亞洲能源物流

ASIA ENERGY Logistics

亞洲能源物流集團有限公司

ASIA ENERGY LOGISTICS GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

Stock Code : 351

INTERIM REPORT 2018

Contents

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.

* *for identification purposes only*

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

As announced by the Company on 4 August 2016, the Vendor had been informed by a letter from the Purchaser stating that the Purchaser no longer has any further intention to proceed with the acquisition of the Relevant Interests due to the level of complexity of the Zunxiao Railway and the difficulties involved. In the circumstances, the Vendor has sought an advice from its legal advisers as to PRC law who, on the basis that the Purchaser has stated that the Purchaser no longer has any further intention to proceed with the acquisition of the Relevant Interests, opined that the Vendor may exercise its rights to dissolve the Disposal Agreements by serving notice on the Purchaser. As the Purchaser did not respond nor contest the notice within the prescribed time limit, the Disposal Agreements were considered dissolved with effect from 4 August 2016. Accordingly, the management 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

* *for identification purposes only*

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 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 for the resumption of construction works. Meanwhile, the management of the Company 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 consultants 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.

Management Discussion and Analysis

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 each 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 (30 June 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 (30 June 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 the Group's dry bulk fleet is about 92,000 DWT (30 June 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 market fundamentals.

Management Discussion and Analysis

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, the Group's 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 (30 June 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 (30 June 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 ordinary share of the Company (the "Share(s)") was HK1.96 cents (30 June 2017: HK1.96 cents).

Financial Resources, Liquidity and Gearing Ratio

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

As at 30 June 2018, the Group had bank and cash balances of approximately HK$16,642,000 (31 December 2017: approximately HK$5,968,000).

As at 30 June 2018, the Group had secured bank loans of approximately HK$1,076,967,000 repayable within one year. The effective interest rate for the period was 4.90% per annum.

As at 30 June 2018, the Group had unsecured other borrowings of approximately HK$8,896,000 repayable within one year and approximately HK$580,075,000 repayable on demand. Other borrowings of approximately HK$33,507,000 are interest bearing at 6.5% to 8% per annum with the remaining balances of HK$555,464,000 being interest free.

During the six months ended 30 June 2018, the Company had redeemed in full the remaining outstanding convertible notes in the principal amount of HK$2,000,000 together with the interests accrued thereon.

As at 30 June 2018, the gearing ratio of the Group was approximately 105% (31 December 2017: approximately 111%). For this purpose, the gearing ratio is calculated as net debt divided by adjusted capital.

Share Capital

On 23 February 2018, the placing completion took place and a total of 923, 361, 034 placing shares of HK$0.1083 per placing share had been successfully placed to the placees. Further details are set out in the section headed "Fundraising Activities" below.

On 2 March 2018, the subscription completion took place and the convertible bonds in the aggregate principal amount of HK$100,000,000 had been issued. Further details are set out in the section headed "Fundraising Activities" below.

During the period under review, convertible notes in the principal amount of HK$3,500,000 were converted into 30,734,663 Shares, details of which are set out in the announcements of the Company published in January 2018. On 8 May 2018, the Company had redeemed in full the remaining outstanding convertible notes in the principal amount of HK$2,000,000 together with the interests accrued thereon.

As at 30 June 2018, the total number of Shares in issue was 2,479,876,223.

Details of the movement in the Company's share capital are set out in Note 17 to the unaudited condensed consolidated interim financial statements.

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

As at the date of this report, the Company had utilised approximately HK$88,700,000 of the net proceeds from the Placing and, HK$4,100,000 remained unutilised, details of which are set out below:

Intended Uses	**Revised Intended Uses (if applicable)**	**Original Allocation** HK$	**Utilisation as at 30 June 2018** HK$	**Remaining Balance** HK$
Acquisition of 1st vessel	N/A	58,100,000	58,100,000	–
Capital requirement *(Note 1)*	Reallocated to the acquisition of the 1st Vessel	7,800,000	7,800,000	–
Working capital				
Administrative expenses *(Note 2)*	Partially reallocated to the acquisition of the 1st Vessel	19,900,000	15,800,000	4,100,000
Repayment of loan	N/A	7,000,000	7,000,000	–
Total		92,800,000	88,700,000	4,100,000

Notes:

Pursuant to the circulars of the Company dated 5 January 2018 and 23 February 2018, the remaining balance of the 1st vessel should have been settled by the mortgage loan financing. As at the date of this report, the Company has not secured any loan financing and thus reallocated partial proceeds from the Placing to the acquisition of the 1st vessel.

