亞洲能源物流

ASIA ENERGY Logistics

亞洲能源物流集團有限公司

ASIA ENERGY LOGISTICS GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

Stock Code : 351

Carrying the World's Future

ANNUAL REPORT 2018

MIX

Paper from responsible sources

FSC™ C120915

www.fsc.org

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Liang Jun
Mr. Fu Yongyuan
Mr. Wu Jian

Non-Executive Director

Mr. Yu Baodong *(Chairman)*

Independent Non-Executive Directors

Mr. Chan Chi Yuen
Mr. Wong Cheuk Bun
Mr. Wong Yin Shun

AUTHORISED REPRESENTATIVES

Mr. Liang Jun
Ms. Wong Shuk Ha, Cat

COMPANY SECRETARY

Ms. Wong Shuk Ha, Cat

AUDIT COMMITTEE

Mr. Chan Chi Yuen *(Chairman)*
Mr. Wong Cheuk Bun
Mr. Wong Yin Shun

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

EXECUTIVE COMMITTEE

Mr. Fu Yongyuan *(Chairman)*
Mr. Liang Jun
Mr. Wu Jian

PRINCIPAL BANKER

OCBC Wing Hang Bank Ltd.

AUDITOR

Mazars CPA Limited

SHARE REGISTRAR

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

REGISTERED OFFICE

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

HONG KONG STOCK EXCHANGE STOCK CODE

351

WEBSITE

https://www.aelg.com.hk

Management Discussion and Analysis

BUSINESS REVIEW

During the year under review, the Group together with its joint venture 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 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 the "Railway Companies"). The business scope of the Railway Companies consists of the construction and operation of a 121.7 kilometer single track railway (the "Zunxiao Railway") with 12 stations connecting two major municipalities in the Hebei Province (河北省), namely Tangshan City (唐山市) and Chengde City (承德市), in 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.

With a view to resuming 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 the Zunxiao Railway, catch on the latest local economic conditions and policies and discussed with other shareholders of the Zunxiao Railway in respect of funding for the resumption of construction works.

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 (the "Mine Owner"). Upon various negotiations with the Mine Owner, the Group has achieved positive progress in the settlement of the overlaid mine issue. In the fourth quarter of 2018, the Group has entered into a joint appointment letter with the Mine Owner, pursuant to which, both parties have agreed to engage an independent valuer to assess the reserve of the iron ore, assets and value of the overlaid mine. Such assessment shall become a basis for determining the compensation amount payable to the Mine Owner in the future. As at the date of this Annual Report, the preliminary assessment of the iron ore reserve of the mine conducted by the independent valuer was completed. The management of the Company is in discussion with the Mine Owner about the compensation amount of the overlaid mine.

Shipping and Logistics

The Group started its shipping business in May 2010 through the joint venture company (the "JV Company" and together with its subsidiary, 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, MV Clipper Selo and MV Clipper Panorama, were acquired by the Group.

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 2018 has recovered significantly from its record lows in February 2016 and charter rates for dry bulk vessels were maintained at a profitable level.

* *for identification purposes only*

Management Discussion and Analysis

The JV Group

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

Both JV vessels were under full employment throughout the year under review except for a short period of drydocking and the JV Group recorded revenue of approximately HK$80,416,000 (2017: approximately HK$79,360,000), representing an increase of approximately 1% as compared to 2017. The Group's share of loss from the JV Group was approximately HK$24,754,000 (2017: a share of profit of approximately HK$9,718,000).

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 conditions 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.

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 approximately 92,000 DWT (2017: approximately 28,000 DWT), representing an increase of approximately 229%.

The Company successfully acquired and took deliveries of MV Clipper Selo and MV Clipper Panorama in April 2018 and both vessels were then chartered out and started generating revenue immediately after their deliveries.

MV Asia Energy was under full employment throughout the year under review, whilst MV Clipper Selo and MV Clipper Panorama have also been under full employment since their deliveries in April 2018 except a short period of drydocking.

For the year of 2018, the Group recorded a revenue of approximately HK$50,669,000 (2017: approximately HK$15,797,000), representing an increase of approximately 221% as compared to the year of 2017. The gross profit was approximately HK$11,496,000 (2017: approximately HK$903,000), representing an increase of approximately 1173% as compared to the year 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 vessels immediately after their deliveries.

The performance of the Group's own vessels was satisfactory and has made positive contributions to the Group.

Management Discussion and Analysis

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 to 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 shifting of highway transportation to railway transportation 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 proportional percentage of railway transportation. It is expected that the proportional percentage of railway transportation will be more than 50% in the major areas by 2020. The management of the Company considered that the above new policies will facilitate the restoration of the railway construction and bring more opportunities to railway transportation.

However, on 29 January 2019, the Board received a report from its indirect wholly-owned subsidiary, namely China Railway Logistic Holdings Limited ("China Railway"), which is the majority shareholder of the Railway Companies. The report from China Railway enclosed a copy of an urgent letter of request dated 28 January 2019 ("Letter of Request") jointly issued by the Railway Companies. In their Letter of Request, the Railway Companies requested China Railway to pay in February 2019 the proportional contribution to the anticipated increase of the respective registered capital of the Railway Companies in an aggregate amount of RMB417 million. The Board has carefully assessed the available resources of the Company and come to the view that the Company does not currently have sufficient resources to satisfy the abovementioned request of the Railway Companies within the prescribed timeframe. For this reason, the Board believes that there may be a need to restructure the equity interest the Company indirectly in the Railway Companies (the "Possible Restructuring") with the objective to preserve the interests of the Company in the Zunxiao Railway to the utmost extent. Although as at the date of this Annual Report, the structure and scale of the Possible Restructuring are yet to be developed and determined, if it were to materialize, the Possible Restructuring may involve the Company disposing of its indirect equity interest in each of the Railway Companies. The management of the Company has been taking and will continue to take proactive, appropriate and timely steps to explore and examine various feasible and suitable options for the Possible Restructuring to meet the requests under the Letter of Request.

Management Discussion and Analysis

Shipping and Logistics

China Dry Bulk Shipping Market: the PRC government 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 year, the shipping market has certainly been 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 uncertainties 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 year 2019 as all three vessels are on charter contracts which will run until the end of the year 2019 or beyond.

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 year ended 31 December 2018, the revenue of the Group was approximately HK$50,669,000, representing an increase of approximately 221% compared with the revenue of approximately HK$15,797,000 for the year ended 31 December 2017.

The loss after tax for the year ended 31 December 2018 was approximately HK$168,775,000, representing an increase of approximately 73% compared with the loss after tax of approximately HK$97,403,000 for the year ended 31 December 2017.

The increase in loss for the year under review as compared to the loss for the year ended 31 December 2017 was mainly attributable to (i) the increase in share based payment resulted from the grant of share options under the Company's share option scheme amounting to approximately HK$20,858,000 (2017: Nil); (ii) the increase in the share of loss of a joint venture of approximately HK$24,754,000 (2017: a share of profit of approximately HK$9,718,000); (iii) the adverse fair value change of derivative financial instruments based on the valuation of the GIC Convertible Bonds issued by the Company of approximately HK$12,939,000 (2017: Nil); and (iv) the increase in finance costs incurred for the Group's operations by approximately HK$11,226,000, from approximately HK$61,377,000 in 2017 to approximately HK$72,603,000 in 2018.

The basic and diluted loss per share of the Company for the year under review was HK5.91 cents (2017: HK4.23 cents).

Liquidity, Financial Resources and Gearing Ratio

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

As at 31 December 2018, the Group had bank and cash balances of approximately HK$18,456,000 (2017: approximately HK$5,968,000).

As at 31 December 2018, the Group had guaranteed bank loans of approximately HK$922,151,000 (2017: approximately HK$1,086,228,000) repayable within one year. The effective interest rate for the year was 4.9% (2017: 4.9%) per annum.

As at 31 December 2018, the Group had unsecured other borrowings of approximately HK$725,632,000 (2017: approximately HK$571,047,000) repayable within one year or on demand. Other borrowings of approximately HK$34,524,000 (2017: approximately HK$40,795,000) are interest bearing at 1.0% to 8.0% (2017: 1.5% to 8.0%) per annum while the remaining balances of approximately HK$691,108,000 (2017: approximately HK$530,252,000) are interest-free.

The gearing ratio of the Group as at 31 December 2018, which is calculated as net debt (i.e total liabilities less bank balance and cash) divided by adjusted capital (net debt less total deficits), was approximately 110% (2017: approximately 111%).

Share Capital

During the year, convertible notes in the principal amount of HK$3,500,000 were converted into 30,734,663 shares of the Company (the "Shares") and no new Shares were issued upon the exercise of share options granted under the Company's share option schemes. On 23 February 2018, a total of 923,361,034 Shares were allotted and issued pursuant to a placing agreement dated 30 November 2017.

As at 31 December 2018, there were 2,479,876,223 Shares in issue (2017: 1,525,780,526 Shares).

Pledge of Assets and Contingent Liabilities

Golden Concord Holdings Limited ("GCL") had provided a guarantee to a bank in respect of the bank borrowings facilities, in aggregate, up to approximately RMB1,033 million (equivalent to approximately HK$1,179 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$687 million) and a share mortgage of its shares in China Railway, an indirect wholly-owned subsidiary of the Company, and equity and asset pledges of China Railway's subsidiaries in favour of GCL. As at 31 December 2018, the outstanding bank borrowings amounted to approximately RMB807,990,000 (equivalent to approximately HK$922,151,000) and therefore, according to the Group's percentage equity interest holdings in the subsidiaries, the amount indemnified by the Group under the counter-indemnity in favour of GCL would be up to approximately RMB470 million (equivalent to approximately HK$536 million).

Capital Commitments

As at 31 December 2018, the Group had capital commitment of approximately HK$259,538,000 (31 December 2017: approximately HK$279,879,000).

Management Discussion and Analysis

Exposure to Fluctuation in Exchange Rates

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

RISK MANAGEMENT

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

For the financial risks such as are credit risk, liquidity risk, interest rate risk, currency risk and equity price risk arising from movements in its own equity share price and the fair value changes of its trading securities, the Group currently does not have a hedging policy. The management of the Company will monitor the situation and will consider to adopt hedging policy should the need arise. Furthermore, the Group's financial management policies and practices help to manage the financial risks. Further details about these financial risks are set out in Note 36 to the Consolidated Financial Statements.

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

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

FUNDRAISING ACTIVITIES

Convertible Notes

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

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

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

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

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

During the year under review, Convertible Notes of the Tranche 2 Notes in the principal amount of HK$2.5 million (2017: HK$12.5 million) was subscribed by and issued to the Subscriber and approximately HK$2.5 million (2017: HK$11.6 million) (net of arrangement fee) was raised which had been applied towards the general working capital. In January 2018, Convertible Notes of the Tranche 2 Notes in the principal amount of HK$3.5 million were converted into 30,734,663 Shares. On 8 May 2018, Convertible Notes of the Tranche 2 Notes in the remaining principal amount of HK$2.0 million were redeemed in full together with the interest accrued thereon. Upon completion of the redemption, the Company and the Subscriber were released from their respective obligations under the terms of the Tranche 2 Notes.

As at 31 December 2018, there was no outstanding Convertible Notes which may be subscribed, issued and converted.

Placing of Shares

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, who are independent third parties, 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 approved by passing an ordinary resolution of the Company by 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.

Management Discussion and Analysis

As at 31 December 2018, the Company had fully utilised approximately HK$92,800,000 of the net proceeds from the Placing and, details of which are set out below:

Intended Uses	Revised Intended Uses (if applicable)	Original Allocation	Utilisation as at 31 December 2018
		HK$	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	19,900,000
Repayment of loan	N/A	7,000,000	7,000,000
Total		92,800,000	92,800,000

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 Annual 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.

Convertible Bonds

(1) GIC Convertible Bonds

On 30 November 2017, the Company entered into a subscription agreement (the “CB Agreement”) with GIC Investment Limited (“GIC”), being a connected person of the Company, pursuant to which the Company had conditionally agreed to issue, and GIC had conditionally agreed to subscribe for, the convertible bonds in the aggregate principal amount of HK$100,000,000 with a term of 3 years (the “GIC 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 31 December 2018, the Company had utilised all of the net proceeds raised from the issue of the GIC Convertible Bonds and the details are set out below:

Intended Uses	Revised Intended Uses (if applicable)	Original Allocation HK$	Utilisation as at 31 December 2018 HK$
Acquisition of 2nd vessel *(Note)*	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 Annual Report, the Company has not secured any loan financing and thus reallocated partial proceeds from the issue of the GIC Convertible Bonds to the acquisition of the 1st vessel. HK$11,900,000 was reallocated to the acquisition of the 1st vessel.

Dilution Effect of the Conversion of the GIC Convertible Bonds

In case of full conversion by GIC in accordance with the terms of the CB Agreement for the issue of the GIC Convertible Bonds, 587,889,476 Shares, representing approximately 23.7% of the total number of Shares in issue as at 31 December 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, the following table sets out the total number of Shares to be issued upon full conversion of the GIC Convertible Bonds at the initial conversion price of HK$0.1701 per conversion share only:

	As at the date of issue of the GIC Convertible Bonds		Immediately after the full conversion of the GIC 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	18.4	455,297,032	14.8
GIC	—	—	587,889,476	19.2
Public Shareholders	2,024,579,191	81.6	2,024,599,191	66.0
Total	2,479,876,223	100	3,067,765,699	100

Dilution Impact on Loss per Share

The diluted loss per Share is the same as basic loss per Share, details of which is set out in Note 13 to the Consolidated Financial Statements.

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 GIC 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 GIC 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**	**Implied rate of return of GIC**
	HK$	
31 December 2019	0.178	8%
31 December 2020	0.182	8%

(2) Convertible Bonds

On 4 September 2018, the Company entered into a placing agreement (the "CB Placing Agreement") with the placing agent, VC Brokerage Limited ("VCB"), pursuant to which the Company had proposed to offer for subscription, and VCB had agreed to procure not less than six placees to subscribe for the convertible bonds in the aggregate principal amount of HK$46 million for a term of 3 years (the "Convertible Bonds"), on a best effort basis, on the terms and subject to the conditions set out in the CB Placing Agreement (the "CB Placing"). Based on the initial conversion price of HK$0.0932 per Share, a total of 493,562,231 conversion shares ("Conversion Shares") will be allotted and issued upon exercise of the conversion rights in full of the Convertible Bonds, under the general mandate of the Company granted by the Shareholders at the AGM held on 17 May 2018.

As the Company and VCB contemplated that further time would be required to satisfy or fulfill the condition precedent to the CB Placing Agreement, on 3 October 2018, both parties had entered into a supplemental agreement to the CB Placing Agreement to extend the long stop date of the CB Placing from 3 October 2018 to 18 October 2018, whilst all other terms in the CB Placing Agreement remained unchanged.

In light of the unfavorable market conditions subsequent to the entry into by the parties of the CB Placing Agreement, on 18 October 2018, the Company and VCB, upon taking into account the progress of the CB Placing, had entered into a second supplemental agreement to further extend the long stop date from 18 October 2018 to 1 November 2018 so as to allow VCB more time to soliciting potential subscribers of the Convertible Bonds, and to revise the denomination of the Convertible Bonds from HK$1,000,000 each to HK$500,000 each upon their respective issue at closing.

On 8 November 2018, the Company announced that the conditions precedent specified in the CB Placing Agreement (as revised and supplemented by the supplemental agreement dated 3 October 2018 and the second supplemental agreement dated 18 October 2018) had been fulfilled and the closing took place on 8 November 2018. A portion of the Convertible Bonds in the principal amount of HK$18 million with the initial conversion price of HK$0.0932 had been successfully placed to six placees, who are independent third parties to the Company.

As at 31 December 2018, the Company has utilised the net proceeds of HK$8,680,000 raised from the issue of the Convertible Bonds and details are set out below:

Intended Uses	Allocation	Utilisation As at 31 December 2018	Remaining Balance
		HK$	HK$
Staff Salary and Welfare	9,000,000	4,500,000	4,500,000
Traveling and associated expenses	1,500,000	600,000	900,000
Operation of the Railway Business subsidiaries *(Note)*	2,800,000	1,100,000	1,700,000
Rental, Utilities and Management fee	1,200,000	460,000	740,000
Legal and Professional fee	1,500,000	1,500,000	—
Administrative expenses	1,310,000	520,000	790,000
Total	17,310,000	8,680,000	8,630,000

Note:

Such subsidiaries of the Company which carry on or will carry on the railway construction and operations business.

Dilution Effect of the Conversion of the Convertible Bonds

In case of full conversion by the placees in accordance with the terms of the CB Placing Agreement for the issue of the Convertible Bonds, 193,133,047 Shares, representing approximately 7.23% of the total number of Shares in issue as at 31 December 2018 at the initial conversion price of HK$0.0932 will be allotted to the placees.

Management Discussion and Analysis

To the best knowledge, information and belief of 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$0.0932 per Conversion Share only.

Shareholders	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$0.0932 per Conversion Share	
	Number of Shares	Approximate % of issued Shares	Number of Shares	Approximate % of issued Shares
Substantial Shareholders				
Mr. Wong Kin Ting	455,297,032	18.4	455,297,032	17.0
Placees	—	—	193,133,047	7.2
Public Shareholders	2,024,579,191	81.6	2,024,579,191	75.8
Total	2,479,876,223	100	2,673,009,270	100

Dilution Impact on Loss per Share

The diluted loss per share is the same as basic loss per share, details of which is set out in Note 13 to the Consolidated Financial Statements.

Redemption Obligations

According to the terms and conditions of the CB Placing Agreement, neither the Company nor any Convertible Bonds holders shall have the right to redeem (in the case of the Company) or request for redemption (in the case of the Bondholders) as the cases may be, in whole or in part of the Convertible Bonds then outstanding prior to the maturity date, which will fall on the third anniversary date of the issue date of the Convertible Bonds.

Analysis on the Share Price

The analysis of the Company's Share price at which it would be equally financially advantageous for the holders of the Convertible Bonds 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	Implied rate of return of the holders of the Convertible Bonds
	HK$	
31 December 2019	0.099	8%
31 December 2020	0.104	8%

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2018, the Group had 95 (2017: 83) full-time employees, 66 (2017: 65) of whom were based in the PRC. Staff costs (including director's remuneration) of the Group for the year ended 31 December 2018 were approximately HK$41.6 million (2017:HK$17.6 million). The Group decides the remunerations and compensation payable to its staff based on their duties, working experience and the prevailing market practices. Apart from basic remuneration, share options may be granted to eligible employees by reference to the performance of the Group and individual employees. The Group also participated in an approved Mandatory Provident Fund Scheme for its Hong Kong employees and made contributions to the various social insurance funds for its PRC employees.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Company is committed to environmental protection and sustainable development through the adoption and promotion of green policies in its business operations to increase staff's awareness on environmental protection and energy conservation. Information on the environmental policies and performance of the Group is set out in the section headed "Environmental, Social and Governance Report" on pages 43 to 63 of this Annual Report.

ACQUISITION OF THE DRY BULK VESSELS

On 23 January 2018, two wholly-owned subsidiaries of the Company entered into two memorandum of agreements for the acquisition (the "Dry Bulk Vessels Acquisition") of two Handysize bulk carrier vessels with carrying capacity of about 32,000 DWT each (the "Vessels") at a consideration of US$10.3 million each (equivalent to about HK$80.34 million each) (the "Dry Bulk Vessels Consideration") with two vendors incorporated in the Republic of the Marshall Islands. The Dry Bulk Vessels Consideration have been satisfied by the proceeds from the placing and the subscription of the GIC Convertible Bonds.

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

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

The Company has successfully completed the Dry Bulk Vessels Acquisition and taken deliveries of the two Vessels on 13 and 19 April 2018, respectively. The two Vessels have been chartered out and started operations and generated revenue to the Group immediately after their deliveries.

Details of the above transactions are set out in the announcements and the circulars of the Company dated 30 November 2017, 5 January 2018, 23 January 2018, 23 February 2018, 13 April 2018 and 19 April 2018, respectively.

Directors' Profile

EXECUTIVE DIRECTORS

Mr. Liang Jun ("Mr. Liang")

Mr. Liang, aged 52, has been an ED since 12 June 2006 and is a member of each the Executive Committee and the Remuneration Committee of the Company. Previously, he was the Chairman of the Company until he resigned from such position on 26 January 2010. Mr. Liang has over 20 years of experience in business development in China. He graduated from Tong Ji University (previously known as Tie Dao University of Shanghai) with a bachelor degree in Telecommunications Engineering.

Mr. Fu Yongyuan ("Mr. Fu")

Mr. Fu Yongyuan, aged 62, has been an ED since 6 July 2016 and is the chairman of the Executive Committee. Mr. Fu is a marine engineer and an economist for the shipping management. He graduated from Guangdong Province Economics Management Institute majoring in Industrial Economic Management and has over 40 years of experience in shipping and freight management. For two decades from 1972 to 1992, Mr. Fu served in the COSCO System including 廣州遠洋運輸公司 (COSCO Guangzhou). His responsibilities ranged from management of freight to vessel chartering operations.

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

Mr. Wu Jian ("Mr. Wu")

Mr. Wu, aged 63, has been appointed as an ED and a member of the Executive Committee on 1 March 2019. He joined the Group on 1 January 2019 as General Manager — China Department. He graduated from Renmin University of China with a bachelor's degree in political economics in 1983.

Mr. Wu started his career in 1983 by joining the China National Coal Group Corp. and held various senior positions including secretary of general office, manager of coal import and export department. During 1994 to 2007, Mr. Wu was the managing director of China Coal Hong Kong Ltd. He was then appointed as the assistant to president of China Coal Energy Company Limited (Stock Code: 1898), a company listed on the Stock Exchange, from 2007 and retired in early 2014. From April 2014 to June 2016, Mr. Wu was an executive director of Courage Marine Group Limited (now known as Courage Investment Group Limited) (Stock Code: 1145), a company listed on the Stock Exchange. Mr. Wu has more than 30 years of diversified experience in commodities trading, vessels operations as well as project financing.

