statement of change in equity. The effective interest rate of the liability component on initial recognition is 25.20% per annum.

The Convertible Bonds recognised in the condensed consolidated statement of financial position as at 30 June 2018 (31 December 2017: Nil) are as follows:

	HK$'000 (Unaudited)
Fair value of the Convertible Bonds at date of issue on 2 March 2018	100,000
Issue expenses	(1,222)
Net proceeds	98,778
Equity component, net of attributable issue expenses, at 2 March 2018	(37,261)
Liability component on initial recognition at 2 March 2018	61,517
Effective interest expense *(Note 7)*	4,755
Liability component at 30 June 2018	66,272

During the six months ended 30 June 2018, the Convertible Bonds have not yet been available for early redemption or convertible into shares of the Company pursuant to the terms of the subscription agreement.

17. SHARE CAPITAL

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

Notes:

(a) 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 was effective on 27 March 2017.

(b) Pursuant to the placing of shares completed on 23 February 2018, a total number of 923,361,034 placing shares were issued at HK$0.1083 per placing share.

18. SHARE OPTIONS

On 16 April 2018, 97,250,271 share options with fair value of HK$7,941,000 were granted for nil consideration to employees and directors of the Company under the Company's share option scheme (no share option were granted during the six months ended 30 June 2017). Each option gives the holder the right to subscribe for one ordinary share of the Company. These share options have vested immediately on date of grant and are exercisable during a period of 10 years commencing from the grant date. The exercise price is HK$0.1432 per share.

No options were exercised during the six months ended 30 June 2018 (2017: Nil).

19. CAPITAL COMMITMENTS

	At 30 June 2018	At 31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Authorised and contracted for in respect of construction of railway:		
– Zunxiao Company	**161,664**	163,054
– Tangcheng Company	**115,829**	116,825
	277,493	279,879

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 30 June 2018 and 31 December 2017.

20. RELATED PARTY TRANSACTIONS

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

The Group had entered into the following significant related party transactions during the six months ended 30 June 2018:

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

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Salaries and other benefits	**8,520**	2,919
Contributions to defined contribution retirement scheme	**42**	48
	8,562	2,967

b) As mentioned in Note 1, the Company has provided a counter-guarantee up to approximately RMB529,578,000 equivalents to HK$628,133,000 (31 December 2017: RMB529,578,000 equivalents to HK$624,396,000) 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.

c) Interest expenses on other borrowings amounting to approximately HK$1,190,000 for the six months ended 30 June 2018 (six months ended 30 June 2017: HK$1,112,000) were charged by Golden Concord and its subsidiaries.

d) The amount due from a related party, Golden Concord of approximately HK$24,614,000 (31 December 2017: HK$24,823,000) included under other receivables and prepayments is unsecured, interest-free, repayable on demand.

e) The Company has issued the Convertible Bonds of HK$100 million to GIC Investment Limited as mentioned in Note 16 which constituted a connected transaction as GIC Investment Limited is an associate (as defined under the Listing Rules) of Mr. Zhu.

Transactions disclosed in Notes 20(b) and 20(e) 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 20(a), 20(c) and 20(d) constitute connected transactions exempted from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

21. SUBSEQUENT EVENTS

As set out in the Company's circular dated on 1 August 2018, the Company proposed to (i) terminate the previous share option scheme, 2008 option scheme, with options granted thereunder remained valid and exercisable in accordance with their terms of issue, (ii) adopt the new share option scheme (the "**2018 Option Scheme**"), and (iii) grant 247,987,622 share options under the 2018 Option Scheme to the conditional grantees, whose share options are conditional upon the approval by the independent shareholders of the Company at the general meeting, and other eligible participants.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

Railway Construction and Operations

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

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

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

* *for identification purposes only*

As announced by the Company on 4 August 2016, the Vendor had been informed by a letter from the Purchaser stating that the Purchaser no longer has any further intention to proceed with the acquisition of the Relevant Interests due to the level of complexity of the Zunxiao Railway and the difficulties involved. In the circumstances, the Vendor has sought an advice from its legal advisers as to PRC law who, on the basis that the Purchaser has stated that the Purchaser no longer has any further intention to proceed with the acquisition of the Relevant Interests, opined that the Vendor may exercise its rights to dissolve the Disposal Agreements by serving notice on the Purchaser. As the Purchaser did not respond nor contest the notice within the prescribed time limit, the Disposal Agreements were considered dissolved with effect from 4 August 2016. Accordingly, the management of the Company considered that the impairment indicator of the carrying amounts of the property, plant and equipment, construction in progress and the railway construction prepayment in relation to the Zunxiao Railway existed. Subsequently, an independent expert was engaged to assess the recoverable amount of the aforesaid assets as at 31 December 2016 and 2017 by 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, which does not exceed the long-term growth rate for the railway industry. The cash flows are discounted using a discount rate which 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. Details of the assessment are set out in Note 16 to the financial statements of the Group's annual reports for the years 2016 and 2017 and the Company's announcements dated 30 June 2017 and 26 June 2018.