(1) HK$7,800,000 was reallocated to the acquisition of the 1st vessel.

(2) HK$12,000,000 was reallocated to the acquisition of the 1st vessel.

The remaining balance of HK$4,100,000 shall be utilised as intended.

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. 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 report, the Company had utilised all of the net proceeds raised from the issue of the Convertible Bonds and the details are set out below:

Intended Uses	Revised Intended Uses (if applicable)	Original Allocation HK$	Utilisation as at 30 June 2018 HK$	Remaining Balance HK$
Acquisition of 2nd vessel *(Note 1)*	Partially reallocated to the acquisition of the 1st Vessel	93,800,000	93,800,000	–
Working capital	N/A	4,900,000	4,900,000	–
Total		98,700,000	98,700,000	–

Note:

Pursuant to the circulars of the Company dated 5 January 2018 and 23 February 2018, the remaining balance of the 1st vessel should have been settled by the mortgage loan financing. As at the date of this report, the Company has not secured any loan financing and thus reallocated partial proceeds from the issue of the Convertible Bonds to the acquisition of the 1st vessel.

(1) HK$11,900,000 was reallocated to the acquisition of the 1st vessel.

Dilution Effect of the Conversion of the Convertible Bonds

In case of full conversion by GIC in accordance with the terms of the CB Agreement for the issue of the Convertible Bonds, 587,889,476 Shares, representing approximately 23.7% of the number of shares in issue as at 30 June 2018, at the initial conversion price of HK$0.1701 per conversion share will be allotted to GIC.

To the best knowledge, information and belief of the directors of the Company (the "Directors"), the following table sets out the total number of Shares to be issued upon full conversion of the Convertible Bonds at the initial conversion price of HK$0.1701 per conversion share:

	As at the date of issue of the Convertible Bonds		Immediately after the full conversion of the Convertible Bonds at the initial conversion price of HK$0.1701 per conversion share	
Shareholders	**Number of Shares**	**Approximate % of issued Shares**	**Number of Shares**	**Approximate % of issued Shares**
Substantial Shareholders				
Mr. Wong Kin Ting	455,297,032	18.36	455,297,032	14.84
Mr. Zhu Gongshan	113,745,000	4.59	113,745,000	3.71
GIC	–	–	587,889,476	19.16
Public Shareholders	1,910,834,419	77.05	1,910,834,419	62.29
Total	2,479,876,223	100	3,067,765,699	100

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 period ended 30 June 2018 attributable to owners of the Company	HK$43,364,000
Weighted average number of Company's shares in issue as at 30 June 2018	2,207,543,862
Basic and diluted loss per share *(Note)*	1.96 HK cents

Note:

Diluted loss per share is the same as basic loss per share as the potential ordinary shares on exercise of share options, contingent consideration payable and Convertible Bonds are anti-dilutive.

Redemption Obligations

According to the terms and conditions of the CB Agreement, both the Company and GIC are entitled to early redemption at any time on or after two years from the date of issue of the Convertible Bonds in accordance with the terms of the CB Agreement and the Company will have the ability to meet its redemption obligations in accordance with the terms of the CB Agreement.