NON-EXECUTIVE DIRECTOR

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

Mr. Yu, aged 55, has been a NED since 31 March 2009 and the Chairman since 26 January 2010. Mr. Yu is also the chairman of the Nomination Committee of the Company. He has over 10 years of experience in project investment and corporate management. He holds a master degree in Economics from the Renmin University of China and a doctorate degree in Economics from the Wuhan University. Mr. Yu was an executive director of GCL-Poly Energy Holdings Limited (Stock Code: 3800) from November 2006 to September 2014 and a non-executive director of GCL New Energy Holdings Limited (Stock Code:451) from May 2014 to February 2015. Both companies are listed on the Main Board.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Mr. Chan, aged 52, has been an INED since 30 September 2004. He is the chairman of both the Audit Committee and the Remuneration Committee of the Company. He is also a member of the Nomination Committee. Mr. Chan holds a bachelor degree with honours in Business Administration and a master of science degree with distinction in Corporate Governance and Directorship. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and the Institute of Chartered Accountants in England and Wales. Mr. Chan is a practising certified public accountant and has extensive experience in financial management, corporate development, corporate finance and corporate governance. Mr. Chan is currently an executive director and chief executive officer of Noble Century Investment Holdings Limited (Stock Code: 2322), an executive director and chairman of Royal Century Resources Holdings Limited (Stock Code: 8125) and an executive director of e-Kong Group Limited (now known as Great Wall Belt & Road Holdings Limited) (Stock Code: 524). Mr. Chan is also an independent non-executive director of each of New Times Energy Corporation Limited (Stock Code: 166), China Baoli Technologies Holdings Limited (Stock Code: 164), Media Asia Group Holdings Limited (Stock Code: 8075), Leyou Technologies Holdings Limited (Stock Code: 1089) and Affluent Partners Holdings Limited (Stock Code: 1466) all of which are listed either on the Main Board or GEM of the Stock Exchange. Mr. Chan was an executive director of China Minsheng Drawin Technology Group Limited(now known as China Minsheng DIT Group Limited) (Stock Code: 726) from December 2013 to July 2015, Co-Prosperity Holdings Limited (now known as Asia Television Holdings Limited) (Stock Code: 707) from December 2014 to October 2015 and an independent non-executive director of China Sandi Holdings Limited (Stock Code: 910) from September 2009 to July 2014, Jun Yang Financial Holdings Limited (now known as Power Financial Group Limited) (Stock Code: 397) from January 2005 to October 2017 and U-RIGHT International Holdings Limited (now known as Fullsun International Holdings Group Co., Limited) (Stock Code: 627) from November 2010 to December 2017, all of which are listed on the Main Board.

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

Mr. Wong, aged 44, has been an INED and a member of the Audit Committee since 3 July 2017 and member of each of the Remuneration Committee and the Nomination Committee since 24 March 2018. He is a practising certified public accountant and currently an adjunct lecturer specialising in accounting and finance areas in various tertiary institutions in Hong Kong and Mainland China.. Mr. Wong received a Master degree of Professional Accounting from the Hong Kong Polytechnic University. He is presently an associate member of the Hong Kong Institute of Certified Public Accountants, The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries and a fellow member of the Association of Chartered Certified Accountants. Mr. Wong has about 20 years of diversified experience in accounting and finance.

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

Mr. YS Wong, aged 44, has been an INED and member of the Audit Committee since 24 March 2018. He holds a Master of Arts degree in Law and Language (M.A.L.L.) from the City University of Hong Kong, a Postgraduate Certificate in Laws (P.C.L.L.) and a Bachelor of Laws (LL.B.) degree both from the University of Hong Kong. Mr. YS Wong is a Practising Solicitor in Hong Kong, an Associate Member of The Chartered Institute of Arbitrators (CIArb) and an Accredited Mediator in the Hong Kong International Arbitration Centre, Hong Kong Mediation Accreditation Association Limited and Law Society of Hong Kong. Mr. YS Wong has over 18 years of experience practising as a solicitor in Hong Kong. He is currently the managing partner of Messrs. Hon & Co. and an Adjunct Professor in the Department of Real Estate and Construction in the University of Hong Kong.

Directors' Report

The Board is pleased to present this Annual Report together with the Consolidated Financial Statements of the Group for the year ended 31 December 2018.

CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

The Company is a public company incorporated in Hong Kong with limited liability. The Company acts as an investment holding company. The principal activities and other particulars of its principal subsidiaries are set out in Note 40 to the Consolidated Financial Statements. The analysis of segment information of the Group during the year is set out in Note 5 to the Consolidated Financial Statements.

BUSINESS REVIEW

A fair review of the Group's business and a discussion and analysis of the Group's performance during the year including the material factors underlying its results and financial position and the likely future developments of its business, in accordance with Section 388 of, and Schedule 5 to the CO, is set out in the section headed "Management Discussion and Analysis" ("MD&A") of this Annual Report. An analysis of the Group's performance using financial key performance indicators is provided in the section headed "Financial Review of MD&A" of this Annual Report.

A discussion covers the Group's strategic approach to sustainability and performance in environmental and social aspects of its business , environmental key performance indicators as well as an account of the Group's key relationships with its employees, customers and suppliers and others that have a significant impact on the Group's operations and on which the Group's success depends are set out in the section headed "Environmental, Social and Governance Report" of this Annual Report.

The Group has established systems and procedures to ensure compliance with relevant laws and regulations which have significant impact on the Group in conducting its business, including but not limited to Personal Data (Privacy) Ordinance, Employment Ordinance, Occupational Safety and Health Ordinance, Prevention of Bribery Ordinance, CO, Listing Rules and SFO in Hong Kong, Employment Law and Environmental Protection Law as well as all other applicable laws in the PRC, its compliance of which is set out in the sections headed "Environmental, Social and Governance Report" and "Corporate Governance Report" of this Annual Report. All of the above sections form part of this Directors' Report.

RESULTS

The results of the Group for the year ended 31 December 2018 are set out in the section headed "Consolidated Statement of Comprehensive Income" on page 68 of this Annual Report. No interim dividend was paid to the Shareholders during the year (2017:Nil). The Directors did not recommend the payment of a final dividend for the year ended 31 December 2018.

A summary of the published results, assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the Consolidated Financial Statements is set out on page 142 of this Annual Report. This summary does not form part of the Consolidated Financial Statements.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the section headed "Consolidated Statement of Changes in Equity" on page 71 of this Annual Report and Note 39 to the Consolidated Financial Statements, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company did not have any reserves available for distribution to Shareholders as calculated in accordance with the provisions of section 297 of the CO.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 14 to the Consolidated Financial Statements.

SHARE CAPITAL

Details of movements in the share capital of the Company are set out in Note 28 to the Consolidated Financial Statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

BANK LOANS AND OTHER BORROWINGS

Particulars of the Group's bank loans and other borrowings are set out in Note 21 to the Consolidated Financial Statements.

MAJOR CUSTOMERS

The Group's largest customer accounted for 65.0% of the Group's revenue of the year under review and 96.5% of the total revenue of the Group of the year under review was attributable to the Group's top five customers.

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

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group recognizes that good relationship with our employees, customer and suppliers are key to its success. The Group maintains caring relationship with its employees and good partnership with its suppliers with an aim to providing the best service to its customers.

DIRECTORS OF SUBSIDIARIES

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

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The composition of the Board during the year ended 31 December 2018 and up to the date of this Annual Report are set out in the section headed "Corporate Governance Report" of this Annual Report.

Directors' Report

The Company has received annual confirmation from each of the three INEDs with regard to his independence and considers that each INED is independent.

Mr. Liang Jun and Mr. Fu Yongyuan, both being EDs, will retire from office by rotation pursuant to Articles 101A and 101B of the Articles of Association. Mr. Wu Jian has been appointed as an ED on 1 March 2019 and he shall hold office until the upcoming AGM of the Company pursuant to Article 92 of the Articles of Association. All of the above retiring Directors are eligible and will offer themselves for re-election at the 2019 AGM.

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

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out in the section headed "Directors' Profile" on pages 16 to 17 of this Annual Report.

DIRECTORS' INTERESTS IN CONTRACTS AND COMPETING BUSINESS

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

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

Save as disclosed under the section headed "Directors and Directors' Service Contracts" of this Annual Report and in Note 32 to the Consolidated Financial Statements, no contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PERMITTED INDEMNITY PROVISION

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

INTERESTS OF CONTROLLING SHAREHOLDERS IN CONTRACTS

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

REMUNERATION POLICY

The remuneration policy of the employees and senior management of the Group is set up by the Remuneration Committee on the basis of their merit, qualification and competence with reference to the market benchmarks. The remuneration of the Directors are recommended by the Remuneration Committee, having regard to market competitiveness, individual performance and achievement, and approved by the Board. The Company has adopted share option schemes as incentives to Directors, eligible employees and participants, details of which are set out in the section headed "Share Options" below.

Details of the remuneration of the Directors and the five highest paid individuals are set out in Notes 9 and 10 to the Consolidated Financial Statements.

RETIREMENT BENEFITS SCHEMES

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

SHARE OPTIONS

2008 Share Option Scheme

On 20 August 2008, the 2008 Share Option Scheme was adopted by the Company with a scheme life of 10 years commencing from the date of adoption. The purpose of the 2008 Share Option Scheme was to attract, retain and motivate talented participants to strive for future development and expansion of the Group. The participants are as follows:

(i) any full-time employee and Director (including NED and INED) of the Group; and any part time employee of the Group with weekly working hours of ten hours and above (collectively, the "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, the "Business Associate"); and

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

The total number of Shares which may be issued upon exercise of all the share options to be granted under the 2008 Share Option Scheme and any other scheme of the Company shall not in aggregate exceed 10% of the issued share capital of the Company as at the date on which the 2008 Share Option Scheme was adopted, without prior approval from the Shareholders. The total number of Shares issued and to be issued upon exercise of the share options granted and to be granted to each participant in any 12-month period shall not exceed 1.0% of the issued share capital of the Company.

Since there was a substantial increase in the issued share capital of the Company after the adoption of the 2008 Share Option Scheme, the Directors had sought Shareholders' approval at the AGM of the Company held on 3 June 2010 to increase the total number of Shares which may be issued upon exercise of all the share options to 1,285,702,710 Shares (equivalent to 128,570,271 Shares after Share Consolidation), representing 10% of the issued share capital of the Company as at the date of passing of the resolution. The subscription price would be determined by the Directors, which should not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the date of grant of options; or (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five days immediately preceding the date of grant of the share options; or (iii) the nominal value of a Share.

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

On 21 April 2011, 313,200,000 (equivalent to 31,320,000 after Share Consolidation) share options were granted at an exercise price of HK$0.168 (equivalent to HK$1.68 after Share Consolidation) per Share under the 2008 Share Option Scheme, of which 312,200,000 (equivalent to 31,220,000 after Share Consolidation) share options were accepted and 1,000,000 (equivalent to 100,000 after Share Consolidation) share options were lapsed due to non-acceptance by a 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 Share Option Scheme, all of which have been accepted.

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

For the year under review, 1,050,000 share options (2017: 5,780,000) were lapsed/forfeited following the cessation of employment of the relevant grantees and pursuant to the terms of issue.

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

Directors or category of participant	Exercise period of share options	Exercise price of share options HK$ *(Note 1)*	As at 1.1.2018	Granted during the year	Exercised during the year	Lapsed/ forfeited during the year	As at 31.12.2018
Directors							
Mr. Liang Jun	21.4.2011 to 20.4.2021	1.68	2,000,000	—	—	—	2,000,000
	21.4.2012 to 20.4.2021	1.68	1,500,000	—	—	—	1,500,000
	21.4.2013 to 20.4.2021	1.68	1,500,000	—	—	—	1,500,000
	16.4.2018 to 15.4.2028	0.1432	—	4,510,050	—	—	4,510,050
Mr. Fu Yongyuan	16.4.2018 to 15.4.2028	0.1432	—	24,510,071	—	—	24,510,071
Mr. Yu Baodong	21.4.2011 to 20.4.2021	1.68	2,000,000	—	—	—	2,000,000
	21.4.2012 to 20.4.2021	1.68	1,500,000	—	—	—	1,500,000
	21.4.2013 to 20.4.2021	1.68	1,500,000	—	—	—	1,500,000
	16.4.2018 to 15.4.2028	0.1432	—	4,510,050	—	—	4,510,050
Mr. Chan Chi Yuen	16.4.2018 to 15.4.2028	0.1432	—	2,000,000	—	—	2,000,000
Mr. Wong Cheuk Bun	16.4.2018 to 15.4.2028	0.1432	—	2,000,000	—	—	2,000,000
Mr. Wong Yin Shun	16.4.2018 to 15.4.2028	0.1432	—	1,000,000	—	—	1,000,000
Former Director							
Mr. Fung Ka Keung, David	21.4.2011 to 20.4.2021	1.68	400,000	—	—	400,000	—
(Note 2)	21.4.2012 to 20.4.2021	1.68	300,000	—	—	300,000	—
	21.4.2013 to 20.4.2021	1.68	300,000	—	—	300,000	—
Mr. Lin Wenqing *(Note 3)*	16.4.2018 to 15.4.2028	0.1432	—	4,000,000	—	—	4,000,000
Mr. Sin Miu Man *(Note 3)*	16.4.2018 to 15.4.2028	0.1432	—	24,510,050	—	—	24,510,050
Employees (in aggregate)	21.4.2011 to 20.4.2021	1.68	1,930,000	—	—	20,000	1,910,000
	21.4.2012 to 20.4.2021	1.68	1,680,000	—	—	15,000	1,665,000
	21.4.2013 to 20.4.2021	1.68	1,640,000	—	—	15,000	1,625,000
	16.4.2018 to 20.4.2028	0.1432	—	30,210,050	—	—	30,210,050
		Total	16,250,000	97,250,271	—	1,050,000	112,450,271

2018 Share Option Scheme

Following the termination of the 2008 Share Option scheme on 20 August 2018, the 2018 Share Option Scheme was adopted by the Company on the same date. The Company may grant share options to selected eligible participants (as defined in the 2018 Share Option Scheme) as incentives or rewards for their contribution to the Group (or any member of the Group) and/or to enable the Group (or any member of the Group) to recruit and retain high caliber employees and attract human resources that are valuable to the Group (or any member of the Group) and/or to any invested entity.

Under the 2018 Share Option Scheme, the Board has the authority to set the terms and conditions in respect of the grant of share options (e.g. the minimum period of the share options to be held, the performance targets to be achieved before the share options can be exercised and the subscription price). This provides the Board with more flexibility in imposing appropriate conditions in light of the circumstances of each grant and help to achieve the purpose of the 2018 Share Option Scheme. The aggregate number of Shares in respect of which share options (including both exercised and outstanding share options) may be granted under the 2018 Share Option Scheme and any other share option scheme(s) of the Company shall not, in aggregate exceed 10% of the total number of Shares in issue on its adoption date, i.e. 20 August 2018. Further, the maximum number of Shares which may be issued upon exercise of all outstanding share options granted under the 2018 Share Option Scheme and any other share option scheme(s) of the Company must not exceed 30% of the total number of Shares in issue from time to time. The total number of Shares issued and to be issued upon exercise of the share options granted and to be granted to each eligible participant in any 12-month period shall not exceed 1.0% of the total number of Shares in issue of the Company.

The eligible participants as defined under the 2018 Share Option Scheme are as follows:

(i) any employee (whether full time or part time, including any EDs but excluding any NEDs) of the Company, or of any of its subsidiaries of invested entity in which the Group holds any equity interest;

(ii) any NED (including INED) of the Company, any of its subsidiaries or any invested entity;

(iii) any shareholders of any members of the Group or any invested entity or any holder of any securities issued or proposed to be issued by any member of the Group or any invested entity;

(iv) any other entity (including any consultant, adviser, distributor, contractor, supplier, agent, customer, business partner, joint venture business partner, promoter or service provider of any member of the Group) whom the Board considers, in its sole discretion, has contributed or will contribute to the Group; or

(v) any other persons (including any individual staff member of any consultant, adviser, distributor, contractor, supplier, agent, customer, business partner, joint venture business partner, promoter or service provider of any member of the Group) whom the Board considers, in its sole discretion, has contributed or will contributed to the Group.

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

On 29 August 2018, 247,987,622 share options were granted at an exercise price of HK$0.0976 per Share under the 2018 Share Option Scheme, all of which have been accepted. The share options are exercisable during a period of 10 years commencing from the date of grant.

The following table sets out the movements in the share options under the 2018 Share Option Scheme during the year:

Directors or category of participant	**Exercise period of share options**	**Exercise price of share options**	**As at 20.8.2018**	**Granted during the period**	**Exercised during the period**	**Lapsed/ forfeited during the period**	**As at 31.12.2018**
		HK$					
Directors							
Mr. Liang Jun	29.8.2018 to 28.8.2028	0.0976	—	21,000,000	—	—	21,000,000
Mr. Fu Yongyuan	29.8.2018 to 28.8.2028	0.0976	—	47,000,000	—	—	47,000,000
Mr. Yu Baodong	29.8.2018 to 28.8.2028	0.0976	—	45,000,000	—	—	45,000,000
Mr. Chan Chi Yuen	29.8.2018 to 28.8.2028	0.0976	—	2,400,000	—	—	2,400,000
Mr. Wong Cheuk Bun	29.8.2018 to 28.8.2028	0.0976	—	2,400,000	—	—	2,400,000
Mr. Wong Yin Shun	29.8.2018 to 28.8.2028	0.0976	—	2,400,000	—	—	2,400,000
Eligible Participants (in aggregate)	29.8.2018 to 28.8.2028	0.0976	—	127,787,622	—	—	127,787,622
		Total	—	247,987,622	—	—	247,987,622

Notes:

(1) The exercise price for the share options granted under the 2008 Share Option Scheme on 21 April 2011 has been adjusted after Share Consolidation with effect from 27 March 2017.

(2) Mr. Fung Ka Keung, David resigned as an ED with effect from 1 June 2017 but was entitled to exercise his share options until 1 March 2018 pursuant to the terms of the 2008 Option Scheme. As at the date of this Annual Report, the relevant share options were not exercised and lapsed accordingly.

(3) Mr. Siu Miu Man and Mr. Lin Wenqing, both being EDs of the Company on the date of grant, have resigned as EDs on 4 October 2018 and 13 November 2018 but are entitled to exercise their share options within nine months from their respective dates of resignation, pursuant to the terms of grant.

During the year under review, save for the movements as set out in the above table, no share options granted under the 2008 Share Option Scheme had been exercised or cancelled. The number of Shares which may be issued upon exercise of the share options which have been granted and outstanding on 31 December 2018 under the 2008 Share Option Scheme was 112,450,271 (2017: 16,250,000), representing approximately 4.5% (2017: approximately 0.7%) of the total number of Shares in issue as at 31 December 2018.

In respect of the 2018 Share Option Scheme, save for the grant of share options on 29 August 2018 as set out in the above table, no share options had been exercised or cancelled during the year. The number of Shares which may be issued upon exercise of the share options which have been granted and outstanding on 31 December 2018 under the 2018 Share Option Scheme was 247,987,622, representing approximately 10% of the total number of Shares in issue as at 31 December 2018.

Accordingly, the aggregate number of Shares which may be issued upon exercise of all outstanding share options granted under the 2008 Option Scheme, which remained exercisable, and the 2018 Share Option Scheme of the Company was 360,437,893, representing approximately 14.5% of the total number of Shares in issue as at 31 December 2018.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

CONNECTED TRANSACTIONS

Details of the related party transactions and connected transactions for the year ended 31 December 2018 are set out in Note 32 to the Consolidated Financial Statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the best of knowledge of the Directors, the percentage of the Shares in the public's hands exceeded 25% throughout the year as required under the Listing Rules.

Directors' Report

CORPORATE GOVERNANCE

Throughout the year 2018, the Company has complied with the applicable code provisions and principles as set out in Appendix 14 to the Listing Rules, except for the deviations mentioned in the section headed "Corporate Governance Report — Corporate Governance Practices" on page 28 of this Annual Report.

ENVIRONMENTAL, SOCIAL AND CORPORATE RESPONSIBILITY

The Company has complied with the applicable code provisions and principles as set out in Appendix 16 to the Listing Rules throughout the 2018 and details of which are set out in the section headed "Environmental, Social and Corporate Report" on page 43 of this Annual Report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

DIRECTORS' VIEW ON THE INDEPENDENT AUDITOR'S OPINION

In the course of preparing the Consolidated Financial Statements, the Company had engaged an independent professional valuer to assess the recoverable amounts of the Railway Assets adopting value in use calculation. The Directors have performed an impairment assessment on the Railway Assets as at 31 December 2018 based on the valuation performed by the independent professional valuer and considered that no further impairment loss for the year ended 31 December 2018 was necessary. Despite the Auditor is satisfied with our impairment assessment of the Railway Assets as at 31 December 2018, the Auditor was unable to obtain sufficient appropriate audit evidence to assess the adequacy and appropriateness of the Directors' impairment assessment as at 31 December 2017, which may have significant impact on the financial position of the Group as at 31 December 2017, and on the financial performance and the elements making up the consolidated statement of cash flows of the Group for the year ended 31 December 2018. In addition, as at 31 December 2018, the Group had net current liabilities of approximately HK$1,904 million (2017: approximately HK$1,907 million) and net liabilities of approximately HK$187 million (2017: approximately HK$192 million) and recorded a loss of approximately HK$168.8 million (2017: approximately HK$97.4 million) for the year ended 31 December 2018, these conditions indicated the existence of a material uncertainty on the Group's ability to continue as a going concern. As a result, the Auditor has expressed disclaimer of opinion on the impairment of non-current assets and the Company's going concern in the Consolidated Financial Statements.