As disclosed by the Company previously, the outstanding issue which caused the prolonged delay of the construction related mainly to the assessment of the scope of compensation payable to the overlaid mine owner. With a view to resume the construction of the Zunxiao Railway, the management (the "Management") of the Company has visited the local governments to promote the settlement of the overlaid mine, express the Company's strong determination to the construction of Zunxiao Railway, catch on the latest local economic conditions and policies and discussed with other shareholders of Zunxiao Railway in respect of funding the resumption of construction work. Meanwhile, the Management has delegated our staff to investigate the transport capacity and the demand for railway transportation along the whole line. The Company is also seeking professional consultant to explore the possibility to re-align the relevant section of Zunxiao Railway in order to circumvent the overlaid mine and to avoid the excessive compensation demanded by the mine owner.

Shipping and Logistics

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

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

The JV Group

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

The implementation of the "Belt and Road Initiative" of China and the improvement of domestic macro economy had led to the notable recovery of PRC shipping market in the year of 2017. During the first half of 2018, China economic activities continued to firm up with the sustained growth and the slight improvement to the average freight rate.

For the period under review, both JV vessels were under full employment throughout except for a short period of dry-locking and the JV Group recorded revenue of approximately HK$39,498,000 (2017: approximately HK$33,780,000), representing an increase of approximately 17% as compared to the corresponding period of 2017. The Group's share of profit from the JV Group was approximately HK$672,000 (2017: approximately HK$2,849,000).

Pursuant to the joint venture agreement entered into on 1 December 2009 (as amended by a supplemental agreement dated 1 December 2009) (collectively, the "JV Agreement") among the parties to the JV Agreement, a total of four vessels are to be acquired. However, due to the continuing poor shipping market condition for the past few years, the JV Group has not made further acquisition of the remaining two vessels as planned. The Group discussed with its joint venture partner and reached a mutual understanding to withhold enforcement of or otherwise discharge the Group's financial obligations under the JV Agreement to acquire the two remaining vessels until the Group's financial position has improved and the shipping market recovers to a more sustainable level which justifies the further acquisition. The Company will make further announcement in this regard as and when appropriate.

Own Vessels

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

2017 was a year during which the dry bulk shipping market experienced a sustainable recovery to healthier levels from the dark days of 2016. Driven by the global economy recovery, the international dry bulk shipping market benefited from the global economy up-turn. During the first half of 2018, there was a further improvement in the conditions of international dry bulk shipping market as a result of more balanced fundamentals.

With a view to taking advantage of dry bulk shipping market growth and to achieve sustainable development of its shipping and logistics business, on 23 January 2018, the Group entered into two memorandum of agreements for the acquisition of two additional Handysize vessels with carrying capacity of about 32,000 DWT each at a consideration of US$10.3 million each (equivalent to about HK$80.34 million each). The consideration was settled by the net proceeds from the placing and the issue of the convertible bonds, details of which are set out in the circular of the Company dated 5 January 2018 and the section headed "Fundraising Activities" below.

The Company successfully took deliveries of the two Handysize vessels on 13 April 2018 and 19 April 2018, respectively and the two Handysize vessels were chartered out and started generating revenue immediately after their deliveries.

For the period under review, our existing vessel, MV Asia Energy, was under full employment throughout and the two newly acquired vessels had also been under full employment since their deliveries in April 2018.

For the period under review, the Group recorded revenue of approximately HK$18,826,000 (2017: approximately HK$7,792,000), representing an increase of approximately 142% as compared to the corresponding period of 2017. The gross profit was approximately HK$4,932,000 (2017: approximately HK$587,000), representing an increase of approximately 740% as compared to the corresponding period of 2017. The increase in both the revenue and gross profit were due to the increase in charter rate and the additional contribution made by the two newly acquired Handysize vessels.

Overall, the performances of both the Group's own vessels and the JV Group were satisfactory and had made positive contributions to the Group. Details of the business segment of the Group are set out in Note 6 to the unaudited condensed consolidated interim financial statements.

Prospects

Railway Construction and Operations

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

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

The construction of special railway lines for iron and steel and other key enterprises will be accelerated by fully deploying the special railway line capacity in place and substantially increasing the proportion of railway transportation. It is expected that the proportion of railway transportation will be more than 50% in the major areas by 2020.

The management of the Company considered that above new policies will facilitate the restoration of the railway construction and bring more opportunities to railway transportation. In order to accelerate the construction pace, the management of the Company has engaged professional consultant to study and access the feasibility of realigning the railway line and may explore other possibilities to implement an alternative plan regarding the construction of the Zunxiao Railway. Meanwhile, for the purpose of securing adequate capital commitment for the construction and operation of railway, the Company may also explore various fundraising channels and will publish further announcement in due course.

Shipping and Logistics

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

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

Despite the uncertainties caused by the trade war and its potential adverse impact on the shipping market, the management of the Company expects that the Group's shipping and logistics business will not be significantly affected in the second half of 2018 and in the year 2019 as the two newly acquired vessels are on charter contracts which will run until after the year 2019. For vessel MV Asia Energy which is currently operated under short-term contract, certain degree of adverse effect on its operation is expected. However, the management of the Company is cautiously optimistic that the effect of any shipping market down-turn can be minimized and the Group's shipping and logistics business will enjoy a better performance in the second half of 2018 and the year ahead.