Analysis on the Share Price

The analysis of the Company's share price at which it would be equally financially advantageous for GIC to convert the Convertible Bonds based on its implied rate of return at a range of dates in the future is set out below:

Conversion dates for the Analysis	Share Price (HK$)	Implied rate of return of GIC
31 December 2018	0.1735	8%
31 December 2019	0.178	8%
31 December 2020	0.182	8%

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

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

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

Pledge of Assets and Contingent Liabilities

Golden Concord Holdings Limited ("GCL"), a company beneficially owned by Mr. Zhu Gongshan, a director of various subsidiaries of the Company, had provided guarantee to the Group's bank loan facilities in aggregate, up to RMB1,033 million (equivalent to approximately HK$1,225 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$714 million) and a share mortgage of its shares in China Railway Logistic Holdings Limited ("CRL"), an indirect wholly-owned subsidiary of the Company, and equity and asset pledges of CRL's subsidiaries in favour of GCL. As at 30 June 2018, the outstanding bank loans amounted to approximately RMB908 million (equivalent to approximately HK$1,077 million). Therefore, according to the Group's percentage equity interest holdings in the subsidiaries, there was a contingent liability of approximately RMB530 million (equivalent to approximately HK$628 million).

Capital Commitments

As at 30 June 2018, the Group had capital commitment of approximately HK$277,493,000 (31 December 2017: approximately HK$279,879,000), details of which are set out in Note 19 to the unaudited condensed consolidated interim financial statements.

Exposure to Fluctuation in Exchange Rates

The Group's assets, liabilities and transactions are mainly denominated in the functional currency of the operations to which the transactions relate and did not have significant exposure to risk resulting from changes in foreign currency exchange rates, the Directors consider that the Group's currency exchange risk is minimal. Therefore, no hedging devices or other alternatives have been implemented.

Employees

As at 30 June 2018, the Group had 98 (31 December 2017: 91) full-time employees, 64 of whom were based in the PRC. Staff costs of the Group for the period under review, including directors' remuneration and equity-settled share-based payments, were approximately HK$17,690,000 (30 June 2017: approximately HK$8,192,000). The Group decides the remunerations payable to its staff based on their duties, working experience and the prevailing market practices. Apart from basic remuneration, share options may be granted to eligible employees by reference to the performance of the Group and individual employees. The Group also participated in an approved mandatory provident fund scheme for its Hong Kong employees and made contributions to the various social insurance funds for its PRC employees.

During the period under review, the Company has one share option scheme, namely, the 2008 Option Scheme. The 2008 Option Scheme was adopted on 20 August 2008 and is valid and effective for a period of ten years ending on 20 August 2018. A shareholders' resolution was passed at the annual general meeting held on 3 June 2010 to refresh the scheme mandate limit such that the maximum number of Shares which may be issued upon exercise of all the options would amount to 128,570,271 Shares. As at 30 June 2018, 128,570,271 share options were granted, of which 128,470,271 share options were accepted and 100,000 share options were lapsed due to non-acceptance. Details of the 2008 Option Scheme are set out in page 32 to 36 of this report.

Subsequent to the period under review, the Company has adopted a new share option scheme, the 2018 Option Scheme, and the details are set out in the section headed "Subsequent Event" below.

Changes in Directorship

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

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 held on 20 August 2018, and other eligible participants.

On 20 August 2018, the termination of 2008 Option Scheme, the adoption of the 2018 Option Scheme and the granting of options to the conditional grantees were approved by the independent shareholders of the Company.

Corporate Governance and Other Information

Corporate Governance

Compliance with Corporate Governance Code

It is one of the continuing commitments of the Board and the management of the Company to maintain high standards of corporate governance. The Company has adopted and applied the principles as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers that effective corporate governance makes significant contribution to corporate success and enhancement of shareholder value. Throughout the period of six months ended 30 June 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 of the Company. As there is a clear division of responsibilities of each Director, the vacancy of the post of Chief Executive did not have any material impact on the operations of the Group. However, the Board will review the current board structure from time to time and if a candidate with suitable knowledge, skill and experience is identified, the Board will make an appointment to fill the post of Chief Executive as appropriate.

Code Provision A.6.7

Code provision A.6.7 stipulates, among other things, that the independent non-executive directors and other non-executive directors should attend general meetings. Mr. 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 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.

Board of Directors

(1) Board Composition

Save and except for (i) the re-designation of Mr. Siu Miu Man from Independent Non-executive Director to Executive Director, and (ii) the appointment of Mr. Wong Yin Shun as an Independent Non-Executive Director, there are no changes in the composition of the Board since the last published annual report of the Company.