Under the section headed "Management Discussion and Analysis — Business Review — Railway Construction and Operations" in this Annual Report, it is disclosed that, among other things, after numerous negotiations, in the fourth quarter of 2018, the Company has entered into a joint appointment letter with the Mine Owner, pursuant to which, both parties have agreed to engage professional valuer(s) in assessing the reserve of iron ore, assets and value of the overlaid mine. Such assessment shall form a basis for discussion between the parties with a view to reaching an agreement on the compensation amount payable to the Mine Owner. As at the date of this Annual Report, the preliminary assessment of the iron ore reserve of the mine conducted by the independent valuer was completed. The management of the Company is in discussion with the Mine Owner about the compensation amount of the overlaid mine. Once the overlaid mine issue has been resolved, the Company is optimistic that the construction work could be resumed as soon as practicable provided that the Group has sufficient financial resources in financing the construction works of the Zunxiao Railway.

As announced by the Company on 30 January 2019, the Board has received a Letter of Request from China Railway, which is the majority shareholder of the Railway Companies requesting for proportional contribution to the anticipated increase of the respective registered capital of the Railway Companies in an aggregate amount of RMB417 million, RMB258 million of which has to be paid on 3 February 2019 whilst the remaining balance of RMB159 million by end of February 2019. Having carefully assessed the available resources of the Company, the Board has formed a view that the Group does not have sufficient financial resources to satisfy the aforesaid request of the Railway Companies within the prescribed timeframe. Accordingly, the Board believes that there may be a need of the Possible Restructuring with the objective to preserve the interests of the Company in the Zunxiao Railway to the utmost extent.

The management of the Company has been in active negotiations with the Railway Companies in relation to their funding requirements and exploring feasible and suitable options for the Possible Restructuring, which may involve the Company disposing of its indirect equity interests in the Railway Companies. Up to the date of this Annual Report, no feasible plan for the Possible Restructuring has been substantiated.

In view of the positive progress on discussion in reaching a settlement with the Mine Owner for the overlaid mine issue and the possibilities in pursuing the Possible Restructuring, the Board believes that the outstanding issues of the Zunxiao Railway could be resolved as soon as practicable, whilst through the Possible Restructuring or fund raising exercises, the Group would be able to relief its financial obligations under its railway operations and obtain additional financial resources in pursuing other business opportunities and fulfilling the operational needs.

As to the Company's going concern, the Company entered into a memorandum of understanding with GCL on 19 April 2018 whereby GCL has agreed to provide all necessary support to the Railway Companies in their negotiation with the bank for an extension of the repayment date of the entire or partial amount of the bank loans due on 31 December 2018. By end of December 2018, the Group has successfully reached an agreement on the extension of repayment date with the bank for a further one year period to 31 December 2019. With such extension, the Company would keep on exploring possibilities in fund raising during 2019 and considers that it would be able to address the disclaimer opinion on the Company's going concern by end of 2019.

AUDITOR

On 11 December 2018, BDO Limited resigned as auditor of the Company. BDO Limited has confirmed that there were no matters in connection with its resignation should be brought to the attention of the Shareholders or the creditors of the Company. The Board, with the recommendation of the Audit Committee, has appointed Mazars CPA Limited as the new auditor of the Company with effect from the same date to fill the casual vacancy following the resignation of BDO Limited and to hold office until the conclusion of the next AGM of the Company.

The Consolidated Financial Statements of the Group for the year ended 31 December 2018 were audited by Mazars CPA Limited. A resolution for the re-appointment of Mazars CPA Limited as the auditor of the Company will be proposed at the forthcoming AGM of the Company.

On behalf of the Board

Liang Jun
Executive Director
Hong Kong, 28 March 2019

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

It is a continuing commitment of the Board and the management of the Company to maintain a high standard of corporate governance practices and procedures to safeguard the interests of the shareholders and enhance the performance of the Group. The Company has adopted and applied the principles as set out in the Appendix 14 (Corporate Governance Code and Corporate Governance Report (the "CG Code")) to the Listing Rules.

Throughout the year ended 31 December 2018, the Company has complied with the applicable CG Code and principles, save for the deviations specified and explained below.

Code Provision A.2.1

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

Code Provision A.6.7

Code provision A.6.7 of the CG Code stipulates, among other things, that the INEDs and other NEDs should attend the general meetings of the Company. Mr. Wong Cheuk Bun, an INED, did not attend the general meeting of the Company held on 26 January 2018 due to a pre-arranged business engagement. Mr. Yu Baodong, the Chairman and a NED did not attend the AGM of the Company held on 17 May 2018 due to prior 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 sufficiently clear terms of reference (the "TOR") to enable them to perform their functions properly. The Executive Committee of the Company was established in April 2018, comprising at least two EDs as members, with an aim to providing business strategies, the Company's future directions and related issues, advising on all commercial matters and operations of the Group and making recommendations to the Board for approval. The Executive Committee's TOR was approved by the Board, subsequent to its establishment, on 17 August 2018 and further amended on 13 November 2018.

DIRECTORS' SECURITIES TRANSACTIONS

Compliance with the Model Code

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the Directors. Having made specific enquiry, all current Directors confirmed that they have complied with the Model Code throughout the year ended 31 December 2018.

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

As at 31 December 2018, the following person(s) is/are Directors of the Company who had or was deemed to have an interest or short position in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short position which they had or were deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code:

Long Position in the Shares and underlying Shares

Name of Director	Capacity	Number of Shares held	Number of underlying Shares held under equity derivatives *(Note 1)*	Total	Approximate percentage of shareholding *(Note 2)*
Mr. Liang Jun	Beneficial Owner	—	30,510,050	30,510,050	1.2%
Mr. Fu Yongyuan	Beneficial Owner	—	71,510,070	71,510,070	2.9%
Mr. Yu Baodong	Beneficial Owner	—	54,500,050	54,510,050	2.2%
Mr. Chan Chi Yuen	Beneficial Owner	—	4,400,000	4,400,000	0.2%
Mr. Wong Cheuk Bun	Beneficial Owner	—	4,400,000	4,400,000	0.2%
Mr. Wong Yin Shun	Beneficial Owner	—	3,400,000	3,400,000	0.1%

Notes:

(1) These are share options granted by the Company to the Directors under the 2008 Share Option Scheme and the 2018 Share Option Scheme respectively. Such share options can be exercised by the Directors at various intervals during the period of 10 years from the respective dates of grant, i.e. 21 April 2011, 16 April 2018 and 29 August 2018, details of the respective grants are set out in the section headed "Share Options" in the Directors' Report.

(2) The approximate percentage of shareholding was calculated based on the total number of Shares in issue, being 2,479,876,223 Shares as at 31 December 2018.

Save as disclosed above, as at 31 December 2018, as far as the Board was aware, none of the Directors of the Company had or was deemed to have any interest or short position in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short position which they had or were deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Corporate Governance Report

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

So far as is known to any Directors, as at 31 December 2018, the following persons (not being a Director) had interests in the Shares or underlying Shares which were notified to the Company and the Stock Exchange pursuant to the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO:

Long Position in the Shares and underlying Shares

Name	Capacity	Number of Shares and underlying Shares held	Approximate percentage of shareholding *(Note 4)*
Mr. Wong Kin Ting ("Mr. Wong")	Interest of controlled corporations	455,297,032 *(Note 1)*	18.4%
Mr. Zhu Gongshan ("Mr. Zhu")	Beneficiary of discretionary trust & interest of controlled corporations	213,745,000 *(Note 2)*	8.6%
Credit Suisse Trust Limited ("CST")	Trustee	200,000,000 *(Note 3)*	8.1%

Notes:

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

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

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

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

(i) 200,000,000 Shares indirectly held by Asia Pacific Energy Fund, a trust fund of 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, 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. Asia Pacific Energy Fund Limited is 50% controlled by Serangoon Limited and 50% controlled by Seletar Limited and both Serangoon Limited and Selector Limited are 100% controlled by CST.

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

(4) The approximate percentage of shareholding was calculated based on the total number of Shares in issue of 2,479,876,223 Shares as at 31 December 2018.

Save as disclosed above, as at 31 December 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 Share and Debentures" above) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO.

BOARD OF DIRECTORS

(1) Board Composition

The Board currently comprises three EDs, one NED and three INEDs. The biographical details of each Director are shown in the section headed "Directors' Profile" on pages 16 to 17 of this Annual Report and are on the Company's website. The Directors during the year under review and up to the date of this Annual Report are as follows:

Executive Directors

Mr. Liang Jun
Mr. Fu Yongyuan
Mr. Wu Jian (appointed on 1 March 2019)
Mr. Lin Wenqing (resigned on 4 October 2018)
Mr. Siu Miu Man (re-designated as ED from INED on 24 March 2018 and resigned on 13 November 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)

The Company has received annual confirmation from each of the three INEDs with regard to his independence to the Company and considers that each of the INEDs to be independent.

Further, the Directors do not have any relationship (including financial, business, family or other material relationships) between themselves.

(2) Changes in Directorship

Mr. Siu Miu Man was re-designated as an ED from INED on 24 March 2018 and resigned as an ED on 13 November 2018. He confirmed that he has no disagreement with the Board and there were no matters in relation to his resignation required to be brought to the attention of the Shareholders.

Mr. Wong Yin Shun was appointed as an INED on 24 March 2018 in replacement of Mr. Siu Miu Man.

Mr. Wu Jian was appointed as an ED on 1 March 2019.

(3) Responsibility of the Board of Directors

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

Other duties include but are not limited to:

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

The day-to-day management, administration and operations of the Group and the implementation of policies have been delegated to the management of the Group. The Board fully supports the management with appropriate power and authorities in operating the Group's business within the strategic directions given by the Board. The management should report back to the Board before any significant decisions and commitments are to be made. The Board also reviews the authorities delegated to the management regularly to ensure that these are appropriate and effective.

Although the Board has delegated its certain responsibilities and functions to the management and various committees, it acknowledges that it remains ultimately accountable for the performance and affairs of the Company.

(4) Board Meetings and General Meetings

There were sixteen Board meetings and four general meetings held during the year under review. The attendance of Directors at the Board meetings and the general meetings are as follows:

	Attendance No. of Board meetings attended/ No. of Board meetings held during the year	Attendance No. of general meetings attended/ No. of general meetings held during the year
Executive Directors		
Mr. Liang Jun	16/16	4/4
Mr. Fu Yongyuan	16/16	4/4
Mr. Lin Wenqing (resigned on 4 October 2018)	11/16	4/4
Mr. Siu Miu Man (re-designated as ED from INED on 24 March 2018 and resigned on 13 November 2018)	13/16	4/4
Non-Executive Director		
Mr. Yu Baodong *(Chairman)*	12/16	3/4
Independent Non-Executive Directors		
Mr. Chan Chi Yuen	13/16	4/4
Mr. Wong Cheuk Bun	16/16	3/4
Mr. Wong Yin Shun (appointed on 24 March 2018)	13/16	2/4

(5) Board Activities

The Board meets regularly and holds not less than 4 meetings yearly at approximately quarterly intervals to review and discuss the Company's operations, financial results and other relevant matters as identified by the Directors. Additional meetings will also be arranged at the Directors' request as driven by circumstances. Through participating in the Board meetings, committee meetings and general meetings, the Directors are able to make contributions as required from them to the Board and to the development of the Group.

The Board proceedings are well defined and in adherence to the requirements under the Articles of Association and the Listing Rules. The Company Secretary prepares the agendas for Board meetings and issue to all Directors with a notice period of at least 14 days and send to all Directors the Board papers containing relevant information and documents at least 3 days before the Board meetings. During each Board meeting, the Chairman of the meeting encourages all Directors to make a full and active contribution to the Board's affairs and takes the lead to ensure that the Board acts in the best interests of the Company. Directors are also encouraged to discuss the matters at the meeting and express their different views to ensure that the Board's decisions fairly reflect the consensus of all Directors. EDs are responsible for reporting to the Board the respective business segments, including but not limited to, operations of the respective divisions, business update, progress of the projects, financial performance, corporate governance and compliance matters.

Corporate Governance Report

The Company Secretary prepares written resolutions and minutes as required by the circumstances and keeps detailed records of matters discussed and decisions resolved at the Board meetings, committee meetings and general meetings, including any concern raised by the Directors, members of the committees and Shareholders (as the case may be) or their dissenting views expressed. Draft resolutions and minutes of the Board meetings and committee meetings will be sent to the Directors for comments in a timely manner. Original minutes and resolutions of the Board/committees and general meetings are placed on record and kept by the Company Secretary. These are available for inspection upon request by the Directors.

(6) Continuous Professional Development

For newly appointed Director, the Company will provide an induction package including necessary information and briefings. The Directors are encouraged to participate in professional development courses and seminars to ensure that he is aware of his responsibilities under the Listing Rules, legal and other regulatory requirements. Ongoing professional trainings and seminars have 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.

(7) Monthly Financial updates to Directors

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

The individual training record of each Director for the year ended 31 December 2018 are as follows:

	Updates on laws, rules & regulations/management or other professional skills and Self-reading
Executive Directors	
Mr. Liang Jun	√
Mr. Fu Yongyuan	√
Mr. Lin Wenqing (resigned on 4 October 2018)	√
Mr. Siu Miu Man (re-designated as ED from INED on 24 March 2018 and resigned on 13 November 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)	√

(8) Chairman and Chief Executive

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

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

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

(9) NED and INEDs with clear guideline on responsibilities and authorities

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

(10) Meetings with INEDs

Pursuant to code provision A.2.7 of the CG Code, the Chairman should at least annually hold meetings with the INEDs without the presence of the other Directors. During the year under review, Mr. Yu Baodong, the Chairman of the Board, has held a meeting with the INEDs without the presence of other Directors on 23 March 2018.

BOARD COMMITTEES

The Board currently has four committees, namely the Remuneration Committee, the Audit Committee, the Nomination Committee and the Executive Committee. All the Board committees are empowered by the Board under their own TORs which have been published on the Stock Exchange's website and the Company's website.

(1) Remuneration Committee

The Remuneration Committee was established in 2006 with specific written TOR and its main function is to make recommendations to the Board on policies relating to the remuneration of all Directors. In accordance with the Listing Rules, the majority of the members of the Remuneration Committee are INEDs.

During the year under review, the members of the Remuneration Committee were Mr. Chan Chi Yuen (Chairman), Mr. Liang Jun and Mr. Siu Miu Man who has been re-designated from INED to ED on 24 March 2018 and resigned as a member of the Remuneration Committee on the same date. Mr. Wong Cheuk Bun, an INED, has been appointed as a member of the Remuneration Committee in place of Mr. Siu Miu Man on 24 March 2018. Accordingly, the current composition of the Remuneration Committee comprises of Mr. Chan Chi Yuen as Chairman and Mr. Liang Jun and Mr. Wong Cheuk Bun as members.

During the year under review, no meeting of the Remuneration Committee has been held. The Remuneration Committee has performed the following duties by way of resolutions in writing:

- determining, with delegated responsibility, the remuneration packages of an ED and an INED;
- ensuring no Director or any of his associates is involved in deciding his own remuneration.

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in Notes 9 and 10 to the Consolidated Financial Statements.

(2) Audit Committee

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

During the year under review, the members of the Audit Committee were Mr. Chan Chi Yuen (Chairman), Mr. Siu Miu Man (resigned on 24 March 2018), Mr. Wong Cheuk Bun and Mr. Wong Yin Shun (appointed on 24 March 2018).

Due to the re-designation of Mr. Siu Miu Man from an INED to an ED on 24 March 2018, he has resigned as a member of the Audit Committee and Mr. Wong Yin Shun, an INED, has been appointed as a member of the Audit Committee in place of Mr. Siu Miu Man. Accordingly, the current composition of the Audit Committee comprises of Mr. Chan Chi Yuen as Chairman and Mr. Wong Cheuk Bun and Mr. Wong Yin Shun as members.

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

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

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

	No. of meetings attended/ No. of meetings held during the year
Mr. Chan Chi Yuen *(Chairman)*	4/4
Mr. Siu Miu Man (resigned on 24 March 2018)	2/4
Mr. Wong Cheuk Bun	4/4
Mr. Wong Yiu Shun (appointed on 24 March 2018)	2/4

(3) Nomination Committee

The Board established a Nomination Committee comprising one NED and two INEDs with specific written TOR. Its main function is to review and assess the structure, size and composition of the Board and to identify and make recommendation to the Board on the selection, appointment or re-appointment for directorship.

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. The Board adopted a board diversity policy setting out the approach to achieve board diversity. All Board appointments will be made based on merit and contribution that the selected candidates will bring to the Board while taking into account the diversity components including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, expertise, skills, knowledge and length of service. In nomination of members to the Board, the Nomination Committee should take into account the background, skill and experience of the selected candidates with reference to the requirements as set out in the Company's board diversity policy. The Nomination Committee will make assessment based on a merit and contribution basis, which the selected candidates can bring to the Group, and submit recommendation to the Board for consideration.

During the year under review, the members of the Nomination Committee comprised Mr. Yu Baodong (Chairman), Mr. Chan Chi Yuen, Mr. Siu Miu Man (resigned on 24 March 2018) and Mr. Wong Cheuk Bun (appointed on 24 March 2018).

Due to the re-designation of Mr. Siu Miu Man from an INED to an ED on 24 March 2018, he has resigned as a member of the Nomination Committee and Mr. Wong Cheuk Bun, an INED, has been appointed as a member to fill his place on the same date. Accordingly, the current composition of Nomination Committee comprises of Mr. Yu Baodong as Chairman and Mr. Chan Chi Yuen and Mr. Wong Cheuk Bun as members.

During the year under review, no meeting of the Nomination Committee has been held. The Nomination Committee has performed the following duties by way of resolutions in writing:

- reviewing the structure, size and composition of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy in particularly, to propose the re-designation of Mr. Siu Miu Man from an INED to an ED and the appointment of Mr. Wong Yin Shun as an INED;

- assessing the independence of INEDs;

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

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

(4) Executive Committee

The Board established the Executive Committee in April 2018, comprising at least two EDs, with specific written TOR. It's main functions are to provide business strategies and future directions to the Company and advise on all commercial matters and operations of the Group and make recommendations to the Board for approval.

During the year under review, the Executive Committee comprised Mr. Siu Min Man (as Chairman who resigned on 13 November 2018), Mr. Liang Jun and Mr. Fu Yongyuan. Due to the resignation of Mr. Siu Miu Man as an ED of the Company on 13 November 2018, he ceased to act as the Chairman of the Executive Committee and currently, the composition of the Executive Committee consists of Mr. Fu Yongyuan (who was elected as Chairman to fill the place of Mr. Siu on 13 November 2018) and Mr. Liang Jun and Mr. Wu Jian (who was appointed on 1 March 2019) as member.

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

- Approving the employee handbook of the Group; and

- Reviewing and establishing certain human resources regulations of the Group.

The Executive Committee held 4 meetings during the year and the attendance of its members are as follows:

	Attendance No. of meetings attended/ No. of meetings held during the year
Mr. Fu Yongyuan *(Chairman)*	4/4
Mr. Siu Miu Man (resigned on 13 November 2018)	4/4
Mr. Liang Jun	4/4

(5) Corporate Governance Function

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

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

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

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

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

AUDITOR'S REMUNERATION

During the year under review, the fee for audit services provided by Mazars CPA Limited, the current external auditor of the Company, was HK$1,200,000 (2017: HK$950,000 received by BDO Limited, the former extend auditor of the Company) and that for the non-audit services mainly representing non-assurance work in relation to the interim report performed by BDO Limited, the former external auditor of the Company was HK$131,250 (2017: HK$675,000 mainly relating to interim report and the reporting accountant's work in relation to a very substantial acquisition).

FINANCIAL REPORTING

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

In preparing the Consolidated Financial Statements for the year ended 31 December 2018, the Directors have made judgments and estimates that it is appropriate to prepare the financial statements on a going concern basis.

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

A statement by the Independent Auditor about its reporting and its responsibilities is set out in the Independent Auditor's Report on pages 64 to 67 of this Annual Report.

RISK MANAGEMENT AND INTERNAL CONTROL

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

Risk Management System

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

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

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

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

Based on the risk assessments conducted in 2018, no significant risk was identified.

Internal Control System

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

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

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

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

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

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

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

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

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

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

Based on the internal control reviews conducted in 2018, no significant control deficiency was identified.

Internal Auditors

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

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

Effectiveness of the Risk Management and Internal Control Systems

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

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

COMPANY SECRETARY

On 13 November 2018, Ms. Wong Man Kei, Maggie resigned as the Company Secretary and Mr. Yu Kin Wing was appointed on the same date by the Board as the Company Secretary of the Company. He has complied with Rule 3.29 of the Listing Rules of obtaining no less than 15 hours of relevant professional training during the year under review.

On 14 January 2019, Ms. Wong Shuk Ha, Cat has been appointed as the Company Secretary of the Company in place of Mr. Yu Kin Wing.

COMMUNICATIONS WITH SHAREHOLDERS

(1) Annual General Meeting

The Company strives to maintain an amicable and open relationship with its Shareholders and regards its AGM providing a forum at which the Board members and Shareholders can exchange opinions and ideas. Shareholders are cordially invited to attend the AGM and direct their questions to the Board. Those available to answer such questions thereat include not only the EDs but also chairmen of the relevant committees, or in their absence, members of the committees and the external auditor.

(2) Shareholders' Rights

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

(3) Investor Relations

In order to ensure effective communication with the Shareholders and investors, information on the Group's latest major development, news and updates are made available to them in a timely manner through the Company's website. In addition, financial reports, announcements and circulars including but not limited to results announcements, notices of general meetings and related explanatory statements issued by the Company are also released through the respective websites of the Stock Exchange and the Company. The Company's constitutional documents are also made available on the Company's website, save for the updates made to the TORs of the Audit Committee and the Nomination Committee on 21 January 2019, there was no significant changes made to them during the year and up to the date of this Annual Report.

DIVIDEND POLICY

The Board has adopted a dividend policy (the "Dividend Policy") on 21 January 2019 pursuant to Code Provision E.1.5, which has become effective on 1 January 2019. The Dividend Policy sets out the principle and procedures for the payment of dividend to the Shareholders. The Board shall monitor the payment of dividends and review the Dividend Policy from time to time and approve any revision thereof subject to the requirements of the CO, the Listing Rules and all other applicable legislations.