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

Financial Review

For the period under review, the unaudited revenue of the Group was approximately HK$18,826,000 (30 June 2017: approximately HK$7,792,000), representing an increase of approximately 142% compared to the corresponding period of 2017.

The Group recorded a loss after tax for the period under review of approximately HK$56,615,000 (30 June 2017: loss of approximately HK$40,848,000) representing an increase in loss of approximately 38.6% as compared to the corresponding period of 2017. The increase in loss was mainly attributable to the increase in staff costs, finance costs and other operating expenses. The loss per share was HK1.96 cents (30 June 2017: HK1.96 cents).

Fundraising Activities

Convertible Notes

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

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

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

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

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

During the period under review, Convertible Notes of the Tranche 2 Notes in the principal amount of HK$3,500,000 was subscribed and issued and approximately HK$3,255,000 (net of arrangement fee) was raised which had been applied towards the general working capital. On 8 May 2018, Convertible Notes of the Tranche 2 Notes in the remaining principal amount of HK$2,000,000 were redeemed in full together with the interests accrued thereon.

As at 30 June 2018, there was no outstanding Convertible Notes which may be subscribed, issued and converted.

Placing

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

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

As as the date of this announcement, the Company had utilised approximately HK$88,700,000 of the net proceeds from the Placing and $4,100,000 remained unutilized.

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 5.5% convertible bonds in the aggregate principal amount of HK$100,000,000 with a term of 3 years (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 of the Company. The conditions precedent specified in the CB Agreement had been fulfilled and the completion thereof took place on 2 March 2018.

As at the date of this announcement, the Company had utilised all of the net proceeds raised from the issue of the Convertible Bonds.

CHANGES IN DIRECTORSHIP

On 24 March 2018, Mr. Siu Miu Man was re-designated as an executive Director (the "Executive Director") of the Company and Mr. Wong Yin Shun was appointed as an independent non-executive Director (the "Independent Non-Executive Director") of the Company.

SUBSEQUENT EVENTS

Event subsequent to the period under review is as follow:

2018 Option Scheme

As disclosed in the circular of the Company dated 1 August 2018, the Company proposed to (i) terminate the previous share option scheme, 2008 Option Scheme, with options granted thereunder remained valid and exercisable in accordance with their terms of issue, (ii) adopt the new share option scheme (the "2018 Option Scheme"), and (iii) grant 247,987,622 share options (representing approximately 10% of the total number of Shares in issue as at the 27 July 2018, being the latest practicable date of the circular) under the 2018 Option Scheme to the conditional grantees, whose share options are conditional upon the approval by the independent shareholders at the general meeting to be held on 20 August 2018, and other eligible participants.

CORPORATE GOVERNANCE

Compliance with Corporate Governance Code

It is one of the continuing commitments of the Board and the management of the Company to maintain high standards of corporate governance. The Company has adopted and applied the principles as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers that effective corporate governance makes significant contribution to corporate success and enhancement of shareholder value. Throughout the period of six months ended 30 June 2018, the Company has complied with the CG Code save as specified and explained below:

Code Provision A.2.1

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

Code Provision A.6.7

Code provision A.6.7 stipulates, among other things, that the independent non-executive directors and other non-executive directors should attend general meetings. Mr. Wong Cheuk Bun, an Independent Non-Executive Director, was absent from the general meeting of the Company held on 26 January 2018 due to a pre-arranged business engagement.

Mr. Yu Baodong, a Chairman and a Non-Executive Director, was absent from the annual general meeting of the Company held on 17 May 2018 due to his other business engagement.

Code Provision D.2.1

Code provision D.2.1 stipulates that where board committees are established to deal with matters, the Board should give them sufficiency clear terms of reference to enable them to perform their functions properly. The executive committee (the "Executive Committee") of the Company was established in April 2018 comprising three members, all of whom are Executive Directors, with an aim to advise on all commercial matters and operations of the Group. The terms of reference of the Executive Committee were approved by the Board subsequent to its establishment on 17 August 2018.

REVIEW OF INTERIM RESULTS

The unaudited consolidated interim results of the Group for the six months ended 30 June 2018 have been reviewed by the Audit Committee, which expressed no disagreement with the accounting treatments adopted in preparation of the interim financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites on the Stock Exchange (http://www.hkex.com.hk) and the Company (http://www.aelg.com.hk). The interim report of the Company for the six months ended 30 June 2018 will be despatched to the shareholders of the Company and made available on the same websites in due course.

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

17 August 2018

As at the date of this announcement, the executive directors of the Company are Mr. Liang Jun, Mr. Fu Yongyuan, Mr. Lin Wenqing and Mr. Siu Miu Man; the non-executive director of the Company is Mr. Yu Baodong (Chairman); and the independent non-executive directors of the Company are Mr. Chan Chi Yuen, Mr. Wong Cheuk Bun and Mr. Wong Yin Shun.