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

Executive Directors

Mr. Liang Jun
Mr. 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

Mr. Wong Yin Shun *(appointed on 24 March 2018)*

(2) Disclosure of Information on Directors

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

(3) Board Committees

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

Save and except for those mentioned in the respective written terms of reference of each Committee, as at 30 June 2018, the Nomination Committee proposed the re-designation of Mr. Siu Miu Man as an Executive Director and the appointment of Mr. Wong Yin Shun as an Independent Non-Executive Director and the relevant resolutions were unanimously passed at the Board Meetings; the Remuneration Committee determined, with delegated power, the remuneration package of Mr. Siu Miu Man and Mr. Wong Yin Shun; and the Audit Committee reviewed the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2018. The Executive Committee has approved the employee handbook and some human resources regulations.

(4) Continuous Professional Development

Ongoing professional trainings and seminars had been and will continuously be offered to all Directors in order for them to develop and refresh their knowledge and skills as directors of listed company.

Compliance with Model Code

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

Risk Management and Internal Control

During the period under review, the Group has complied with Code Provision C.2 of the CG Code by establishing appropriate and effective risk management and internal control systems. Management is responsible for the design, implementation and monitoring of such systems, while the Board oversees management in performing its duties on an ongoing basis.

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

Disclosure of Interests

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

As at 30 June 2018, the following persons are Directors of the Company who had or was deemed to have an interest or short position in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) (the "SFO") which (i) were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short position which they had or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules:

Long Position in the Shares and underlying Shares

Directors	Capacity	Number of Shares held	Number of underlying Shares held under equity derivatives	Total	Approximate percentage of Shareholding *(Note 1)*
Mr. Liang Jun	Beneficial Owner	–	9,510,050 *(Note 2)*	9,510,050	0.38%
Mr. Fu Yongyuan	Beneficial Owner	–	24,510,071 *(Note 3)*	24,510,071	0.99%
Mr. Lin Wenqing	Beneficial Owner	–	4,000,000 *(Note 3)*	4,000,000	0.16%
Mr. Siu Miu Man	Beneficial Owner	–	24,510,050 *(Note 3)*	24,510,050	0.99%
Mr. Yu Baodong	Beneficial Owner	–	9,510,050 *(Note 2)*	9,510,050	0.38%
Mr. Chan Chi Yuen	Beneficial Owner	–	2,000,000 *(Note 3)*	2,000,000	0.08%
Mr. Wong Cheuk Bun	Beneficial Owner	–	2,000,000 *(Note 3)*	2,000,000	0.08%
Mr. Wong Yin Shun	Beneficial Owner	–	1,000,000 *(Note 3)*	1,000,000	0.04%

Notes:

(1) The approximate percentage of shareholding was calculated based on the number of shares in issue of 2,479,876,223 Shares as at 30 June 2018.

(2) These are share options granted on 21 April 2011 and 16 April 2018 respectively by the Company to the Directors under the share option scheme adopted by the shareholders of the Company on 20 August 2008 and refreshed on 3 June 2010. 5,000,000 share options can be exercised by the Directors at various intervals during the period from 21 April 2011 to 20 April 2021 at an exercise price of HK$1.680 per Share. 4,510,050 shares options can be exercised by the Directors during the period from 16 April 2018 to 15 April 2028 at an exercise price of HK$0.1432 per Share.

(3) These are share options granted on 16 April 2018 by the Company to the Directors under the share option scheme adopted by the shareholders of the Company on 20 August 2008 and refreshed on 3 June 2010. These shares options can be exercised by the Directors during the period from 16 April 2018 to 15 April 2028 at an exercise price of HK$0.1432 per Share.

Save as disclosed above, as at 30 June 2018, as far as the Board was aware, none of the Directors had or was deemed to have any interest or short position in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short position which they had or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules.