Pursuant to the Dividend Policy, in brief, the Company shall distribute such amount of profits by way of dividend as the Board may decide from time to time. The dividend amount should be correlated with the performance of the financial year and the Company should maintain a stable payout ratio that is in line with the future prospect of the business. As a guideline, the payout ratio should not be more than 50% of the profits of the Company and its subsidiaries for the year. If due to any special reason that demands a higher payout ratio, the management must explain the rationale to the Board in details. The dividend may be distributed in the form of either cash or bonus Shares at an option for the Shareholders to select, subject to such provisions as stipulated in the Articles of Association and the CO as well as applicable rules and legislations from time to time.

UPDATE OF TORS OF THE COMMITTEES

In light of the recent amendments made to the CG Code and related Listing Rules, which have become effective on 1 January 2019, the Board has reviewed the respective TORs of the Audit Committee and the Nomination Committee and resolved to revise their TORs on 21 January 2019, in particularly the following areas, in order to ensure compliance therewith:

(i) The cooling off period for former audit partner acting as member of the Audit Committee be amended from 1 year to 2 years; and

(ii) The Board should state in circular to the Shareholders accompanying the resolution to appoint an INED its diversity consideration, including process used for identification, perspectives, skills and experience that the proposed INED can bring to the Board and how the candidate can contribute to the Board's diversity; in addition, in case the proposed INED will be holding more than 7 or more listed company directorships, the Board's view in determining why he/she would be able to devote sufficient time to the Board.

Updated versions of the TORs of the Audit Committee and the Nomination Committee have been uploaded to the websites of the Stock Exchange and the Company on 21 January 2019 respectively.

Environmental, Social and Governance Report

1. ABOUT THE REPORT

The Group is pleased to present the Environmental, Social and Governance Report (the "ESG Report"). This ESG Report concerns environmental and social impacts, policies and initiatives of the Group to demonstrate our long-term commitment to ensure that our activities, at all levels, are economically, socially and environmentally sustainable. Additional information in relation to the Group's corporate governance and financial performance can be referred to this Annual Report.

The "Environmental, Social and Governance Reporting Guide" (the "ESG Reporting Guide") which is set out in Appendix 27 to the Listing Rules is the reporting framework of this ESG Report.

The scope of the ESG Report covers the environmental and social performances of the principal operating activities of the Group, which were principally engaged in the (i) railway construction and operations; and (ii) shipping and logistics businesses, spanning over the period from 1 January 2018 to 31 December 2018 (the "Reporting Period" or "FY2018").

With reference to the ESG Reporting Guide and the Group's business operation, the presentation of our ESG Report divides the relevant aspects and Key Performance Indicators ("KPI"), which are considered to be relevant and material to the Group, into four subject areas: Environmental Protection, Employment and Labour Practices, Operating Practices and Community Investments.

A complete index in compliance with the ESG Reporting Guide is also available at the end of this ESG Report for reference. Except for provisions that the Group considers are inapplicable to its operations, for which explanations have been given on the rightmost column in the said index, this report has complied with all the "comply or explain" provisions set out in the ESG Reporting Guide.

The Group is determined to be a responsible enterprise and is committed to perfecting its business and improving the local community. In order to determine what issues are relevant and material to our business with respect to sustainability, the Group is aware that the key is to understand what issues that our stakeholders concerned most.

We define our stakeholders as people who affect our business or who are affected by our business. In our daily business, we actively exchange information with our stakeholders through our transparent platform while we are devoted to continuous improvement of our communication system. In addition, we are committed to maintaining a long-term partnership with our stakeholders and are actively engaged in addressing their concerns with timely follow-up actions. Throughout this ESG Report, we focus on the aspects that are material to stakeholders including clients, communities, employees, institutions, governments, non-governmental organizations, shareholders, subcontractors, suppliers and industry associations. The Group is working to create a sustainable growth for the benefit of all our stakeholders.

We welcome comments and suggestions from our stakeholders. You may provide your comments or views with respect to this ESG Report or our sustainability initiatives via email to enquiries@aelg.com.hk.

2. LAWS AND REGULATIONS RELATING TO VESSEL OPERATION

One of the principal businesses of the Group is provision of chartered vessels for the transportation of dry bulk cargoes as well as operation of international voyages. Our vessels are required to comply with the law of the countries while in the territorial waters of the respective countries. These laws, regulations and rules generally govern the legal requirements, technical standards, Health-Safety-Environmental (HSE) procedures and measures of vessel operation and are outlined below.

2.1. International Convention for the Prevention of Pollution from Ships ("MARPOL")

MARPOL concerns the prevention of marine environment pollution by vessels from operational or accidental causes. It regulates the emission of all forms of pollutants by vessels including oil, sewage, garbage and gas.

2.2. International Convention on Standards of Training, Certification and Watchkeeping for Seafarers ("STCW Convention")

STCW Convention sets out standards for training, certification and watchkeeping for seafarers working on board of the vessels which operates on international voyages. In accordance with this convention, vessels owned by the Group are required to be manned by sufficient officers and crew possessing sufficient sea time. Each of them must be trained and qualified accordingly to perform their respective duties on board.

2.3. Convention on the International Regulations for Preventing Collisions at Sea ("COLREGS")

COLREGS sets out the rules of the road for vessels engaged on voyages on the high sea. It contains rules for steering and sailing, conduct of vessels in limited visibility etc.

2.4. International Convention on Load Lines

It sets out the limit to the draught to which a ship may be loaded, in addition to setting provisions to prevent water from entering a ship through doors, hatches, windows, ventilators etc.

2.5. International Safety Management Code for Safe Operation of Ships and for Pollution Prevention ("ISM Code")

ISM Code was designed to extend greater responsibility to onshore management in respect of safe operation of ships as well as prevention of pollution. The ISM code requires every ship should carry the Safety Management Certificate (SMC), a document issued to a ship which signifies that a company and its shipboard management operate in accordance with the approved safety management system. All vessels owned, operated and managed by the Group have to comply with the ISM Code.

Apart from the abovementioned international conventions, the vessels registered in Hong Kong, are also required to be compliant with the applicable laws, regulations and requirements of Hong Kong, which include Merchant Shipping (Safety) Ordinance (Chapter 369) that is relevant to the ESG Reporting Guide.

The Group has established a set of policies and procedures in place with respect to the shipboard operation for each of the Group's vessels, including 1) safety and environmental protection policy; 2) instructions and procedures to ensure safe operation of ships and protection of environment in compliance with relevant international and flag state legislation; 3) procedures for reporting accidents and non-conformities with the provisions of the ISM Code; and 4) procedures of preparation for and response to emergency.

The Group's safety and environmental policies are implemented through its safety management system in place in compliance with the requirements of the ISM Code. Each of the Group's vessels have been awarded with and have maintained the relevant certificates issued by the American Bureau of Shipping and Lloyd's Register of Shipping pursuant to the ISM Code and MARPOL for compliance with various requirements relating to prevention of air pollution, oil pollution and other kinds of marine pollution.

During the Reporting Period, the Group has not committed to any material breaches of the relevant laws, rules and regulations concerning environmental protection.

3. ENVIRONMENTAL PROTECTION

3.1. Corporate Environmental Policy and Compliance

The Earth, our precious planet, is the most valuable asset for us. The Group endeavours to protect this planet and to build a sustainable future for our generations and their generations. The Group is committed to upholding high environmental standards to fulfil relevant requirements throughout our operation, and will continue to devote human and financial resources for environmental conservation, reduction of carbon footprint and environmental compliance as required under applicable laws and regulations.

During the Reporting Period, 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. The Group is committed to actively minimizing the impact on our environment and implementing different measures to optimize the workplace, continuing to address the environmental issues in relation to global warming, pollution, and biodiversity of the environment.

With the goal to reduce energy consumption and carbon emissions, the Group has formulated relevant rules and regulations for a sound and effective management of energy consumption, greenhouse gas ("GHG") emission, as well as discharge of domestic waste and sewage and other pollutants. We strictly comply with the environmental protection laws and regulation that are applicable to our business operations. Our Group's legal team have been working closely with our business units to assess the impact of those promulgated environmental protection laws and regulations such as the "Environmental Protection Law of the PRC" 《中華人民共和國環境保護法》, "Prevention and Control of Atmospheric Pollution of the PRC" 《中華人民共和國大氣污染防治法》, "Prevention and Control of Water Pollution of the PRC" 《中華人民共和國水污染防治法》, "Prevention and Control of Environmental Pollution by Solid Waste" 《中華人民共和國固體廢物防治法》 and "National Environmental Emergency Response Plan".

The Group considers that a healthy environment is the most valuable asset for the well-being of human beings and every one of our society, through providing the foundation of a sustainable economy. As such, we believe we are accountable for protecting this planet and building a sustainable future for our generations and their generations through better thinking and smarter investment.

During the Reporting Period, the Group complied with relevant laws and regulations relating to air and GHG emissions, discharge into water and land, and generation of hazardous and non-hazardous waste. The Group did not violate any environmental protection laws or regulations of the region where we operate, nor was it subject to significant fines, non-monetary penalties and litigation relating to environmental protection.

3.2. Emissions

The Group is well aware of the impact of global warming on the planet Earth and all human. Our operations, through consumption of various kinds of fossil fuel, inevitably release Nitrogen Oxides (NOx), Sulphur Oxides (SOx), and Carbon Dioxide (CO_2) into the air, which are considered to be one of the major sources of global warming. As such, the Group has been paying close attention to our emissions to ensure that they comply with the industry standards, and that transparent data are communicated effectively throughout the Group to implement applicable changes, including reduction measures.

3.2.1. Exhaust and GHG Emissions

With respect to the vessels operating in Hong Kong, we observe the Hong Kong Shipping Ordinances. All of the vessel engines, including both main and auxiliary installed on self-owned vessels, comply with the applicable emissions limit, in accordance with the revised NOx Technical Code 2008. The vessels' rated power and speed have been recorded to ensure to minimize the emission of nitrogen oxides. In addition, to monitor the emissions of sulphur oxides and particulate matter, the ship consumes low-sulphur fuel oil with a sulphur content lower than 3.50% m/m (before 1 January 2020) or 0.50% m/m when operating outside of an Emission Control Area; and no more than 1% m/m (before 1 January 2015) or 0.10% m/m when operating inside an Emission Control Area, as specified in regulation 14.3 of Annex VI to the MARPOL Convention.

During daily operation, the Group generates GHG emissions directly or indirectly through energy consumption. To properly manage our GHG emissions, the Group actively adopts electricity conservation and energy saving measures as well as other measures, including:

- maintaining indoor temperature at an optimal level for comfort;
- providing on-off and zoning control of lighting and ventilation system in the workplace according to the operation schedule;
- installing LED lighting system in the workplace;
- encouraging employees to switch off machines and devices, such as computers and monitors when not in use;
- encouraging employees to make the best use of modern telecommunication system to avoid unnecessary travel arrangement; and
- placing "Green Message" reminders on office equipment and workplace to further enhance employees' environmental awareness.

In accordance with the ESG Reporting Guide set out by the Stock Exchange, our environmental performance of "Emissions" during the Reporting Period is tabulated below.

Table 1 — Emissions

	Unit	FY2018
GHG Emissions	CO_2e (kg)	29,621,456
Nitrogen Oxides	g	771,440,072
Sulphur Oxides	g	433,415,895
Particulate Matter	g	69,796,779

3.2.2. Waste Management

The Group adheres to the principles of waste management and is committed to a sound and proper management of all waste generated during our operation.

Hazardous Waste

The Group's business, by nature, does not directly produce hazardous waste throughout any part of our activities.

Non-hazardous Waste

Domestic Waste

During our operation, the non-hazardous wastes generated are mainly domestic waste, among which, recyclable wastes, such as paper, will be recycled for reuse. Our waste management practice is compliant with laws and regulations relating to environmental protection. The Group has also implemented policies to reduce waste generation through environmental education, aiming at waste management from the source.

Wastewater Discharge

With respect to the wastewater management, the Group ensures all domestic sewage is discharged into the urban sewage pipe network for the proper sewage treatment.

Table 2 — Total Waste Discharge

	Unit	FY2018
Domestic Waste	kg	23,142

The Group strives to maintain a high standard of requirement of waste reduction, actively telling encouraging its employees to appreciate the significance of sustainable development through continuous development in skills and knowledge.

Green Operation

The Group is committed to a paperless operation, constantly encouraging all employees to reduce paper usage through duplex printing, paper recycle and frequent use of electronic information systems for material sharing or internal administrative documents.

Reusable paper products, such as envelopes, are properly recycled whereas the use of disposable paper products, such as paper cups and paper towels, are discouraged wherever possible and appropriate during our operation.

3.3. Use of Resources

The Group considers the conservation of natural resources as an indispensable component of our sustainable business. Through actively promoting various environmental friendly measures, we encourage an efficient use of resources, including energy, paper, water and other raw materials. As such, the Group has initiated polices to raise the awareness of electricity conservation and taken energy saving measures throughout our daily operation as elaborated in the section of 3.2. Emissions.

Water Consumption

With respect to water conservation, we encourage all employees and customers to develop the habit of conserving water consciously. Pantry and washrooms are posted with environmental messages to remind employee the importance and urgency of water conservation. Apart from education, the utility facilities are maintained regularly for service, to ensure that water seepage or leaking pipelines are replaced or repaired on a timely basis.

Packaging Material

Due to our business nature, the Group does not have manufacturing facilities and does not consume a significant amount of packaging materials.

Environmental Performance

In accordance with the ESG Reporting Guide set out by the Stock Exchange, our environmental performance of "Energy and Resources Use" during the Reporting Period are tabulated below.

Table 3 — Energy and Resources Use

	Unit	FY2018
Electricity	kWh	538,649
Purchased Gas	kg	310
Unleaded Petrol	L	29,962
Paper	kg	524
Water	m^3	N/A

The Group is committed to instilling the consciousness of resources conservation and environmental protection into the work and life of every employee. We seek business partners who also share with our philosophy and commitment of environment conservation and compliance with the applicable environmental laws and regulations. We believe that these initiatives are capable to reflect our commitment to offering the best quality of services while maintaining the least adverse environmental impact on our planet.

3.4. Prevention Measures and Planned Maintenance System

Shipping and logistics businesses drives global trade, nevertheless, the industries still generate negative impacts on the marine environment. The Group is highly aware of our adverse impact on the environment and natural resources, and thus taking steps to minimise those negative footprints by our operation. In addition to compliance with relevant environmental laws and regulations, the Group has integrated the concept of environmental protection into its internal management and daily operation with an objective of achieving environmental sustainability including prevention measures and planned maintenance system (PMS).

3.4.1. Prevention Measures

Our shipping and logistics business adversely impacts the marine environment, through the form of, such as, air pollution, greenhouse gas emissions, releases of ballast water containing aquatic invasive species, historical use of antifoulants, oil and chemical spills, dry bulk cargo releases, garbage, underwater noise pollution, ship-strikes on marine megafauna, risk of ship grounding or sinking and widespread sediment contamination of ports during trans-shipment or ship breaking activities.

We require our vessels to meet the requirements of oil pollution prevention certificates which provide assurance to the structure, equipment, systems, fittings, arrangement and materials of the vessels we operate. Our awarded certificates are summarized as below.

Certificate(s)	Vessel
International Oil Pollution Prevention Certificate under the provisions of the International Convention for the Prevention of Pollution from Ships (IOPPC)	MV Asia Energy MV Clipper Selo MV Clipper Panorama

The Group requires all crews to perform regular assessment of pollution prevention measures. Further technical support will be sought if necessary. Operators are professionally trained to handle various emergency situations with due care.

3.4.2. Planned Maintenance System (PMS)

The Group executed the Planned Maintenance System for all our vessels which allows operators to plan, perform and document vessel maintenance at intervals complying with Class and manufacturer requirements. With such a systematic approach to maintenance in place, the Group believes that we not only ensure safe and reliable vessel operations, including compliance with all applicable regulations, safety and environmental objectives set out in the ISM Code but also effectively provide a protection to the Group's assets.

In the future, we will continue our commitment in environmental protection and strive to build a greener and healthier environment to fulfil our responsibilities as a member of the community we all live in.

4. EMPLOYMENT AND LABOUR PRACTICES

4.1. Recruitment and Promotion

The Group fully understands that our business development is largely driven by the continued quality services delivered by our experienced and competent workforce. As such, it is therefore of paramount importance to proactively manage our talent pipeline and career development for employees. The Group is determined to set itself in a good position to maintain a robust business performance and growth together with our employees.

With an objective to uphold an open, fair, just and reasonable human resource policy, the Group has formulated the recruitment policy with respect to equal opportunities, diversity and anti-discrimination.

We encourage differences and individuality in employees, with the philosophy that diversity can bring new ideas, dynamics and challenges to our operations. We discourage all forms of discrimination on gender, age, family status, sexual orientation, disability, race and religion. Our employment policy encourages hiring of talented people with physical or mental disabilities. We are committed to supporting our employees to maintain a family-friendly work environment because we respect their roles and responsibilities in their families. We strive to make sure employees and business partners comply with laws and regulations, follow ethical business practices and respect equal opportunity in employment. We bring in new recruits and equip them with necessary skill sets to develop a long-term rewarding career with us.

During the Reporting Period, we continue to strictly observe the applicable laws and regulations and follow our employment policies relating to recruitment and promotion, compensation and dismissal, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare, by providing competitive remuneration package, including internal promotion opportunities and performance-based bonus, so as to recruit and retain experienced employees.

4.2. Employment and Labour

As at 31 December 2018, the Group had 95 full-time employees, 66 of whom were based in the PRC. The Group decides the remunerations payable to its staff based on their duties, work 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.

Hong Kong Region

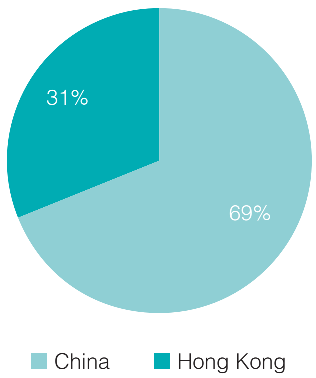
In Hong Kong, the Group complies with the Labour Law of Hong Kong and relevant employment laws and regulations throughout the Reporting Period, including the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) by participating in the Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") for our eligible employees, Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong), Employment Ordinance (Chapter 57 of the Laws of Hong Kong) (the "EO") and Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) (the "ECO") by offering competitive wages, medical insurance, disability and invalidity coverage, maternity leave and other compensation to our employees.

PRC Region

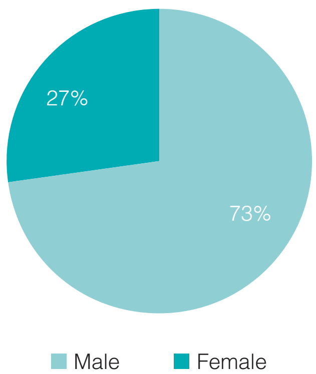
In the PRC, we have participated in welfare schemes concerning pension insurance, unemployment insurance, maternity insurance, occupational injury insurance and medical insurance in accordance with the local regulations including the Regulations on the Administration of Housing Provident Funds and the Social Insurance Law of the PRC.

In accordance with the ESG Reporting Guide set out by the Stock Exchange, details of the Group's workforce during the Reporting Period are tabulated as well as presented in charts below.

Total Workforce by Geographic Region as of 31 December 2018



Total Workforce by Gender as of 31 December 2018



During the Reporting Period, the Group was not aware of any material non-compliance with laws and regulations in respect of human resources.

4.3. Health and Safety

The Group has been attaching great importance to a comfortable and safe working environment for our employees which protect them from potential occupational hazards and health and safety risks, in order to achieve zero tolerance of accidents and injuries.

As employees' health and safety is of paramount importance to the operation of the Group, the Group has accordingly formulated a series of relevant personnel management policy to provide employees with a healthy, positive and motivative working atmosphere.

The Group maintains the risk management system including identification, prevention and management of risks and hazards throughout the workplaces as well as follow-up actions for accidents or personal injuries. We have taken the following measures:

- installing air purifiers in relatively crowded areas such as conference and meeting rooms;
- prohibiting smoking and abuse of alcohol and drugs in the workplace;
- providing clean and tidy rest area such as corridors and pantry;
- providing adjustable chairs and monitors for eye protection;
- setting up posters of proper working postures and lifting method accessible on the intranet and at appropriate locations in offices;
- conducting fire drills and emergency evacuation simulations to raise the employees' awareness of fire prevention and to equip employees with appropriate knowledge and skills in the event of emergency; and
- improving the fire evacuation plans by providing first aid kits and fire extinguishers in workplace in response to emergencies.

During the Reporting Period, the Group complies with the Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong), by ensuring that the employees are working in a safe environment in respect of health, hygiene, ventilation, gas safety, building structure and means of escape. During the Reporting Period, the Group did not record any accidents that resulted in death or serious physical injury. No material non-compliance with laws and regulations relevant to health and safety of employees were identified during the Reporting Period.

Additionally, the Group provides induction programs and safety training programs to new employees such that they can be familiar with our corporate policies in relation to health and safety matters as quickly as they can.

The summary of work-related fatalities and injuries are summarized in the table below.

Table 4 — Health and Safety

	FY2018
No. of Work-Related Fatalities	0
Rate of Work-Related Fatalities	0
No. of Injuries at Work	0
Lost Days due to Injury at Work	0

4.4. Development and Training

The Group envisions that empowering its people through development and training is the cornerstone of our success in the long-run. The Group listens and responds to our people. Our training programmes are designed not only to meet our business vision and to provide skillset required for the operation, but also for the benefit of society as a whole wherever possible.

Considering that each of the position is of unique professional and technical needs, the Group ensures that every new joiner receives proper orientation training and mentoring in order to help them adapt to the new working environment affirmatively and quickly. Continuous training is committed by the Group in different ways including internal training programs, comprehensive training for specific skill development, and courses for continuous professional development for relevant employees so as to ensure that they possess the appropriate qualities and skill-sets. Implementation of safety training and comprehensive risk assessments are also one of the most important tasks in the Group.

Employees at all levels can satisfy their needs of trainings through multiple training courses, including induction training and technical skills training. We also provide the management with a series of courses related to soft skill development. The goal is to strengthen their leadership and management skills, which is expected to drive the team to grow. These training programs not only facilitate the career prospect of individual employee, but also boost the sustainable development of the Group. Ongoing professional trainings and seminars are continuously offered to all directors in order for them to develop and refresh their knowledge and skills as directors of a listed company.