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

As at 30 June 2018, so far as is known to the Board, the following persons (other than a director or chief executive of the Company) had interests in the shares or underlying shares of the Company which were notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO:

Long Position in the Shares and underlying Shares

Name	Capacity	Number of Shares and underlying Shares held	Approximate percentage of Shareholding *(Note 4)*
Mr. Wong Kin Ting ("Mr. Wong")	Interest of controlled corporations	455,297,032 *(Note 1)*	18.36
Mr. Zhu Gongshan ("Mr. Zhu")	Beneficiary of a discretionary trust & interest of controlled corporations	213,745,000 *(Note 2)*	8.62
Credit Suisse Trust Limited ("CST")	Trustee	200,000,000 *(Note 3)*	8.06

Notes:

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

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

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

Corporate Governance and Other Information

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

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

(ii) 13,745,000 Shares directly held by Profit Act Limited, which is indirectly controlled by Mr. Zhu.

(3) According to the corporate substantial shareholder notice filed by CST was deemed to be interested in 200,000,000 Shares in its capacity as the trustee of these Shares. These 200,000,000 Shares were beneficially owned by Fast Sky Holdings Limited which in turn is 100% directly controlled by Golden Concord Group Limited ("Golden Concord"). Golden Concord is 100% controlled by Asia Pacific Energy Holdings Limited which in turn is 100% controlled by Asia Pacific Energy Fund Limited ("APEFL"). APEFL is 50% controlled by Serangoon Limited and 50% controlled by Seletar Limited and both Serangoon Limited and Seletar Limited are 100% controlled by CST.

Out of these 200,000,000 Shares, 100,000,000 Shares are consideration Shares which may be issued (in whole or in part as appropriate) to Golden Concord or its nominee pursuant to an agreement dated 18 December 2009 (as amended by supplemental agreements on 24 December 2009 and 28 April 2010, respectively) in relation to the acquisition of the entire equity interests in Ocean Jade (collectively, the "Agreements"). Details of the Agreements are set out in the Company's circular dated 30 April 2010, whereby it was disclosed that the allotment and issue of these 100,000,000 Shares is subject to the achievement of the profit guarantee as contained in the Agreements.

(4) The approximate percentage of shareholding was calculated based on the number of shares in issue of 2,479,876,223 Shares as at 30 June 2018.

Save as disclosed above, as at 30 June 2018, the Company had not been notified of any other person (other than the Directors whose interests are set out in the section headed "Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures" above) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO.

Share Options

2008 Option Scheme

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

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

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

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

The 2008 Option Scheme is valid and effective for a period of ten years commencing on the date of adoption and ending on 20 August 2018.

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

Since there was a substantial increase in the issued share capital of the Company after the adoption of the 2008 Option Scheme, a shareholders' resolution was passed at the annual general meeting held on 26 April 2010 to refresh the scheme mandate limit of the 2008 Option Scheme such that the total number of Shares which may be issued upon exercise of all the options to be granted under the 2008 Option Scheme (as refreshed) would amount to 128,570,271 Shares, representing 10% of the issued share capital of the Company as at the date of passing of the resolution. The exercise price will be determined by the Directors, which shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant of options; or (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five days immediately preceding the date of grant of option; or (iii) the nominal value of a share.

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

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

On 16 April 2018, 97,250,271 share options were granted at an exercise price of HK$0.1432 per Share under the 2008 Option Scheme, all of which were accepted.

On 20 August 2018, the shareholders of the Company approved the termination of the 2008 Option Scheme and the options granted thereunder shall continue to be valid and exercisable in accordance with their terms of issue.

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

Directors or category of participants	Exercise period of the share options	Exercise price of the share options HK$	As at 1.1.2018	Granted during the period	Exercised during the period	Lapsed during the period	As at 30.6.2018
Directors							
Mr. Liang Jun *(Note 2&3)*	21.4.2011 to 20.4.2021	1.680	2,000,000	–	–	–	2,000,000
	21.4.2012 to 20.4.2021	1.680	1,500,000	–	–	–	1,500,000
	21.4.2013 to 20.4.2021	1.680	1,500,000	–	–	–	1,500,000
	16.4.2018 to 15.4.2028	0.1432	–	4,510,050	–	–	4,510,050
Mr. Fu Yongyuan *(Note 2)*	16.4.2018 to 15.4.2028	0.1432	–	24,510,071	–	–	24,510,071
Mr. Lin Wenqing *(Note 3)*	16.4.2018 to 15.4.2028	0.1432	–	4,000,000	–	–	4,000,000
Mr. Siu Miu Man *(Note 3)*	16.4.2018 to 15.4.2028	0.1432	–	24,510,050	–	–	24,510,050

Corporate Governance and Other Information

Directors or category of participants	Exercise period of the share options	Exercise price of the share options HK$	As at 1.1.2018	Granted during the period	Exercised during the period	Lapsed during the period	As at 30.6.2018
Mr. Yu Baodong *(Note 2&3)*	21.4.2011 to 20.4.2021	1.680	2,000,000	–	–	–	2,000,000
	21.4.2012 to 20.4.2021	1.680	1,500,000	–	–	–	1,500,000
	21.4.2013 to 20.4.2021	1.680	1,500,000	–	–	–	1,500,000
	16.4.2018 to 15.4.2028	0.1432	–	4,510,050	–	–	4,510,050
Mr. Chan Chi Yuen *(Note 3)*	16.4.2018 to 15.4.2028	0.1432	–	2,000,000	–	–	2,000,000
Mr. Wong Cheuk Bun *(Note 3)*	16.4.2018 to 15.4.2028	0.1432	–	2,000,000	–	–	2,000,000
Mr. Wong Yin Shun *(Note 3)*	16.4.2018 to 15.4.2028	0.1432	–	1,000,000	–	–	1,000,000
Former Director							
Mr. Fung Ka Keung, David *(Note 1)*	21.4.2011 to 20.4.2021	1.680	400,000	–	–	400,000	–
	21.4.2012 to 20.4.2021	1.680	300,000	–	–	300,000	–
	21.4.2013 to 20.4.2021	1.680	300,000	–	–	300,000	–
Employees (in aggregate)	21.4.2011 to 20.4.2021	1.680	1,930,000	–	–	20,000	1,910,000
(Note 2&3)	21.4.2012 to 20.4.2021	1.680	1,680,000	–	–	15,000	1,665,000
	21.4.2013 to 20.4.2021	1.680	1,640,000	–	–	15,000	1,625,000
	16.4.2018 to 15.4.2028	0.1432	–	30,210,050	–	–	30,210,050
Total			16,250,000	97,250,271	–	1,050,000	112,450,271

Notes:

(1) 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.

(2) These are share options granted on 21 April 2011 by the Company to the Directors under the share option scheme adopted by the shareholders of the Company on 20 August 2008 and refreshed on 3 June 2010. These share options can be exercised by the Directors at various intervals during the period from 21 April 2011 to 20 April 2021 at an exercise price of HK$1.680 per Share.

(3) These are share options granted on 16 April 2018 by the Company to the Directors under the share option scheme adopted by the shareholders of the Company on 20 August 2008 and refreshed on 3 June 2010. These shares options can be exercised by the Directors during the period from 16 April 2018 to 15 April 2028 at an exercise price of HK$0.1432 per Share.

During the period under review, 1,050,000 share options were lapsed and no share options were exercised and cancelled. The number of Shares which may be issued upon exercise of the options which had been granted and outstanding on 30 June 2018 under the 2008 Option Scheme was 112,450,271 (31 December 2017: 16,250,000), representing approximately 4.53% (31 December 2017: approximately 1.07%) of the number of shares in issue as at 30 June 2018.

Related Party Transactions

Details of the related party transactions are set out in note 20 to the unaudited condensed consolidated interim financial statements. All related party transactions constituted connected transactions under the Listing Rules and that they have complied with the disclosure requirements in accordance with chapter 14A of the Listing Rules.

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.

Company's Plan to Address the Disclaimer of Opinion

The Company has been discussing with various professional parties on the next possible appropriate actions to be taken and to address the related disclaimer of opinion issued by the Company's auditors.