Table 5 — Employee Training

	Unit	FY2018
Average hours of training received per employee (Hong Kong)	hours	1
Average hours of training per employee by ranking		
Senior Staff	hours	1
Intermediate Staff	hours	1.1
Junior Staff	hours	0.8
The percentage of employees trained		
Senior Staff	%	50
Intermediate Staff	%	55
Junior Staff	%	40

Moreover, the Group is strongly convinced that sense of belongings and morale of the employees are always the key drivers to the Group's healthy and prosperous growth. The Group delivers festive foods, such as mooncakes, to employees during certain traditional festivals (such as Lunar New Year and Mid-Autumn Festival) in recognition of their contributions and dedicated work to the Group. Regular and festival gatherings are organised during the Reporting Period to enhance the harmonious sprit of different levels of staff members throughout the Group.

The Group believes that such a corporate culture and harmonic working environment will naturally achieve a synergistic result to facilitate employee retention and to improve productivity.

4.5. Labour Standards

Being fully aware that exploitation of child and forced labour violates human rights and international labour conventions, the Group strictly prohibits the employment of any child labour and forced labour. New employees are required to provide true and accurate personal data when they are onboard. Recruiters should strictly review the entry documents including medical examination certificates, academic certificates and identity cards. The Group constantly rejects to engage suppliers and contractors, that hire child labour or forced labour in their operations, to provide administrative supplies and services.

The Group strictly complies with the relevant laws and regulations, including the Labour Law, the Protection of Minors and the Prohibition of Using Child Labour of the PRC and the Employment Ordinance of Hong Kong (Chapter 57 of the Laws of Hong Kong).

During the Reporting Period, no material non-compliance with the laws and regulations related to the prevention of child labour or forced labour have been found by the Group.

5. OPERATING PRACTICES

The Group is determined to disseminate the pursuit of sustainability into our core business which is regarded as part of the responsibility of an accountable corporate citizen. A series of management systems and procedures has been developed in alignment with the Corporate Governance required by the Stock Exchange. Furthermore, the Group encourages all business partners to incorporate those sustainability practices and policies into their operation thoroughly in order to work together in our pursuit of sustainable development.

5.1. Supply Chain Management

The Group understands that supply chain management has always been one of the key aspects of the Group's operation. Our supply chain management team not only considers economic and commercial benefits during the tendering processes, but also evaluates the suppliers' and contractors' track record relating to legal and regulatory compliance which include safeguarding workers' health and safety, and mitigating environmental impacts.

The Group believes the value in ethics, honesty and integrity, operating in compliance with applicable laws and regulations. We encourage our business partners to adopt the best environmental and social practices and to disseminate the pursuit of sustainability into the core business. We collaborate closely with our suppliers through an improved market management and centralized procurement system. Advanced technology is also widely utilized in all operations to monitor all purchases and sales transactions. All our processes for procurement, price control, resource management are carefully monitored and documented. In order to guarantee the safety of our products and services, every single purchase is registered with the authority before being put to use and sold.

In addition to purchasing products and services according to the specified standards, we have developed a vendor and supplier selection mechanism in which we require our potential contractors or suppliers to comply with all the applicable laws and regulations and confirm their compliance with safety, environment, and social aspects. Inspection and assessments may be conducted by the Group if deemed necessary. To maintain a good corporate control and governance, the Group has developed a series of management system as and procedures in alignment with the Corporate Governance required by the Stock Exchange. We are obliged to terminate the cooperation contract with suppliers that may cause or have caused serious pollution or serious social accidents.

We believe that, through the above review process, we can minimize the potential environmental and social risks associated with the supply chain management.

5.2. Product Responsibility

To be a successful business, we maintain continuous communication with our customers to ensure that we understand and fulfil their needs and expectations, so that we can improve the quality of our services in the long run. The Group is committed to the highest standards of service we deliver.

PRC Region

Our operation in the PRC complies with relevant laws and regulations in relation to advertising, labelling and consumer protection, such as "Consumer Protection Law of the People's Republic of China", the "Advertising Law of the People's Republic of China", and "PRC Product Quality Law", by ensuring that there are no false and misleading messages in our advertisements and promotion activities.

Hong Kong Region

In Hong Kong, our Group complies with relevant laws and regulations, for instances, the Trade Description Ordinance (Chapter 362 of the Laws of Hong Kong). The Group also carries out continuous and regular assessment of the product quality and review of opportunities for improvements and changes.

During the Reporting Period, the Group did not identify any material non-compliance of the laws and regulations related to the quality of products and services.

Feedback Management

The Group has set up various complaints and feedback channels, such as guest comment cards, telephone hotline, social media channels, emails and websites, to collect suggestions and advice from customers. There were no cases of product recall nor complaints received against our services due to health and safety issues during the Reporting Period.

5.3. Privacy Protection

The Group is committed to compliance with the privacy laws and regulations. The Group undertakes to strictly comply with the requirements of the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong), to ensure that all data are securely kept in our internal system with access control. The Group also set out data privacy requirements in our corporate policies, under which customer and supplier data would be used exclusively for matters relating to the Group's operation only. We strive to ensure all collected data kept is free of unauthorized or accidental access, processing, erasure or other use.

5.4. Anti-Corruption

Insisting on the honesty, integrity and fairness in all aspects of our business, and upholding a high standard of business ethics and prohibition of any forms of bribery and corrupt practices, the Group has developed a series of policies of anti-fraud and anti-bribery as part of the exercise of Corporate Governance.

The Group observed with related laws and regulations that have a significant impact on the Group relating to bribery, extortion, fraud and money laundering, such as the "Prevention of Bribery Ordinance of Hong Kong" (Chapter 201 of the laws of Hong Kong), the Criminal Law of the PRC (《中華人民共和國刑法》), and the Regulations of the PRC for Suppression of Corruption (《中華人民共和國懲治貪污條例》). During the Reporting Period, the Group complied with the relevant laws and regulations relating to bribery, extortion, fraud and money laundering mentioned above, as well as the corporate policy of anti-corruption, and no cases of anti-corruption have been concluded.

In addition to the anti-bribery and anti-corruption policies, the Group also encourages employees and all business-related parties, including customers and suppliers, to proactively report any suspected misconduct issues to the Group. Employees are encouraged to report any concern in relation to accounting controls and audit matters to the Audit Committee which will review each complaint and decide how the investigation should be conducted.

During the Reporting Period, the Group complied with the relevant laws and regulations relating to bribery, extortion, fraud and money laundering that have an impact on the Group, as well as the corporate policy of anti-corruption, and no cases of anti-corruption have been concluded. During the Reporting Period, the Audit Committee identified no complaint from employees.

6. COMMUNITY INVESTMENT

The Group actively strives to making a better society through our active involvement in the community, putting the best effort in helping the local communities and people in needs through voluntary services, donation programs and social enterprise supports.

Going forward, the Group will continue to attach great importance to community services, and will encourage our staff members to be actively engaged in voluntary services and join hands together to disseminate the spirit of services in the community where we all depend on.

7. ESG GUIDE CONTENT INDEX OF THE STOCK EXCHANGE

Aspects, General Disclosures and KPIs	Description	Relevant sections in the ESG Report	Remarks
Aspect A1: Emissions			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	Environmental Protection	
KPI A1.1	Types of emissions and respective emissions data	Environmental Protection	
KPI A1.2	Greenhouse gas emissions in total and, where appropriate, intensity	Environmental Protection	
KPI A1.3	Total hazardous waste produced and, where appropriate, intensity		The Group has not identified any hazardous waste was produced in our core business
KPI A1.4	Total non-hazardous waste produced and intensity	Environmental Protection	
KPI A1.5	Description of measures to mitigate emissions and results achieved	Environmental Protection	
KPI A1.6	Description of how hazardous and non-hazardous waste are handled, reduction initiatives and results achieved	Environmental Protection	

Aspects, General Disclosures and KPIs	Description	Relevant sections in the ESG Report	Remarks
Aspect A2: Use of Resources			
General Disclosure	Policies on efficient use of resources including energy, water and other raw materials	Environmental Protection	
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity	Environmental Protection	
KPI A2.2	Water consumption in total and intensity	Environmental Protection	
KPI A2.3	Description of energy use efficiency initiatives and results achieved	Environmental Protection	
KPI A2.4	Description of whether there is any issue in sourcing water, water efficiency initiatives and results achieved	—	Defined to be irrelevant to the Group's operation
KPI A2.5	Total packaging material used for finished products, and if applicable, with reference to per unit produced	—	Use of packaging material is not applicable to the Group's core operation
Aspect A3: The Environment and Natural Resources			
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources	Environmental Protection	
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and actions taken to manage them	Environmental Protection	

Aspects, General Disclosures and KPIs	Description	Relevant sections in the ESG Report	Remarks
Aspect B1: Employment			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti — discrimination, and other benefits and welfare	Employment and Labour Practices	
KPI B1.1	Total workforce by gender, employment type, age group and geographical region	Employment and Labour Practices	
KPI B1.2	Employee turnover rate by gender, age group and geographical region	Employment and Labour Practices	
Aspect B2: Health and Safety			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards	Employment and Labour Practices	
KPI B2.1	Number and rate of work-related fatalities	Employment and Labour Practices	

Aspects, General Disclosures and KPIs	Description	Relevant sections in the ESG Report	Remarks
KPI B2.2	Lost days due to work injury	Employment and Labour Practices	
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Employment and Labour Practices	
Aspect B3: Development and Training			
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	Employment and Labour Practices	
KPI B3.1	The percentage of employees trained by gender and employee category	Employment and Labour Practices	
KPI B3.2	The average training hours completed per employee by gender and employee category	Employment and Labour Practices	
Aspect B4: Labour Standards			
General Disclosure	Information on:		
	(a) the policies; and		
	(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour	Employment and Labour Practices	
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour	Employment and Labour Practices	
KPI B4.2	Description of steps taken to eliminate child and forced labour practices when discovered	—	No such incidents were reported during the Reporting Period.

Aspects, General Disclosures and KPIs	Description	Relevant sections in the ESG Report	Remarks
Aspect B5: Supply Chain Management			
General Disclosure	Policies on managing environmental and social risks of the supply chain	Operating Practices	
KPI B5.1	Number of suppliers by geographical region	Operating Practices	
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Operating Practices	
Aspect B6: Product Responsibility			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress	Operating Practices	
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	—	Not applicable to the Group's core operation
KPI B6.2	Number of products and service related complaints received and how they are dealt with	—	No products and service related complaints received during the Reporting Period.
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights	—	Not applicable to the Group's core operation

Aspects, General Disclosures and KPIs	Description	Relevant sections in the ESG Report	Remarks
KPI B6.4	Description of quality assurance process and recall procedures	Operating Practices	
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Operating Practices	
Aspect B7: Anti-corruption			
General Disclosure	Information on:		
	(a) the policies; and	Operating Practices	
	(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering		
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	Operating Practices	No concluded legal cases regarding corrupt practices during the Reporting Period.
KPI B7.2	Description of preventive measures and whistle — blowing procedures, how they are implemented and monitored	—	The Group is working on this aspect.
Aspect B8: Community Investment			
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities takes into consideration communities' interests	Community Investment	
KPI B8.1	Focus areas of contribution	Community Investment	
KPI B8.2	Resources contributed to the focus areas	Community Investment	

Independent Auditor's Report

MAZARS CPA LIMITED
中審眾環(香港)會計師事務所有限公司
42nd Floor, Central Plaza
18 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道18號中環廣場42樓
Tel 電話: (852) 2909 5555
Fax 傳真: (852) 2810 0032
Email 電郵: info@mazars.hk
Website 網址: www.mazars.hk

TO THE MEMBERS OF ASIA ENERGY LOGISTICS GROUP LIMITED
(Incorporated in Hong Kong with limited liability)

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of Asia Energy Logistics Group Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 68 to 141, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Disclaimer of Opinion

As a result of similar limitations of audit scope as mentioned below, a disclaimer of opinion was expressed by the predecessor auditor in its report dated 23 March 2018 on the consolidated financial statements of the Group for the year ended 31 December 2017.

(i) ***Impairment of non-current assets***

Included in the consolidated statement of financial position as at 31 December 2017 are certain property, plant and equipment, construction in progress and railway construction prepayment (collectively referred to as the "Railway Assets") with carrying amounts of approximately HK$2,319,000, HK$1,671,728,000 and HK$8,737,000 respectively, which were arrived at after deducting impairment losses based on directors' assessment of approximately HK$624,000, HK$335,742,000 and HK$1,754,000 respectively.

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

Basis for Disclaimer of Opinion (Continued)

(i) Impairment of non-current assets (Continued)

As discussed in note 16 to the consolidated financial statements, the directors have performed an impairment assessment on the Railway Assets as at 31 December 2018 based on a valuation performed by an independent professional valuer. As a result of the impairment assessment, no further impairment loss or reversal of impairment loss for the year ended 31 December 2018 was considered necessary. Despite we are satisfied with the director's impairment assessment of the Railway Assets as at 31 December 2018, we were unable to obtain sufficient appropriate audit evidence to assess the adequacy and appropriateness of the directors' impairment assessment as at 31 December 2017, which may have a significant impact on the financial position of the Group as at 31 December 2017, and on the financial performance and the elements making up the consolidated statement of cash flows of the Group for the year ended 31 December 2018.

(ii) Material uncertainty related to going concern

As at 31 December 2018, the Group had net current liabilities of approximately HK$1,903,679,000 (2017: HK$1,907,312,000) and net liabilities of approximately HK$187,394,000 (2017: HK$192,022,000). In addition, it incurred a loss of approximately HK$168,775,000 for the year ended 31 December 2018 (2017: HK$97,403,000). These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

The validity of the going concern assumption is dependent on the successful and favourable outcomes of the measures being taken by the directors of the Company and the development of the events as described in note 4 to the consolidated financial statements. The directors of the Company are of the opinion that the Group would be able to continue as a going concern. Therefore, the consolidated financial statements have been prepared on a going concern basis.

We were unable to obtain sufficient appropriate audit evidence regarding the use of going concern assumption in the preparation of the consolidated financial statements. Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at the amounts other than which they are currently recorded in the consolidated statement of financial position at as 31 December 2018. In addition, the Group may have to recognise further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively.

Independent Auditor's Report

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

Responsibilities of Directors for the Consolidated Financial Statements

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

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

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

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

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor's report. However, because of the matters described in the "Basis for Disclaimer of Opinion" section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

This auditor's report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

REPORT ON MATTER UNDER SECTION 407(3) OF THE HONG KONG COMPANIES ORDINANCE

In respect alone of the inability to obtain sufficient appropriate audit evidence in respect of the impairment assessment of the Railway Assets and the material uncertainty related to going concern as described in the "Basis for Disclaimer of Opinion" section of our report above, we have not obtained all the information or explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of the audit.

Mazars CPA Limited
Certified Public Accountants
Hong Kong, 28 March 2019

The engagement director on the audit resulting in this independent auditor's report is:

Yip Ngai Shing
Practising Certificate Number: P05163

Consolidated Statement of Comprehensive Income

Year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Revenue	6	**50,669**	15,797
Cost of sales		**(39,173)**	(14,894)
Gross profit		**11,496**	903
Other income	7	**641**	2,241
Depreciation	8(c)	**(1,893)**	(1,778)
Staff costs	8(b)	**(41,590)**	(17,571)
Impairment loss on consideration receivable	19(b)	**(9,750)**	—
Impairment loss on construction in progress	16	**—**	(13,898)
Impairment loss on railway construction prepayment	17	**—**	(72)
Reversal of impairment loss on property, plant and equipment	14	**9,000**	8,980
Change in fair value of contingent consideration payable	24	**4,228**	(7,928)
Change in fair value of derivative components of GIC Convertible Bonds	27	**(12,939)**	—
Change in fair value of derivative components of Convertible Notes	22	**(4)**	(77)
Change in fair value of options/commitment to issue Convertible Notes	22	**(16)**	(261)
Share of results of joint venture	18	**(24,754)**	9,718
Other operating expenses		**(30,591)**	(16,283)
Finance costs	8(a)	**(72,603)**	(61,377)
Loss before tax	8	**(168,775)**	(97,403)
Income tax expense	11	**—**	—
Loss for the year		**(168,775)**	(97,403)
Other comprehensive income (loss)			
Exchange difference arising on translation of financial statements of foreign operations which may be reclassified subsequently to profit or loss		**10,924**	(6,169)
Total comprehensive loss for the year		**(157,851)**	(103,572)
Loss for the year attributable to:			
Owners of the Company		**(138,559)**	(62,004)
Non-controlling interests		**(30,216)**	(35,399)
		(168,775)	(97,403)
Total comprehensive loss for the year attributable to:			
Owners of the Company		**(132,129)**	(65,523)
Non-controlling interests		**(25,722)**	(38,049)
		(157,851)	(103,572)
Loss per share			
Basic and diluted (HK cents)	13	**(5.91)**	(4.23)

Consolidated Statement of Financial Position

As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	14	**211,457**	41,753
Intangible asset	15	**1,000**	1,000
Construction in progress	16	**1,598,782**	1,671,728
Railway construction prepayment	17	**4,775**	8,737
Interest in a joint venture	18	**—**	—
Deposits paid for acquisition of property, plant and equipment		**2,610**	—
		1,818,624	1,723,218
Current assets			
Trade and other receivables	19	**32,076**	38,988
Bank balances and cash	38(c)	**18,456**	5,968
		50,532	44,956
Current liabilities			
Trade and other payables	20	**154,669**	164,527
Bank and other borrowings	21	**1,647,783**	1,657,275
Convertible Notes	22	**—**	3,036
Amount due to a joint venture	23	**143,411**	118,680
Amounts due to minority equity owners of subsidiaries	32(a)	**8,348**	8,750
		1,954,211	1,952,268
Net current liabilities		**(1,903,679)**	(1,907,312)
Total assets less current liabilities		**(85,055)**	(184,094)
Non-current liabilities			
Contingent consideration payable	24	**3,700**	7,928
GIC Convertible Bonds	25	**71,330**	—
Derivative components of GIC Convertible Bonds	27	**15,157**	—
Convertible Bonds	26	**12,152**	—
		102,339	7,928
NET LIABILITIES		**(187,394)**	(192,022)

Consolidated Statement of Financial Position

As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Capital and reserves			
Share capital	28	**1,709,316**	1,608,309
Reserves		**(1,769,240)**	(1,698,583)
Equity attributable to owners of the Company		**(59,924)**	(90,274)
Non-controlling interests	29	**(127,470)**	(101,748)
TOTAL DEFICITS		**(187,394)**	(192,022)

These consolidated financial statements on pages 68 to 141 were approved and authorised for issue by the Board of Directors on 28 March 2019 and signed on its behalf by

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

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Attributable to owners of the Company								
	Share capital	Capital reserve	Convertible bonds reserve	Share options reserve	Translation reserve	Accumulated losses	Sub-total	Non-controlling interests	Total deficits
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 January 2017	1,595,221	4,190	—	25,270	23,245	(1,685,765)	(37,839)	(63,699)	(101,538)
Loss for the year	—	—	—	—	—	(62,004)	(62,004)	(35,399)	(97,403)
Other comprehensive loss for the year									
Exchange difference arising from translation of foreign operations	—	—	—	—	(3,519)	—	(3,519)	(2,650)	(6,169)
Total comprehensive loss for the year	—	—	—	—	(3,519)	(62,004)	(65,523)	(38,049)	(103,572)
Transactions with owners of the Company									
Contributions and distributions:									
Shares issued on conversion of Convertible Notes	13,088	—	—	—	—	—	13,088	—	13,088
Lapse/forfeiture of share options	—	—	—	(6,796)	—	6,796	—	—	—
	13,088	—	—	(6,796)	—	6,796	13,088	—	13,088
As at 31 December 2017 and 1 January 2018	1,608,309	4,190	—	18,474	19,726	(1,740,973)	(90,274)	(101,748)	(192,022)
Loss for the year	**—**	**—**	**—**	**—**	**—**	**(138,559)**	**(138,559)**	**(30,216)**	**(168,775)**
Other comprehensive income for the year									
Exchange difference arising from translation of foreign operations	**—**	**—**	**—**	**—**	**6,430**	**—**	**6,430**	**4,494**	**10,924**
Total comprehensive loss for the year	**—**	**—**	**—**	**—**	**6,430**	**(138,559)**	**(132,129)**	**(25,722)**	**(157,851)**
Transactions with owners of the Company									
Contributions and distributions:									
Shares issued on conversion of Convertible Notes (Note 22)	**3,543**	**—**	**—**	**—**	**—**	**—**	**3,543**	**—**	**3,543**
Shares issued on placing, net of expenses (Note 28)	**97,464**	**—**	**—**	**—**	**—**	**—**	**97,464**	**—**	**97,464**
Shares options granted (Note 30)	**—**	**—**	**—**	**20,858**	**—**	**—**	**20,858**	**—**	**20,858**
Issuance of GIC Convertible Bonds (Note 25)	**—**	**—**	**35,043**	**—**	**—**	**—**	**35,043**	**—**	**35,043**
Issuance of Convertible Bonds (Note 26)	**—**	**—**	**5,571**	**—**	**—**	**—**	**5,571**	**—**	**5,571**
Lapse/forfeiture of share options	**—**	**—**	**—**	**(129)**	**—**	**129**	**—**	**—**	**—**
	101,007	**—**	**40,614**	**20,729**	**—**	**129**	**162,479**	**—**	**162,479**
As at 31 December 2018	**1,709,316**	**4,190**	**40,614**	**39,203**	**26,156**	**(1,879,403)**	**(59,924)**	**(127,470)**	**(187,394)**

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES			
Loss before tax		**(168,775)**	(97,403)
Depreciation		**8,848**	4,567
Finance costs		**72,603**	61,377
Bank interest income		**(28)**	—
Change in fair value of contingent consideration payable		**(4,228)**	7,928
Write-off of property, plant and equipment		**549**	—
Change in fair value of derivative components of Convertible Notes		**4**	77
Change in fair value of options/commitment to issue Convertible Notes		**16**	261
Equity-settled share-based payment expenses		**20,858**	—
Change in fair value of derivative components of GIC Convertible Bonds		**12,939**	—
Impairment loss on construction in progress		**—**	13,898
Impairment loss on railway construction prepayment		**—**	72
Reversal of impairment loss on property, plant and equipment		**(9,000)**	(8,980)
Impairment loss on consideration receivable		**9,750**	—
Gain on disposal of property, plant and equipment		**(220)**	—
Share of results of joint venture		**24,754**	(9,718)
Effect of foreign exchange rate changes		**8,802**	(10,271)
Changes in working capital:			
Trade and other receivables		**(2,838)**	(2,246)
Trade and other payables		**(11,603)**	12,777
Amount due to a joint venture		**(23)**	—
Cash used in operations		**(37,592)**	(27,661)
Bank interest received		**28**	—
Interest paid		**(58,244)**	(58,409)
Net cash used in operating activities		**(95,808)**	(86,070)
INVESTING ACTIVITIES			
Deposits paid for acquisition of property, plant and equipment		**(2,610)**	—
Payment for construction in progress		**(2,538)**	—
Purchase of property, plant and equipment		**(169,964)**	(39)
Partial consideration received from disposal of a subsidiary		**—**	5,000
Net cash (used in) from investing activities		**(175,112)**	4,961

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
FINANCING ACTIVITIES			
Interest on Convertible Notes		—	8
New bank and other borrowings raised		210,903	125,124
Repayment of bank and other borrowings		(141,621)	(57,711)
Proceeds from issue of Convertible Notes	22	2,500	12,500
Proceeds from issue of Convertible Bonds	26	17,440	—
Proceeds from issue of GIC Convertible Bonds	25	98,778	—
Proceeds from issue of shares on placing	28	97,464	—
Redemption of Convertible Notes	22	(2,056)	—
Net cash from financing activities		283,408	79,921
Net increase (decrease) in cash and cash equivalents		12,488	(1,188)
Effect on exchange rate changes		—	2
Cash and cash equivalents as at 1 January		5,968	7,154
Cash and cash equivalents as at 31 December, represented by bank balances and cash		18,456	5,968

Notes to the Consolidated Financial Statements

1. CORPORATE INFORMATION

Asia Energy Logistics Group Limited (the "Company") is a limited liability company incorporated in Hong Kong. The Company's registered office and its principal place of business is located at Room 2404, 24/F., Wing On Centre, 111 Connaught Road Central, Hong Kong. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company and its subsidiaries (the "Group"), together with its joint venture, are engaged in (i) railway construction and operations; and (ii) shipping and logistics businesses.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure requirements under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

These consolidated financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand unless otherwise indicated.

3. ADOPTION OF NEW/REVISED HKFRSs

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2017 consolidated financial statements except for the adoption of the following new/revised HKFRSs that are relevant to the Group and effective from the current year:

HKFRS 9 "Financial instruments"

The following terms are used in these consolidated financial statements:

- FVPL: fair value through profit or loss
- FVOCI: fair value through other comprehensive income
- Designated FVOCI: equity instruments measured at FVOCI
- Mandatory FVOCI: debt instruments measured at FVOCI

HKFRS 9 replaces HKAS 39 "*Financial Instruments: Recognition and Measurement*" for annual periods beginning on or after 1 January 2018. It introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting.

3. ADOPTION OF NEW/REVISED HKFRSs (CONTINUED)

HKFRS 9 "Financial instruments" (Continued)

In accordance with the transition provisions in HKFRS 9, comparative information has not been restated and the Group has applied HKFRS 9 retrospectively to financial instruments that existed at 1 January 2018 (i.e. the date of initial application), except as described below:

(a) The following assessments are made on the basis of facts and circumstances that existed at the date of initial application:

(i) the determination of the business model within which a financial asset is held;

(ii) the designation of financial assets or financial liabilities at FVPL or, in case of financial assets, at Designated FVOCI; and

(iii) the de-designation of financial assets or financial liabilities at FVPL.

The above resulting classification shall be applied retrospectively.

(b) If, at the date of initial application, determining whether there has been a significant increase in credit risk since initial recognition would require undue cost or effort, a loss allowance is recognised at an amount equal to lifetime expected credit losses at each reporting date until the financial instrument is derecognised unless that financial instrument has low credit risk at a reporting date.

(c) For investments in equity instruments that were measured at cost under HKAS 39, the instruments are measured at fair value at the date of initial application.

Classification and measurement of financial assets and financial liabilities

The adoption of HKFRS 9 has no significant effect on the classification and measurement of the Group's financial liabilities.

The following table reconciles the original measurement categories and carrying amounts under HKAS 39 to the new measurement categories and carrying amounts under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018.

		Measurement category and carrying amount under HKFRS 9
Measurement category under HKAS 39	**Carrying amount under HKAS 39**	**Amortised cost**
	HK$'000	HK$'000
Loans and receivables (Note)		
Consideration receivable	9,850	9,850
Amount due from Golden Concord Group Management Limited ("Golden Concord")	24,823	24,823
Other debtors and deposits	3,266	3,266
Bank balances and cash	5,968	5,968
	43,907	43,907

3. ADOPTION OF NEW/REVISED HKFRSs (CONTINUED)

HKFRS 9 "Financial instruments" (Continued)

Classification and measurement of financial assets and financial liabilities (Continued)

Note: These items continue to be measured at amortised cost because, at the date of initial application, the Group's business model is to hold these items to collect contractual cash flows and the contractual terms of these items give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Impact of the new impairment requirements

The effect on adoption of the new impairment requirements under HKFRS 9 is not material to the Group's consolidated financial statements.

HKFRS 15 "Revenue from contracts with customers"

HKFRS 15 replaces, among others, HKAS 18 and HKAS 11 which specified the revenue recognition arising from sale of goods and rendering of services and the accounting for construction contracts respectively. The standard establishes a comprehensive framework for revenue recognition and certain costs from contracts with customers within its scope. It also introduces a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The adoption of HKFRS 15 does not have any significant impact on the consolidated financial statements.

Amendments to HKFRS 2 "Classification and Measurement of Share-based Payment Transactions"

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

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

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

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognised the non-monetary asset or non-monetary liability arising from the advance consideration.

The adoption of the interpretation does not have any significant impact on the consolidated financial statements.

4. PRINCIPAL ACCOUNTING POLICIES

Basis of measurement

The measurement basis used in the preparation of these consolidated financial statements is historical cost.

Going concern basis

As at 31 December 2018, the Group had net current liabilities of approximately HK$1,903,679,000 (2017: HK$1,907,312,000) and net liabilities of approximately HK$187,394,000 (2017: HK$192,022,000). In addition, it incurred a loss of approximately HK$168,775,000 for the year ended 31 December 2018 (2017: HK$97,403,000). These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The Group's net current liabilities as at 31 December 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 of the Zunxiao Railway has been suspended since July 2013 because the Group could not reach an agreement with the overlaid mine owner (the "Mine Owner") in respect of the compensation payable to the Mine Owner for the reserve of the mine located at around the Tangcheng section of the Zunxiao Railway.

With continuous effort of the management of the Company, an agreement to jointly appoint independent valuers was entered into between Tangcheng Company and the Mine Owner in November 2018 in order to assess the volume and fair value of the reserve of the mine together with relevant affected assets, which will form a basis of the amount of the compensation payable to the Mine Owner. As at the date of these consolidated financial statements, the preliminary assessment of the volume of the mine conducted by the independent valuer was completed. The management of the Company is in discussion with the Mine Owner about the compensation amount of the overlaid mine.

Following the positive developments of the negotiation of the compensation payable to the Mine Owner, which has been dragged on for years, the directors of the Company are optimistic that the construction work of the Zunxiao Railway could be resumed soon. In addition, the future economic benefits to be brought by the Zunxiao Railway to the Group are expected to be significant, given 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》) in 2018.

* *English name for identification purposes only*

4. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Going concern basis (Continued)

The directors expect that the Railway Companies will continue to rely on the financial support from certain companies (the "Lenders") in order to meet their financial obligations including payment of interests on bank borrowings, construction cost payables and other operating expenses. One of the Lenders is Golden Concord Holdings Limited ("GCL"), a guarantor of the Group's bank borrowings. The Lenders are beneficially owned by Mr. Zhu Gongshan, a director of certain subsidiaries of the Company. Mr. Zhu is also a beneficiary of a discretionary trust which is a substantial shareholder of the Company.

In this connection, GCL, which is also the holding company of the other companies comprising the Lenders, has confirmed in writing that it will continue to provide financial support to the Railway Companies and will not demand for repayment of other borrowings of the Group, which amounted to approximately HK$725,632,000 as at 31 December 2018, and related interests until the financial position of the Railway Companies is improved and the loan repayments will not affect the construction and operation of the Zunxiao Railway.

In addition, the Railway Companies will negotiate with the bank for extension of the repayment date of the entire or partial amount of the Group's bank borrowings which are due for repayment on 31 December 2019.

Furthermore, the directors have also taken into account the urgent letter of request dated 28 January 2019 from the Railway Companies in respect of the proportional contribution to the anticipated increase of capital, details of which have been disclosed in the Company's announcement dated 30 January 2019.

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 the Group's obligations under a shareholders' agreement to acquire the two remaining vessels until the Group's financial position is improved and the shipping market recovers to a level which justifies the acquisition of the two remaining vessels or otherwise discharge the Group's obligations to acquire the two remaining vessels.

During the year, the management of the Company had taken the following actions to improve the financial position of the Group. The Company completed a placing of 923,361,034 shares of the Company for aggregate gross cash proceeds of HK$100,000,000. In addition, the Company issued Convertible Notes, GIC Convertible Bonds and Convertible Bonds for gross cash proceeds of HK$2,500,000, HK$100,000,000 and HK$18,000,000, respectively. These proceeds were mainly applied for the acquisition of two handysize dry bulk vessels and general working capital of the Group.

The directors have prepared a cash flow forecast covering a period up to 30 June 2020 on the basis that the Group's aforementioned plans and measures will be successful, and are satisfied that the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the twelve months from 31 December 2018. Accordingly, the directors consider that it is appropriate to prepare the consolidated financial statements on a going concern basis.

4. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Going concern basis (Continued)

Notwithstanding the above, material uncertainties exist as to whether the Group will be able to successfully implement its plans and measures as mentioned above. The appropriateness of the use of the going concern basis depends on whether (i) the Group would be able to successfully negotiate with the bank for extension of the repayment date of the Group's bank borrowings; (ii) the Lenders which have been providing financial support to the Railway Companies will continue to have sufficient and adequate financial resources to provide financial support to the Railway Companies; (iii) the Group and the joint venture partner's mutual intention on withholding enforcement of or otherwise discharge the Group's obligations under the shareholders' agreement to acquire the two remaining vessels will continue and remain unchanged; and (iv) the Group will be able to reach an agreement with the Mine Owner on the amount of compensation payable to the Miner Owner as planned so that the Group would be able to resume and complete the construction of the Zunxiao Railway.

There are significant uncertainties as to the outcomes of the above events or conditions that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Should the use of the going concern basis in preparation of the consolidated financial statements be inappropriate, adjustments would have to be made to reflect the situation that assets may need to be realised at the amounts other than which they are currently recorded in the consolidated statement of financial position at as 31 December 2018. In addition, the Group may have to recognise further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Company using consistent accounting policies.

All intra-group balance, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Non-controlling interests are presented, separately from owners of the Company, in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position. The non-controlling interests in the acquiree, that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in event of liquidation, are measured initially either at fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. This choice of measurement basis is made on an acquisition-by-acquisition basis. Other types of non-controlling interests are initially measured at fair value, unless another measurement basis is required by HKFRSs.

4. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Subsidiaries

A subsidiary is an entity that is controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

In the Company's statement of financial position which is presented within these notes, an investment in subsidiary is stated at cost less impairment loss. The carrying amount of the investment is reduced to its recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is a contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Group reassesses whether it has joint control of an arrangement and whether the type of joint arrangement in which it is involved has changed, if facts and circumstances change.

The Group's investment in joint venture is accounted for under the equity method of accounting, except when the investment or a portion thereof is classified as held for sale. Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post-acquisition changes in the Group's share of the investee's net assets and any impairment loss relating to the investment. Except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee, the Group discontinues recognising its share of further losses when the Group's share of losses of the investee equals or exceeds the carrying amount of its interest in the investee, which includes any long term interests that, in substance, form part of the Group's net investment in the investee.

4. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Joint ventures (Continued)

Goodwill arising on an acquisition of a joint venture is measured as the excess of the cost of investment over the Group's share of the net fair value of the identifiable assets and liabilities of the acquired joint venture. Such goodwill is included in interests in joint venture. On the other hand, any excess of the Group's share of its net fair value of identifiable assets and liabilities over the cost of investment is recognised immediately in profit or loss as an income.

Unrealised profits and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the investees, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment other than construction in progress, over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis and depreciated separately:

Building, plant and equipment	12.5%–16.6%
Leasehold improvements	Over the remaining term of the lease but not exceeding 5 years
Furniture, fixtures and office equipment	20%
Motor vehicles	20%–25%
Locomotives	10%
Vessels	Over the estimated useful life (ranging from 13 years to 18 years)

4. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year in which the item is derecognised.

Construction in progress

Construction in progress is stated at cost less accumulated impairment losses. Cost comprises all costs directly attributable to the construction. Construction in progress is transferred to property, plant and equipment and depreciation commences when construction is completed and the asset is ready for intended use.

Intangible assets

Acquired intangible assets are measured on initial recognition at cost. Club membership is an intangible asset with indefinite useful lives which is carried at cost less any accumulated impairment losses.

Financial instruments

Financial assets

Recognition and derecognition

Financial assets are recognised when and only when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the Group's contractual rights to future cash flows from the financial asset expire or (ii) the Group transfers the financial asset and either (a) it transfers substantially all the risks and rewards of ownership of the financial asset, or (b) it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but it does not retain control of the financial asset.

Classification and measurement — applicable from 1 January 2018

Financial assets (except for trade receivables without a significant financing component which are initially measured at their transaction price) are initially recognised at their fair value plus, in the case of financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial assets.

On initial recognition, a financial asset is classified as (i) measured at amortised cost; (ii) debt investment measured at fair value through other comprehensive income; (iii) equity investment measured at fair value through other comprehensive income; or (iv) measured at FVPL.

The classification of financial assets at initial recognition depends on the Group's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing them, in which case all affected financial assets are reclassified on the first day of the first annual reporting period following the change in the business model.

4. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Classification and measurement — applicable from 1 January 2018 (Continued)

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

(i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

(ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate method and are subject to impairment. Gains and losses arising from impairment, derecognition or through the amortisation process are recognised in profit or loss.

Classification and measurement — applicable before 1 January 2018

Financial assets are initially recognised at their fair value plus, in the case of financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial assets.

Loans and receivables

Loans and receivables including cash and bank balances and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in profit or loss.

Financial liabilities

Recognition and derecognition

Financial liabilities are recognised when and only when the Group becomes a party to the contractual provisions of the instruments.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

4. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities (Continued)

Classification and measurement

Financial liabilities are initially recognised at their fair value plus, in the case of financial liabilities not carried at FVPL, transaction costs that are directly attributable to the issue of the financial liabilities.

The Group's financial liabilities, except for financial liabilities at FVPL, are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Financial liabilities at FVPL include financial liabilities held for trading, financial liabilities designated upon initial recognition as at FVPL and financial liabilities that are contingent consideration of an acquirer in a business combination to which HKFRS 3 applies. They are carried at fair value, with any resultant gain and loss recognised in profit or loss, except for the portion of fair value changes of financial liabilities designated at FVPL that are attributable to the credit risk of the liabilities which is presented in other comprehensive income unless such treatment would create or enlarge an accounting mismatch in profit or loss. The amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss. Upon derecognition, the cumulative gain or loss is transferred directly to accumulated profits or losses. Before the adoption of HKFRS 9, all the fair value gain or loss of financial liabilities at FVPL is recognised in profit or loss.

A financial liability is classified as held for trading if it is:

(i) incurred principally for the purpose of repurchasing it in the near term;

(ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking on initial recognition; or

(iii) a derivative that is not a financial guarantee contract or not a designated and effective hedging instrument.

Financial liabilities are designated at initial recognition as at FVPL only if:

(i) the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases;

(ii) they are part of a group of financial liabilities or financial assets and financial liabilities that are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or

(iii) they contain one or more embedded derivatives, in which case the entire hybrid contract may be designated as a financial liability at FVPL, except where the embedded derivatives do not significantly modify the cash flows or it is clear that separation of the embedded derivatives is prohibited.

4. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities (Continued)

Classification and measurement (Continued)

Derivatives embedded in a hybrid contract with a host that is not an asset within the scope of HKFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their economic characteristics and risks are not closely related to those of the host, and the hybrid contract is not measured at FVPL.

Impairment of financial assets and other items under HKFRS 9

Applicable from 1 January 2018

The Group recognises loss allowances for expected credit losses ("ECL") on financial assets that are measured at amortised cost to which the impairment requirements apply in accordance with HKFRS 9. Except for the specific treatments as detailed below, at each reporting date, the Group measures a loss allowance for a financial asset at an amount equal to the lifetime ECL if the credit risk on that financial asset has increased significantly since initial recognition. If the credit risk on a financial asset has not increased significantly since initial recognition, the Group measures the loss allowance for that financial asset at an amount equal to 12-month ECL.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument.

For financial assets, a credit loss is the present value of the difference between the contractual cash flows that are due to an entity under the contract and the cash flows that the entity expects to receive. For a lease receivable, the cash flows used for determining the ECL should be consistent with the cash flows used in measuring the lease receivable in accordance with HKAS 17.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument while 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Where ECL is measured on a collective basis, the financial instruments are grouped based on one or more of the following shared credit risk characteristics:

(i) past due information

(ii) nature of instrument

(iii) nature of collateral, if any

(iv) industry of debtors

(v) geographical location of debtors

4. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment of financial assets and other items under HKFRS 9 (Continued)

Applicable from 1 January 2018 (Continued)

Measurement of ECL (Continued)

Loss allowance is remeasured at each reporting date to reflect changes in the financial instrument's credit risk and loss since initial recognition. The resulting changes in the loss allowance are recognised as an impairment gain or loss in profit or loss with a corresponding adjustment to the carrying amount of the financial instrument, except in the case of Mandatory FVOCI, the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that the Group may not receive the outstanding contractual amounts in full if the financial instrument meets any of the following criteria.

(i) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group); or

(ii) there is a breach of financial covenants by the counterparty.

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Assessment of significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. In particular, the following information is taken into account in the assessment:

(i) the debtor's failure to make payments of principal or interest on the due dates;

(ii) an actual or expected significant deterioration in the financial instrument's external or internal credit rating (if available);

(iii) an actual or expected significant deterioration in the operating results of the debtor; and

(iv) actual or expected changes in the technological, market, economic or legal environment that have or may have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

4. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment of financial assets and other items under HKFRS 9 (Continued)

Applicable from 1 January 2018 (Continued)

Assessment of significant increase in credit risk (Continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial instrument has increased significantly since initial recognition when contractual payments are more than 30 days past due.

Notwithstanding the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

Low credit risk

A financial instrument is determined to have low credit risk if:

(i) it has a low risk of default;

(ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and

(iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

Simplified approach of ECL

For trade (lease) receivables, the Group applies a simplified approach in calculating ECL. The Group recognises a loss allowance based on lifetime ECL at each reporting date and has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Credit-impaired financial asset

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower.

(b) a breach of contract, such as a default or past due event.

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider.

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

4. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment of financial assets and other items under HKFRS 9 (Continued)

Applicable from 1 January 2018 (Continued)

Credit-impaired financial asset (Continued)

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Write-off

The Group writes off a financial asset when the Group has no reasonable expectations of recovering the contractual cash flows on a financial asset in its entirety or a portion thereof. However, financial assets that are written off could still be subject to enforcement activities under the Group's procedures for recovery of amounts due, taking into account legal advice if appropriate. Any subsequent recovery is recognised in profit or loss.

Applicable before 1 January 2018

At the end of each reporting period, the Group assesses whether there is objective evidence that financial assets, other than those at FVPL, are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate. Such impairment loss is reversed in subsequent periods through profit or loss when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Convertible bonds

The component of the convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of issue costs. The corresponding dividends on those shares are charged as interest expense in profit or loss.

On the issue of the convertible bonds, the fair value of the liability component is determined using a market rate for a similar bond that does not have a conversion option; and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in the convertible bonds reserve within shareholders' equity, net of issue costs. The value of the conversion option carried in equity is not changed in subsequent years. When the conversion option is exercised, the balance of the convertible bonds reserve is transferred to share capital or other appropriate reserve. When the conversion option remains unexercised at the expiry date, the balance remained in the convertible bonds reserve is transferred to accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

4. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Convertible bonds (Continued)

Issue costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised. Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of proceeds.

The value of any derivative features (such as a call option) embedded in a compound financial instrument other than its equity component (such as an equity conversion option) is included in the liability component. The sum of the carrying amounts assigned to the liability and equity components on initial recognition is always equal to the fair value that would be ascribed to the instrument as a whole. No gain or loss arises from initially recognising the components of the instrument separately.

Cash equivalents

For the purpose of the consolidated statement of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts.