The Company believes that the disclaimer of opinion could possibly be removed once the mine issue mentioned above is resolved. As a measure to improve the financial position of the Group, the railway companies have started negotiation with the bank for extension of the repayment date of the entire or partial amount of the bank loans which are due for repayment on 31 December 2018. On 19 April 2018, the Company entered into a memorandum of understanding with GCL where it was agreed that GCL would provide all the necessary support to the railway companies in their negotiation with the bank. Taking into account that GCL, being the guarantor to the entire bank loan facilities, has a very good relationship with the bank, the management of the Company is optimistic that an agreement with the bank on extension of the repayment date can be reached. Once the aforesaid extension is materialized, and coupled with the completion of the Placing and the issue of Convertible Bonds in early 2018 raising an aggregate gross proceeds of HK$200 million, the Company believes that it would be able to address the disclaimer of opinion relating to the Company's going concern by the end of the year ending 31 December 2018. In order to address the disclaimer of opinion relating to the impairment losses on the property, plant and equipment, construction in progress and railway construction prepayment, the Company has i) actively discussed with the local governments to promote settlement of overlaid mine compensation and to spearhead the negotiation process, ii) negotiated with the overlaid mine owner in respect of the compensation, iii) delegated our staff to investigate the transport capacities and demand for railway transportation along the whole line, iv) discussed with other shareholders of Zunxiao Railway in respect of the funding for the resumption of construction works and v) engaged professional consultants to conduct a business analysis on Zunxiao Railway, study and assess on the outstanding construction works and its relevant costs involved and the feasibility of realigning the relevant section of Zunxiao Railway. The relevant assessment results and reports from aforesaid consultants are expected to be ready by October 2018.

The Board has been taking and will continue to take all possible steps to remove the disclaimer of opinion raised by the auditors.

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)

Condensed Consolidated Statement of Comprehensive Income

	Notes	**For the six months ended 30 June** **2018** **HK$'000** **(Unaudited)**	2017 HK$'000 (Unaudited)
Other comprehensive income			
Exchange difference arising on translation of financial statements of foreign operations which may be reclassified subsequently to profit or loss		**2,181**	(1,702)
Total comprehensive income for the period		**(54,434)**	(42,550)
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)

Condensed Consolidated Statement of Financial Position

	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)

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	Attributable to owners of the Company								
	Share capital HK$'000 (Note 17)	Capital reserves HK$'000	Share option reserve HK$'000	Convertible bonds reserve HK$'000	Foreign exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
As at 1 January 2018 (Audited)	1,608,309	4,190	18,474	–	19,726	(1,740,973)	(90,274)	(101,748)	(192,022)
Loss for the period	–	–	–	–	–	(43,364)	(43,364)	(13,251)	(56,615)
Other comprehensive income – Exchange difference arising on translation of financial statements of foreign operations which may be reclassified subsequently to profit or loss	–	–	–	–	1,261	–	1,261	920	2,181
Total comprehensive income for the period	–	–	–	–	1,261	(43,364)	(42,103)	(12,331)	(54,434)
Issued on the conversion of convertible notes *(Note 17)*	3,543	–	–	–	–	–	3,543	–	3,543
Issuance of convertible bonds *(Note 16)*	–	–	–	37,261	–	–	37,261	–	37,261
Share options granted *(Note 18)*	–	–	7,941	–	–	–	7,941	–	7,941
Shares issued by placing, net of issue expenses	97,464	–	–	–	–	–	97,464	–	97,464
As at 30 June 2018 (Unaudited)	1,709,316	4,190	26,415	37,261	20,987	(1,784,337)	13,832	(114,079)	(100,247)

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

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

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Net cash used in operating activities	**(46,477)**	(41,258)
Net cash (used in)/generated from investing activities*	**(168,130)**	4,961
Cash flows from financing activities		
Interest on convertible notes	**1**	6
Interest on convertible bonds	**4,755**	–
Proceeds from other borrowings	**46,845**	36,538
Proceeds from issue of convertible notes	**2,500**	2,500
Proceeds from issue of convertible bonds	**98,778**	–
Proceeds from issue of shares by placing	**97,464**	–
Repayment of other borrowings	**(23,000)**	–
Redemption of convertible notes	**(2,056)**	–
Net cash generated from financing activities	**225,287**	39,044
Net increase in cash and cash equivalents	**10,680**	2,747
Cash and cash equivalents at beginning of the period	**5,968**	7,154
Effect of foreign exchange rate changes	**(6)**	–
Cash and cash equivalents at end of the period	**16,642**	9,901

* Including acquisition of two vessels at HK$167,094,000 (Note 12) during the six months ended 30 June 2018.