Revenue recognition

Charter-hire income under operating leases is recognised when the vessels are let out and on the straight-line basis over the lease term. Contingent rents are recognised as income in the period in which they are earned.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is Renminbi ("RMB"). As the shares of the Company are listed on the Main Board of the Stock Exchange, the directors consider that it is more appropriate to adopt HK$ as the Group's and the Company's presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

The results and financial position of all the group entities that have a functional currency different from the presentation currency ("foreign operations") are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented and, where applicable, goodwill and fair value adjustments on the carrying amounts of assets and liabilities arising on an acquisition of a foreign operation which are to be treated as assets and liabilities of that foreign operation, are translated at the closing rate at the end of the reporting period;

4. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation (Continued)

- Income and expenses for each statement of comprehensive income are translated at average exchange rate;

- All resulting exchange differences arising from the above translation and exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised as a separate component of equity;

- On the disposal of a foreign operation, which includes a disposal of the Group's entire interest in a foreign operation, a disposal involving the loss of control over a subsidiary that includes a foreign operation, the cumulative amount of the exchange differences relating to the foreign operation that is recognised in other comprehensive income and accumulated in the separate component of equity is reclassified from equity to profit or loss when the gain or loss on disposal is recognised;

- On the partial disposal of the Group's interest in a subsidiary that includes a foreign operation which does not result in the Group losing control over the subsidiary, the proportionate share of the cumulative amount of the exchange differences recognised in the separate component of equity is re-attributed to the non-controlling interests in that foreign operation and are not reclassified to profit or loss; and

- On all other partial disposals, which includes partial disposal of joint ventures that do not result in the Group losing significant influence or joint control, the proportionate share of the cumulative amount of exchange differences recognised in the separate component of equity is reclassified to profit or loss.

Impairment of non-financial assets

At the end of each reporting period, the Group reviews internal and external sources of information to assess whether there is any indication that its property, plant and equipment, intangible assets, construction in progress and railway construction prepayment may be impaired or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. In addition, the Group tests its intangible assets that have indefinite useful lives for impairment by estimating their recoverable amount on an annual basis and whenever there is an indication that those assets may be impaired. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income in profit or loss immediately.

4. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs incurred, net of any investment income on the temporary investment of the specific borrowings, that are directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as an expense in the period in which they are incurred.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Share capital

Ordinary shares are classified as equity.

Leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Employee benefits

Short-term employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees.

Defined contribution plans

The obligations for contributions to defined contribution retirement scheme in Hong Kong are recognised as an expense in profit or loss as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

In accordance with the rules and regulations in the PRC, the employees of the Group's entities established in the PRC are required to participate in defined contribution retirement plans organised by local governments. Contributions to these plans are expensed in profit or loss as incurred and other than these monthly contributions, the Group has no further obligation for the payment of retirement benefits to its employees.

4. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Share-based payment transactions

Equity-settled transactions

The Group's employees, including directors, receive remuneration in the form of share-based payment transactions, whereby the employees rendered services in exchange for shares or rights over shares. The cost of such transactions with employees is measured by reference to the fair value of the equity instruments at the grant date. The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share option reserve within equity. The fair value is determined using the binomial option model, taking into account any market conditions and non-vesting conditions.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the vesting conditions are to be fulfilled, ending on the date on which the entitlement of relevant employees to the award is no longer conditional on the satisfaction of any non-market vesting conditions ("vesting date"). During the vesting period, the number of share options that is expected to vest ultimately is reviewed. Any adjustment to the cumulative fair value recognised in prior periods is charged/credited to profit or loss for the year of review, with a corresponding adjustment to share option reserve within equity.

When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits/losses.

Equity-settled share-based payment transactions with parties other than employees are measured at fair value of the goods or services received, except where the fair value cannot be reliably estimated, in which case they are measured at the fair value of the equity instruments granted. In all cases, the fair value is measured at the date the Group obtains the goods or the counterparty renders the services.

Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, any deferred tax arising from initial recognition of goodwill; or other asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss is not recognised.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

4. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

Deferred tax is provided on temporary differences arising on investment in joint ventures, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is provided on temporary differences arising on investment in subsidiaries, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Related parties

A related party is a person or entity that is related to the Group.

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

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

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

4. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Related parties (Continued)

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

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

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

(c) dependants of that person or that person's spouse or domestic partner.

Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they have similar economic characteristics and share a majority of these criteria.

Critical accounting estimates and judgements

Estimates and assumptions concerning the future and judgements are made by the directors in the preparation of the consolidated financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

Key sources of estimation uncertainty are as follows:

Going concern basis

As disclosed in note 4, the consolidated financial statements have been prepared on a going concern basis. The appropriateness of the going concern basis is assessed after taking into consideration all relevant available information about future of the Group, including cash flow forecasts of the Group. Such forecasts inherently involve uncertainties. Actual results could differ significantly and hence render the adoption of the going concern basis inappropriate.

4. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Critical accounting estimates and judgements (Continued)

Contingent consideration payable

As disclosed in note 24, the Group had contingent consideration for acquisition of a subsidiary. The number of shares of the Company to be issued as consideration for the acquisition is dependent on the financial performance of the acquired subsidiary. The Group determines the fair value of the contingent consideration based on the fair value of the shares of the Company at the end of the reporting period and the directors' best estimate of weighted probability of future financial performance of the subsidiary. As the process requires input of subjective assumptions, any changes to the assumptions can materially affect the fair value of the contingent consideration. Subsequent increase or decrease in fair value is recognised in profit or loss.

Impairment of the Railway Assets (as defined in note 16)

The Group assesses whether there are any indicators of impairment of the Railway Assets at the end of each reporting period. They are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Impairment exists when the carrying amount exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The Group estimates the recoverable amount of the Railway Assets with reference to a valuation performed by an independent professional valuer. The recoverable amount of the Railway Assets is performed using value in use calculation which requires the Group to make an estimate of the expected cash flows from the asset or cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful lives and impairment of vessels

The management reviews the useful lives and depreciation method of vessels at the end of each reporting period, through careful consideration with regards to expected usage, wear-and-tear and potential technical obsolescence to usage of the vessels.

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

4. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Critical accounting estimates and judgements (Continued)

Loss allowance for ECL

The Group's management estimates the loss allowance for trade and other receivables by using various inputs and assumptions including risk of a default and expected loss rate. The estimation involves high degree of uncertainty which is based on the Group's historical information, existing market conditions as well as forward-looking estimates at the end of each reporting period. Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade and other receivables. Details of the key assumption and inputs used in estimating ECL are set out in note 36(b).

Future changes in HKFRSs

At the date of authorisation of these consolidated financial statements, the HKICPA has issued the following new/revised HKFRSs that are not yet effective for the current year, which the Group has not early adopted.

Annual Improvements to HKFRSs	2015–2017 Cycle [1]
HKFRS 16	Leases [1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments [1]
Amendments to HKAS 19	Employee benefits [1]
Amendments to HKAS 28	Investments in Associates and Joint Ventures [1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation [1]
Amendments to HKASs 1 and 8	Definition of Material [2]
Amendments to HKFRS 3	Definition of a Business [3]
HKFRS 17	Insurance Contracts [4]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [5]

[1] Effective for annual periods beginning on or after 1 January 2019

[2] Effective for annual periods beginning on or after 1 January 2020

[3] Effective for acquisitions that occur on or after the beginning of the first annual period beginning on or after 1 January 2020

[4] Effective for annual periods beginning on or after 1 January 2021

[5] Effective date to be determined

The Group is in the process of making a detailed assessment of the possible impact on the future adoption of the new/revised HKFRSs. So far the management is of the opinion that except for HKFRS 16 which is explained below, the adoption of the new/revised HKFRSs will not have any significant impact on the consolidated financial statements.

4. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Future changes in HKFRSs (Continued)

HKFRS 16 "Leases"

HKFRS 16 significantly changes, among others, the lessee accounting by replacing the dual-model under HKAS 17 with a single model which requires a lessee to recognise right-of-use assets and lease liabilities for the rights and obligations created by all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for these two types of leases differently. HKFRS 16 also requires enhanced disclosures to be provided by lessees and lessors.

The initial application of HKFRS 16 will result in recognition of right-of-use assets and lease liabilities for certain leases of the Group that are currently classified as operating leases under HKAS 17. Subsequently, depreciation (and, if applicable, impairment loss) and interest will be recognised on the right-of-use assets and the lease liabilities respectively. The total amount charged to profit or loss for each reporting period is not expected to be significantly different from the operating lease expense recognised under HKAS 17.

5. SEGMENT INFORMATION

The chief operating decision makers ("CODM") evaluate the performance of and allocate resources to operating segments based on the Group's internal reporting in respect of these segments. The Group's operating segments are structured and managed separately according to the nature of their businesses. The Group's reportable segments are as follows:

(a) Railway construction and operations

(b) Shipping and logistics

5. SEGMENT INFORMATION (CONTINUED)

Segment results represent the results from each reportable segment without allocation of corporate income and expenses.

Year ended 31 December 2018	Railway construction and operations HK$'000	Shipping and logistics HK$'000	Total HK$'000
Segment revenue from external customers	—	50,669	50,669
Segment loss	(72,118)	(31,110)	(103,228)
Unallocated income			57
Change in fair value of contingent consideration payable			4,228
Change in fair value of derivative components of Convertible Notes			(4)
Change in fair value of options/commitment to issue Convertible Notes			(16)
Impairment loss on consideration receivable			(9,750)
Other unallocated corporate expenses			(60,062)
Loss for the year			(168,775)
Other segment information:			
Change in fair value of derivative components of GIC Convertible Bonds	—	(12,939)	(12,939)
Depreciation of property, plant and equipment (Note)	(607)	(6,955)	(7,562)
Finance costs (Note)	(58,488)	(12,601)	(71,089)
Reversal of impairment loss on property, plant and equipment	—	9,000	9,000
Share of results of joint venture	—	(24,754)	(24,754)

5. SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2017	Railway construction and operations HK$'000	Shipping and logistics HK$'000	Total HK$'000
Segment revenue from external customers	—	15,797	15,797
Segment (loss) profit	(77,536)	19,523	(58,013)
Change in fair value of contingent consideration payable			(7,928)
Change in fair value of derivative components of Convertible Notes			(77)
Change in fair value of options/commitment to issue Convertible Notes			(261)
Other unallocated corporate expenses			(31,124)
Loss for the year			(97,403)
Other segment information:			
Depreciation of property, plant and equipment (Note)	(677)	(2,789)	(3,466)
Finance costs (Note)	(59,924)	—	(59,924)
Impairment loss on construction in progress	(13,898)	—	(13,898)
Impairment loss on railway construction prepayment	(72)	—	(72)
(Impairment loss) Reversal of impairment loss on property, plant and equipment	(20)	9,000	8,980
Share of results of joint venture	—	9,718	9,718

Note: Depreciation excluded from the measure of segment results during the years ended 31 December 2018 and 2017 amounted to approximately HK$1,286,000 and HK$1,101,000 respectively.

Finance costs excluded from the measure of segment results during the years ended 31 December 2018 and 2017 amounted to approximately HK$1,514,000 and HK$1,453,000 respectively.

5. SEGMENT INFORMATION (CONTINUED)

	2018 HK$'000	2017 HK$'000
Assets		
Railway construction and operations	1,630,383	1,708,459
Shipping and logistics	223,999	43,944
Segment assets	1,854,382	1,752,403
Unallocated corporate assets	14,774	15,771
Consolidated total assets	1,869,156	1,768,174
Liabilities		
Railway construction and operations	1,789,895	1,807,814
Shipping and logistics	234,796	120,748
Segment liabilities	2,024,691	1,928,562
Contingent consideration payable	3,700	7,928
Convertible Notes	—	3,036
Convertible Bonds	12,152	—
Other unallocated corporate liabilities	16,007	20,670
Consolidated total liabilities	2,056,550	1,960,196

Geographical information

Apart from the vessels, 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 results to specific geographical segments.

5. SEGMENT INFORMATION (CONTINUED)

Information about major customers

Revenue from customers from shipping and logistics segment individually accounting for 10% or more of the revenue of the Group is as follows:

	2018 HK$'000	2017 HK$'000
Customer A	32,921	—
Customer B	9,429	15,570
	42,350	15,570

6. REVENUE

Revenue represents the amount received and receivable for time charters:

	2018 HK$'000	2017 HK$'000
Operating lease income		
Charter-hire income	50,669	15,797

The Group did not enter into any contracts with customers within HKFRS 15.

7. OTHER INCOME

	2018 HK$'000	2017 HK$'000
Bank interest income	28	—
Exchange gains, net	—	1,762
Gain on disposal of property, plant and equipment	220	—
Sundry income	393	479
	641	2,241

8. LOSS BEFORE TAX

This is stated after charging (crediting):

	2018 HK$'000	2017 HK$'000
a) Finance costs:		
Interest on bank borrowings	55,302	54,925
Interest on other borrowings	4,416	6,444
Interest on Convertible Bonds (Note 26)	283	—
Interest on GIC Convertible Bonds (Note 25)	12,601	—
Interest on Convertible Notes (Note 22)	1	8
	72,603	61,377
b) Staff costs (including directors' remuneration):		
Employee benefits expense	20,293	16,192
Contributions to defined contribution plans	1,569	1,379
Equity-settled share-based payment expenses	19,728	—
	41,590	17,571
c) Other items:		
Auditor's remuneration		
Annual audit	1,200	950
Non-annual audit	164	675
Cost of sales (Note)	39,173	14,894
Depreciation of property, plant and equipment (charged to "cost of sales" and "administrative expenses", as appropriate)	8,848	4,567
Exchange loss (gain), net	3,412	(1,762)
Operating lease charges for premises	2,312	2,494

Note: Cost of sales includes depreciation of property, plant and equipment of approximately HK$6,955,000 (2017: HK$2,789,000) which amount is also included in the respective total amount disclosed separately in "depreciation of property, plant and equipment".

9. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to the directors of the Company by the Group during the year were as follows:

Name of director	Directors' Fees HK$'000	Salaries, allowances and other benefits HK$'000	Equity-settled share-based payment expenses HK$'000	Contributions to defined contribution plans HK$'000	Total HK$'000
Year ended 31 December 2018					
Executive directors					
Liang Jun	—	1,820	1,499	18	3,337
Fu Yongyuan	—	1,560	4,585	18	6,163
Siu Miu Man (Note) (resigned on 13 November 2018)	—	1,401	4,532	11	5,944
Lin Wenqiang (resigned on 4 October 2018)	—	728	501	14	1,243
Non-executive director					
Yu Baodong	540	—	2,772	18	3,330
Independent non-executive directors					
Chan Chi Yuen	120	—	298	—	418
Wong Cheuk Bun	120	—	298	—	418
Wong Yin Shun (appointed on 24 March 2018)	93	—	213	—	306
Siu Miu Man (Note)	30	—	—	—	30
	903	5,509	14,698	79	21,189
Year ended 31 December 2017					
Executive directors					
Liang Jun	—	1,820	—	18	1,838
Fu Yongyuan	—	1,560	—	18	1,578
Lin Wenqiang	—	1,040	—	18	1,058
Fung Ka Keung, David (resigned on 1 June 2017)	—	249	—	10	259
Tse On Kin (resigned on 14 February 2017)	—	180	—	3	183
Non-executive director					
Yu Baodong	540	—	—	18	558
Independent non-executive directors					
Chan Chi Yuen	120	—	—	—	120
Siu Miu Man	120	—	—	—	120
Wong Cheuk Bun (appointed on 3 July 2017)	60	—	—	—	60
Sit Fung Shuen, Victor (resigned on 3 July 2017)	61	—	—	—	61
	901	4,849	—	85	5,835

Note: Mr. Siu Miu Man was re-designated as an executive director of the Company with effect from 24 March 2018.

No emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the years ended 31 December 2018 and 2017.

10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

During the year, four (2017: three) directors are included in the five highest paid individuals of the Group. The emoluments of the remaining one (2017: two) highest paid individuals, who are employees of the Group, are as follows:

	2018 HK$'000	2017 HK$'000
Salaries and other benefits	1,040	1,656
Contributions to defined contribution plans	18	36
Equity-settled share-based payment expenses	3,772	—
	4,830	1,692

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

	Number of individuals 2018	2017
HK$Nil — HK$1,000,000	—	2
HK$4,000,001 — HK$4,500,000	1	—
	1	2

No emoluments were paid or payable by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of these individuals waived any emoluments during the years ended 31 December 2018 and 2017.

11. TAXATION

Hong Kong Profits Tax, if any, is calculated at 16.5% (2017: 16.5%) on the estimated assessable profits for the year. The PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2017: 25%).

No provision for income tax has been made as the Group's entities either had no estimated assessable profits or incurred tax losses for the years ended 31 December 2018 and 2017.

11. TAXATION (CONTINUED)

Reconciliation of tax expense

	2018 HK$'000	2017 HK$'000
Loss before tax	(168,775)	(97,403)
Tax calculated at domestic tax rates in respective tax jurisdictions	(31,676)	(21,787)
Results of joint venture	4,084	(1,604)
Non-deductible expenses	40,301	29,316
Tax exempt revenue	(12,709)	(5,925)
Tax expense for the year	—	—

12. DIVIDENDS

The directors do not recommend the payment of any dividend for the years ended 31 December 2018 and 2017.

13. LOSS PER SHARE

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

	2018 HK$'000	2017 HK$'000
Loss attributable to owners of the Company	(138,559)	(62,004)
Weighted average number of ordinary shares for basic and diluted loss per share	2,344,829,217	1,464,329,953
Loss per share — basic and diluted (HK cents)	(5.91)	(4.23)

The weighted average number of ordinary shares for the year ended 31 December 2017 is calculated after adjustment for the share consolidation on 27 March 2017.

Diluted loss per share for the years ended 31 December 2018 and 2017 is the same as the basic loss per share as the average market price of the Company's shares in 2018 was lower than the conversion price of the GIC Convertible Bonds (as defined in Note 25) and the Convertible Bonds (as defined in Note 26) and the effect of the assumed conversion of the potential shares from exercising the Company's share options, conversion of the Convertible Notes (as defined in Note 22) and issue of the contingent consideration shares (Note 24) during both years is anti-dilutive.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings, plant and equipment	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Locomotives	Vessels	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Reconciliation of carrying amount — year ended 31 December 2017							
As at 1 January 2017	22	1,487	565	776	2,543	31,734	37,127
Additions	—	—	39	—	—	—	39
Reversal of (impairment loss)	—	—	—	—	(20)	9,000	8,980
Depreciation	(9)	(712)	(111)	(319)	(627)	(2,789)	(4,567)
Exchange realignments	5	—	21	36	112	—	174
As at 31 December 2017	18	775	514	493	2,008	37,945	41,753
Reconciliation of carrying amount — year ended 31 December 2018							
As at 1 January 2018	**18**	**775**	**514**	**493**	**2,008**	**37,945**	**41,753**
Additions	**—**	**29**	**107**	**1,719**	**—**	**168,329**	**170,184**
Reversal of impairment loss	**—**	**—**	**—**	**—**	**—**	**9,000**	**9,000**
Write-off/Disposal	**—**	**—**	**—**	**—**	**—**	**(549)**	**(549)**
Depreciation	**(6)**	**(741)**	**(120)**	**(428)**	**(598)**	**(6,955)**	**(8,848)**
Exchange realignments	**(1)**	**—**	**(9)**	**(5)**	**(68)**	**—**	**(83)**
As at 31 December 2018	**11**	**63**	**492**	**1,779**	**1,342**	**207,770**	**211,457**
As at 31 December 2017							
Cost	329	1,880	3,664	3,003	6,686	68,702	84,264
Accumulated depreciation and impairment losses	(311)	(1,105)	(3,150)	(2,510)	(4,678)	(30,757)	(42,511)
	18	775	514	493	2,008	37,945	41,753
As at 31 December 2018							
Cost	**314**	**1,909**	**3,655**	**3,832**	**6,379**	**232,574**	**248,663**
Accumulated depreciation and impairment losses	**(303)**	**(1,846)**	**(3,163)**	**(2,053)**	**(5,037)**	**(24,804)**	**(37,206)**
	11	**63**	**492**	**1,779**	**1,342**	**207,770**	**211,457**

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 December 2018, the directors reviewed the indicators of dry bulk shipping market and considered the freight rate has shown an increasing trend and there is potential recovery of the shipping market. As a result, the directors considered that impairment losses recognised in prior periods may no longer exist or may have decreased.

The directors have engaged an independent professional valuer to assess the recoverable amount of the vessel (the "Vessel") that was impaired in prior periods, which was determined as the fair value less costs of disposal because the fair value less costs of disposal was higher than the value in use as at 31 December 2018. The valuation of the Vessel was performed using the market approach with reference to the handy size market price of vessels with similar age and was categorised as Level 2 fair value measurement.

The recoverable amount of the Vessel as at 31 December 2017 was assessed by an independent professional valuer based on the value in use because the value in use was higher than the fair value less costs of disposal as at 31 December 2017. The pre-discount rate used in the value in use calculations was 9.65%.

Since the recoverable amount of the Vessel as at 31 December 2018 of approximately HK$44,320,000 exceeded its carrying amount, a reversal of impairment loss of HK$9,000,000 was recognised in profit or loss for the year ended 31 December 2018 (2017: HK$9,000,000).

15. INTANGIBLE ASSET

	Club membership
	HK$'000
Cost and carrying amount	
As at 31 December 2017 and 31 December 2018	1,000

16. CONSTRUCTION IN PROGRESS

	HK$'000
Cost	
As at 1 January 2017	1,875,798
Exchange realignment	131,672
As at 31 December 2017	2,007,470
Additions	4,199
Exchange realignment	(92,584)
As at 31 December 2018	**1,919,085**
Accumulated impairment losses	
As at 1 January 2017	300,286
Impairment loss	13,898
Exchange realignment	21,558
As at 31 December 2017	335,742
Exchange realignment	(15,439)
As at 31 December 2018	**320,303**
Carrying amount	
As at 31 December 2018	**1,598,782**
As at 31 December 2017	1,671,728

Construction in progress and railway construction prepayment (Note 17) represent railway construction costs and related prepaid construction costs of the Zunxiao Railway in the PRC. The construction in progress, the railway construction prepayment and related property, plant and equipment (collectively referred to as the "Railway Assets") have the carrying amount of approximately HK$1,605,139,000 as at 31 December 2018.

The construction work of the Zunxiao Railway has been suspended since July 2013 because the Group could not reach an agreement with the Mine Owner in respect of the compensation payable to the Mine Owner for the reserve of the mine together with relevant affected assets located at around the Tangcheng section of the Zunxiao Railway.