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.

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

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.*

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

The directors expect that the Railway Companies will continue to rely on the financial support from certain companies (the "Lenders"), 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.

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

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

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

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.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

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	**(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 HK$'000	Shipping and logistics HK$'000	Total 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

6. SEGMENT INFORMATION *(continued)*

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	–	–	–

6. SEGMENT INFORMATION *(continued)*

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

	For the six months ended 30 June	
	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)

6. SEGMENT INFORMATION *(continued)*

	As at 30 June 2018 HK$'000 (Unaudited)	As at 31 December 2017 HK$'000 (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

6. SEGMENT INFORMATION *(continued)*

Geographical information

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

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

Major customers

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

	For the six months ended 30 June	
	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 period 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 of 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.

10. LOSS PER SHARE *(continued)*

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 amounted 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

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

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 the management of the Company considers to be exaggerated and unreasonable. Although continuous effort has been made in negotiation with the Mine Owner, no agreement has been reached by the parties involved in respect of the scope of compensation payable.

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.

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

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, the management had assessed the requirement for the impairment review. Based on the work done on resolving the mine issue as detailed in the section headed "Company's Plan to Address the Disclaimer of Opinion" of this report, the 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. The management will closely monitor the situation and engage an independent expert to assess the recoverable amounts of the aforesaid assets at the end of year 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 payable 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").

15. CONVERTIBLE NOTES *(continued)*

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.

15. CONVERTIBLE NOTES *(continued)*

The Tranche 2 Notes

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

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

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.

15. CONVERTIBLE NOTES *(continued)*

The Tranche 2 Notes *(continued)*

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 was 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 was pledged to GIC Investment Limited 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.

16. CONVERTIBLE BONDS *(continued)*

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 HK$'000 (Unaudited)	At 31 December 2017 HK$'000 (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% 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

20. RELATED PARTY TRANSACTIONS *(continued)*

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.

On 20 August 2018, the termination of 2008 Option Scheme, the adoption of the 2018 Option Scheme and the granting of options to the conditional grantees were approved by the independent shareholders of the Company.

22. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 30 June 2018 and 31 December 2017 may be categorised as follows:

	At 30 June 2018 HK$'000 (Unaudited)	At 31 December 2017 HK$'000 (Audited)
Financial assets		
Loans and receivables (including cash and bank balances)	**58,398**	44,312
Financial liabilities		
Fair value through profit or loss		
– Contingent consideration payable	**7,061**	7,928
– Derivative component of convertible notes	**–**	3,006
Financial liabilities measured at amortised cost	**2,025,095**	1,949,262

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

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

Level 1 – Quoted price (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted price included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3 – Inputs for the asset or liability that are not based on observable market data.

At 30 June 2018	Level 1 HK$'000 (Unaudited)	Level 2 HK$'000 (Unaudited)	Level 3 HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
Liabilities				
Contingent consideration payable	–	–	7,061	7,061

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

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

The Group's contingent consideration payable and derivative component of convertible notes are measured at fair value. During the six months ended 30 June 2018, there was no transfer between level 1 and level 2 fair value hierarchy (six months ended 30 June 2017: nil) or transfer into or out of level 3 (six months ended 30 June 2017: nil). There were no additions and disposals of contingent consideration payable during the six months ended 30 June 2018 (six months ended 30 June 2017: nil). The decrease in fair value of contingent consideration payable during the six months ended 30 June 2018 amounted to HK$867,000 (six months ended 30 June 2017 : nil).

23. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved and authorised for issue by the directors on 17 August 2018.