16. CONSTRUCTION IN PROGRESS (CONTINUED)

With continuous effort of the management of the Company, an agreement to jointly appoint independent valuers was entered into between Tangcheng Company and the Mine Owner in November 2018 in order to assess the volume and fair value of the reserve of the mine together with relevant affected assets, which will form a basis of the amount of the compensation payable to the Mine Owner. As at the date of these consolidated financial statements, the preliminary assessment of the volume of the mine conducted by the independent valuer was completed. The management of the Company is in discussion with the Mine Owner about the compensation amount of the overlaid mine.

The Group estimates the recoverable amounts of the Railway Assets as at 31 December 2018 with reference to a valuation performed by an independent professional valuer. The recoverable amount of the Railway Assets is assessed using value in use calculation. The value in use calculation involves cash flows projections with unit transportation price, transportation volume and growth rates of unit transportation price and related costs as the key assumptions. The pre-tax discount rate used in estimating the value in use calculation is 18% (2017: 17%).

Since the recoverable amount of the Railway Assets as at 31 December 2018 is approximately the same as their carrying amount, no further impairment loss or reversal of impairment loss for the year ended 31 December 2018 was considered necessary (2017: impairment loss of HK$20,000, HK$13,898,000 and HK$72,000 on property, plant and equipment, construction in progress and railway construction prepayment respectively).

17. RAILWAY CONSTRUCTION PREPAYMENT

	2018 **HK$'000**	2017 HK$'000
Cost	**6,448**	10,491
Accumulated impairment losses		
As at 31 January	**(1,754)**	(1,569)
Impairment loss	**—**	(72)
Exchange realignments	**81**	(113)
As at 31 December	**(1,673)**	(1,754)
	4,775	8,737

18. INTEREST IN A JOINT VENTURE

	2018 HK$'000	2017 HK$'000
Share of accumulated losses of a joint venture — As at 1 January and 31 December	—	—

The joint venture explores shipping and logistics business in the PRC. The Group recognised 50% share of loss of the joint venture of HK$24,754,000 (2017: share of profit of HK$9,718,000) for the year ended 31 December 2018. As at 31 December 2018 and 2017, the Group's share of accumulated losses of the joint venture exceeded the Group's investment in the joint venture as the Group has legal obligations under the shareholders' agreement relating to the formation of the joint venture to make good such losses and to acquire two vessels to be operated by the joint venture (Note 24). The excess amount is accounted for amount due to a joint venture as set out in note 23.

In accordance with the shareholders' agreement, each of the joint venture partners is responsible for acquiring two vessels for contribution to the joint venture as capital. Two vessels had been purchased by the joint venture partner while the Group has not yet purchased the remaining two vessels. In view of the current market conditions in the shipping business, the Group and the joint venture partner had preliminary discussions and concluded the mutual intention on withholding the enforcement of the Group's obligations under the shareholders' agreement to acquire the two remaining vessels until the Group's financial position is improved and the shipping market recovers to a level which justifies the acquisition of the two remaining vessels or otherwise discharge the Group's obligations to acquire the two remaining vessels.

Details of the joint venture are as follows:

Name of company	Form of business structure	Place of incorporation and operation	Principal activity	Percentage of ownership interests
Ocean Pro Holdings Limited	Limited liability company	The BVI/the PRC	Shipping and logistics	50%

18. INTEREST IN A JOINT VENTURE (CONTINUED)

The summarised financial information of the joint venture is as follows:

	2018 HK$'000	2017 HK$'000
Non-current assets	163,950	222,511
Current assets	6,765	14,254
Current liabilities	(39,282)	(8,495)
Non-current liabilities	(407,174)	(467,332)
Net liabilities	(275,741)	(239,062)
Included in the above amounts are:		
Cash and cash equivalents	161	9,809
Current financial liabilities (excluding trade and other payables)	—	(800)
Non-current financial liabilities (excluding other payables and provisions)	(407,174)	(467,332)
Revenue	80,416	79,360
Costs and other expenses	(129,924)	(59,923)
(Loss) Profit before tax	(49,508)	19,437
Income tax expense	—	—
(Loss) Profit and total comprehensive (loss) income for the year	(49,508)	19,437
Included in the above amounts are:		
Depreciation	(11,086)	(10,661)
Interest income	63	37
Interest expense	(20,589)	(20,468)

19. TRADE AND OTHER RECEIVABLES

	Note	2018 HK$'000	2017 HK$'000
Trade receivables	19(a)	**345**	—
Other receivables			
Consideration receivable	19(b)	**9,850**	9,850
Amount due from Golden Concord	32(e)	**23,682**	24,823
Others debtors		**4,021**	2,330
Deposits		**1,080**	936
Prepayments		**2,848**	1,049
		41,481	38,988
Less: Loss allowance on consideration receivable	19(b), 36(b)	**(9,750)**	—
		31,731	38,988
		32,076	38,988

Information about the Group's exposure to credit risks and loss allowance for trade and other receivables is included in note 36(b).

19(a) Trade receivables

As at 31 December 2018, all trade receivables aged within 6 months, based on the invoice date.

19(b) Consideration receivable

The balance represents the remaining consideration receivable from disposal of a former subsidiary of HK$100,000 (2017: HK$9,850,000) in 2014, net of impairment loss of HK$9,750,000 (2017: HK$Nil).

20. TRADE AND OTHER PAYABLES

	Note	2018 HK$'000	2017 HK$'000
Trade payables	20(a)	**2,392**	672
Other payables			
Accruals and other payables		**24,887**	19,114
Construction cost payables	20(b)	**126,303**	144,617
Receipts in advance		**1,087**	124
		152,277	163,855
		154,669	164,527

20(a) Trade payables

The credit period of trade payables is normally within 90 days (2017: 90 days). As at 31 December 2018, all (2017: all) trade payables aged within 30 days, based on the invoice date.

20(b) Construction cost payables

The construction cost payables are unsecured and repayable on demand, of which approximately HK$53,855,000 bears interest rates ranging between 3.5% and 4.75% per annum. The remaining balances are interest-free.

21. BANK AND OTHER BORROWINGS

	2018 HK$'000	2017 HK$'000
Bank borrowings — guaranteed (Note a)	**922,151**	1,086,228
Other borrowings — unsecured (Note b)	**725,632**	571,047
	1,647,783	1,657,275

As at 31 December 2018 and 2017, all bank and other borrowings were repayable on demand or within 1 year.

21. BANK AND OTHER BORROWINGS (CONTINUED)

The ranges of effective interest rates on the Group's borrowings are as follows:

	2018		2017	
	Effective interest rate (%)	HK$'000	Effective interest rate (%)	HK$'000
Bank borrowings — fixed rate	4.9%	922,151	4.9%	1,086,228
Other borrowings — fixed rate	1.0% to 8.0%	34,524	1.5% to 8.0%	40,795
Other borrowings — interest-free	0%	691,108	0%	530,252
		1,647,783		1,657,275

Bank and other borrowings are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
Renminbi ("RMB")	1,647,783	1,650,275
Hong Kong dollars	—	7,000
	1,647,783	1,657,275

(a) The amount of bank borrowings in the original denominated borrowing currency is RMB807,990,000 (equivalent to approximately HK$922,151,000) (2017: RMB907,990,000 (equivalent to approximately HK$1,086,228,000)), which is guaranteed by GCL.

In return, the Company has provided a counter-guarantee to indemnify GCL and the Company has entered into share mortgage, equity and assets pledges in respect of the Company's equity interest in the Railway Companies in favour of GCL (Note 40(a), (b)).

(b) Other borrowings of approximately HK$725,632,000 (2017: HK$571,047,000) are unsecured and repayable on demand or within one year, of which HK$725,632,000 (2017: HK$564,047,000) are borrowed from the Lenders.

22. CONVERTIBLE NOTES

On 16 January 2015, the Group entered into a subscription agreement (the "Subscription Agreement") with two independent third parties, namely, Advance Opportunities Fund (the "Subscriber") and Advance Capital Partners Pte. Ltd. ("Advance Capital") (being the authorised representative of the Subscriber) pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, the convertible notes (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.

On 12 February 2015, the Company entered into a supplemental agreement with the Subscriber and Advance Capital to amend certain terms and conditions of the Subscription Agreement. The Convertible Notes comprise two tranches with principal amounts of HK$60 million comprising 24 equal sub-tranches of HK$2.5 million each and HK$40 million comprising 8 equal sub-tranches of HK$5 million each, respectively. On 1 March 2016, the Company entered into a second supplemental agreement (the "Second Supplemental Agreement") with the Subscriber and Advance Capital to further amend certain terms and conditions of the Subscription Agreement. The Convertible Notes comprise two tranches with principal amounts of HK$60 million comprising 24 equal sub-tranches of HK$2.5 million each ("Tranche 1 Notes") and HK$40 million comprising one sub-tranche of HK$5 million for the first sub-tranche and 14 equal sub-tranches of HK$2.5 million each ("Tranche 2 Notes").

The Convertible Notes 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 accounted for 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 accounted for as derivatives. At the date of issue of each tranche of the Convertible Notes, the Convertible Notes are recognised at fair value, with liability portion of the Convertible Notes measured at the present value of the future coupon payments discounted at market rate for equivalent non-convertible notes that do not have conversion option and early redemption option.

The Tranche 1 Notes were wholly converted into ordinary shares of the Company in 2016.

The Tranche 2 Notes

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

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

During the year ended 31 December 2018, the sub-tranches of the Tranche 2 Notes with principal amount of HK$2,500,000 (2017: HK$12,500,000) were subscribed by and issued to the Subscriber.

22. CONVERTIBLE NOTES (CONTINUED)

The Tranche 2 Notes (Continued)

During the year ended 31 December 2018, HK$3,500,000 (2017: HK$12,500,000) and HK$2,000,000 (2017: HK$Nil) of the Tranche 2 Notes (together with accrued interest of HK$56,000 (2017: HK$Nil)) were converted into ordinary shares of the Company and redeemed by the Company, respectively. The outstanding principal amount of the Tranche 2 Notes as at 31 December 2018 amounted to HK$Nil (2017: HK$3,000,000).

The Group incurred a loss amounting to HK$16,000 (2017: loss of HK$261,000) arising from change in fair value of options/commitment to issue the Tranche 2 Notes from the date of the Second Supplemental Agreement to the date of issuance of respective sub-tranches of the Tranche 2 Notes, being the difference between the aggregate fair values of the sub-tranches of the Tranche 2 Notes of HK$2,516,000 (2017: HK$12,761,000) as at the date of its issuance and their principal amount of HK$2,500,000 (2017: HK$12,500,000).

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

	Liability component HK'000	Derivative components HK'000	Total HK'000
As at 1 January 2017	84	3,194	3,278
Issuance	186	12,575	12,761
Interest expense	8	—	8
Fair value loss	—	77	77
Conversion (Note 28)	(248)	(12,840)	(13,088)
As at 31 December 2017	30	3,006	3,036
Issuance	**24**	**2,492**	**2,516**
Interest expense	**1**	**—**	**1**
Fair value loss	**—**	**4**	**4**
Conversion (Note 28)	**(34)**	**(3,509)**	**(3,543)**
Loss on redemption	**42**	**—**	**42**
Redemption	**(63)**	**(1,993)**	**(2,056)**
As at 31 December 2018	**—**	**—**	**—**

The fair value of the derivative components of the Convertibles Notes is categorised as a Level 3 measurement. During the years ended 31 December 2018 and 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

23. AMOUNT DUE TO A JOINT VENTURE

	2018 HK$'000	2017 HK$'000
As at 1 January	118,680	128,420
Share of results of joint venture	24,754	(9,718)
Advance to a joint venture	(23)	(22)
As at 31 December	143,411	118,680

The amount mainly represented the excess of the Group's share of losses over its investment in the joint venture as mentioned in note 18, which is unsecured, non-interest-bearing and has no fixed repayment term.

24. CONTINGENT CONSIDERATION PAYABLE

	2018 HK$'000	2017 HK$'000
As at 1 January	7,928	—
Fair value change	(4,228)	7,928
As at 31 December	3,700	7,928

On 19 May 2010, the Group completed the acquisition of 100% equity interest in Ocean Jade Investments Limited ("Ocean Jade") which holds 50% equity interest in a joint venture (Note 18) from Golden Concord Group Limited ("GCG"). The acquisition is to be satisfied by the issuance of 10,000,000 shares of the Company (after adjustment for the Company's share consolidation on 27 March 2017) to GCG, when the net profit after tax of Ocean Jade shall not be less than HK$20 million for the first 12 months after the start of commercial operation of all of the four vessels as mentioned in note 18. In the event that this profit target is not met, the number of consideration shares to be issued shall be reduced on a pro-rata basis for the shortfall.

The fair value of the contingent consideration payable is estimated based on the expected number of consideration shares to be issued and the share price of the Company as at 31 December 2018, which is categorised as Level 3 fair value measurement. During the years ended 31 December 2018 and 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

The expected number of consideration shares to be issued is based on the profit forecasts of the four vessels operated/to be operated (Note 18) by the joint venture. The key assumptions used in the profit forecasts are the charter rate of RMB42.35 (2017: RMB45.09) per ton and the rental daily rate of US$11,444 (2017: US$10,600) per vessel.

24. CONTINGENT CONSIDERATION PAYABLE (CONTINUED)

The share price of the Company of HK$0.06 per share (2017: HK$0.154 per share) adopted in the calculation is the Company's quoted share price as at 31 December 2018.

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

As at 31 December 2018, it is estimated that a general increase/decrease of 10% in charter rate/daily rental rate, with all other variables held constant, the fair value of the contingent consideration payable would increase/decrease by approximately HK$2,145,000 (2017: HK$5,531,000). In addition, a 10% increase/decrease in share price of the Company would increase/decrease the fair value of the contingent consideration payable by 10%.

25. GIC CONVERTIBLE BONDS

On 30 November 2017, the Company entered into a subscription agreement with GIC Investment Limited ("GIC"), an indirect wholly-owned subsidiary of GCL-Poly Energy Holdings Limited of which Mr. Zhu is a director and a substantial shareholder, pursuant to which the Company has conditionally agreed to issue, and GIC has conditionally agreed to subscribe for, convertible bonds in an aggregate principal amount of HK$100,000,000 (the "GIC Convertible Bonds"). The GIC 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 GIC Convertible Bonds were issued, and ending on 1 March 2021. The conversion price is subject to adjustment on the occurrence of dilutive or concentration event.

Both the Company and GIC have early redemption options 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 GIC Convertible Bonds and any outstanding interests and amounts due.

At initial recognition, the GIC Convertible Bonds are separated into a liability component, comprising straight debt component of the bonds, embedded derivatives (i.e. early redemption options by the Company and GIC) and an equity component representing the conversion option of the GIC Convertible Bonds. The early redemption options are separately recognised as derivative financial liabilities and are measured at fair value. The equity component is recognised in the convertible bonds reserve, whereas the liability component is recognised at amortised cost under non-current liabilities. The effective interest rate of the liability component on initial recognition is 22.59% per annum.

As at 31 December 2018, one of the vessels of the Group with carrying amount of HK$81,779,000 was pledged to GIC for the GIC Convertible Bonds.

25. GIC CONVERTIBLE BONDS (CONTINUED)

The movements of the liability component of the GIC Convertible Bonds are as follows:

	HK$'000
Nominal value of GIC Convertible Bonds issued	100,000
Issue costs apportioned to liability component	(1,222)
Derivative components as at the issue date at fair value (Note 27)	(2,218)
Equity component as at the issue date	(35,043)
Liability component as at the issue date at fair value	61,517
Imputed interest expenses	12,601
Payment of interest expenses	(2,788)
	9,813
As at 31 December 2018	71,330

26. CONVERTIBLE BONDS

On 4 September 2018, the Company entered into a placing agreement (the "Placing Agreement") with VC Brokerage Limited (the "Placing Agent") pursuant to which the Company proposed to offer for subscription, and the Placing Agent agreed to procure not less than six placees to subscribe for, 3-year non-redeemable convertible bonds up to HK$46,000,000 (the "Convertible Bonds") on a best effort basis on the terms and subject to the conditions set out in the Placing Agreement.

The Convertible Bonds bear 2.5% interest per annum and carry a right to convert the aggregate principal amount into conversion shares at initial conversion price of HK$0.0932 per conversion share (subject to adjustment) during the period from the date of expiry of the period of twelve months after the issue date and ending on the third business day prior to the maturity date, the date falling on the third anniversary of the issue date (both days inclusive).

The conditions specified in the Placing Agreement (as revised and supplemented by the first supplemental agreement dated 3 October 2018 and second supplemental agreement dated 18 October 2018) have been fulfilled and the completion of the placing took place on 8 November 2018. A portion of the Convertible Bonds in the principal amount of HK$18,000,000 with the initial conversion price of HK$0.0932 was successfully placed to six placees. The effective interest rate of the liability component on initial recognition is 15.85% per annum.

As at 31 December 2018, one of the vessels of the Group with carrying amount of HK$81,908,000 was pledged to the holders of the Convertible Bonds.

26. CONVERTIBLE BONDS (CONTINUED)

The movements of the liability component of the Convertible Bonds are as follows:

	HK$'000
Nominal value of Convertible Bonds issued	18,000
Issue costs apportioned to liability component	(560)
Equity component as at the issue date	(5,571)
Liability component as at the issue date at fair value	11,869
Imputed interest expenses	283
As at 31 December 2018	12,152

27. DERIVATIVE COMPONENTS OF GIC CONVERTIBLE BONDS

	HK$'000
Issue of GIC Convertible Bonds (Note 25)	2,218
Fair value loss	12,939
As at 31 December 2018	15,157

The fair value of the derivative components of the GIC Convertible Bonds was estimated by an independent professional valuer using Binomial Option Pricing Model at the date of issue and at the end of the reporting period, which is categorised as Level 3 fair value measurement.

The significant unobservable input used in the fair value measurement is the expected volatility of 44.51%.

As at 31st December 2018, if the expected volatility had been 10% higher/lower while all other variables were held constant, the Group's loss for the year would increase/decrease by approximately HK$552,000.

28. SHARE CAPITAL

	2018 Number of shares	2018 HK$'000	2017 Number of shares	2017 HK$'000
Issued and fully paid:				
As at 1 January	**1,525,780,526**	**1,608,309**	14,339,369,875	1,595,221
Shares issued on conversion of Convertible Notes before share consolidation	**—**	**—**	107,142,857	6,003
Share consolidation	**—**	**—**	(13,001,861,459)	—
Shares issued on conversion of Convertible Notes after share consolidation	**—**	**—**	81,129,253	7,085
Shares issued on placing, net of issue costs (Note)	**923,361,034**	**97,464**	—	—
Shares issued on conversion of Convertible Notes (Note 22)	**30,734,663**	**3,543**	—	—
As at 31 December	**2,479,876,223**	**1,709,316**	1,525,780,526	1,608,309

Note: On 23 February 2018, gross cash consideration of approximately HK$100,000,000 from issue of 923,361,034 ordinary shares by way of placing at a price of HK$0.1083 per share, net of issue costs of approximately HK$2,536,000, was credited to share capital account.

The shares issued rank pari passu in all respects among themselves and with other shares then in issue.

29. NON-CONTROLLING INTERESTS

The Group has three significant subsidiaries with material non-controlling interests ("NCI"), namely, Kuanping Company, Zunxiao Company and Tangcheng Company. Other details of each of these three subsidiaries, which are principally engaged in railway construction and operations, are set out in note 40. For the purpose of presentation of their summarised financial information, the directors consider it more meaningful and appropriate to aggregate their financial information given the facts that each of these three subsidiaries is engaged in the construction and operations of a portion of the Zunxiao Railway and therefore they share similar risk and return.

	2018 HK$'000	2017 HK$'000
Year ended 31 December		
Revenue	—	—
Loss for the year	(72,117)	(87,988)
Total comprehensive loss	(61,193)	(94,270)
Loss allocated to NCI	(30,216)	(35,399)
Total comprehensive loss allocated to NCI	(25,722)	(38,049)
Dividends paid to NCI	—	—
Cash flows used in operating activities	(26,594)	(143,168)
Cash flows used in investing activities	(4,201)	—
Cash flows from financing activities	21,372	143,181
Net cash (outflow) inflow	(9,423)	13
As at 31 December		
Current assets	1,390	726
Non-current assets	1,605,185	1,685,257
Current liabilities	(1,852,279)	(1,863,504)
Net liabilities	(245,704)	(177,521)
Non-controlling interests	(127,470)	(101,748)

30. SHARE OPTIONS

2008 Share Option Scheme

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

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

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

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

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

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

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

On 16 April 2018, 97,250,271 share options were granted at an exercise price of HK$0.1432 per share under the 2008 Share Option Scheme, all of which have been accepted. The share options are exercisable during a period of 10 years commencing from the date of grant.

30. SHARE OPTIONS (CONTINUED)

2008 Share Option Scheme (Continued)

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

During the year ended 31 December 2018, 1,050,000 share options (2017: 5,780,000) lapsed/forfeited following the cessation of employment of the relevant grantees and pursuant to the terms of issue.

2018 Share Option Scheme

Following the termination of the 2008 Share Option Scheme on 20 August 2018, the 2018 Share Option Scheme was adopted by the Company on the same date. The Company may grant share options to selected eligible participants as incentives or rewards for their contribution to the Group (or any member of the Group) and/or to enable the Group (or any member of the Group) to recruit and retain high calibre employees and attract human resources that are valuable to the Group (or any member of the Group) and/or to any invested entity.

Under the 2018 Share Option Scheme, the Board has the authority to set the terms and conditions in respect of the grant of share options (e.g. the minimum period of the share options to be held, the performance targets to be achieved before the share options can be exercised and the subscription price). This provides the Board with more flexibility in imposing appropriate conditions in light of the circumstances of each grant and help to achieve the purpose of the 2018 Share Option Scheme. The aggregate number of shares in respect of which share options (including both exercised and outstanding share options) may be granted under the 2018 Share Option Scheme and any other share option scheme(s) of the Company shall not, in aggregate exceed 10% of the total number of shares in issue on its adoption date, i.e. 20 August 2018. Further, the maximum number of shares which may be issued upon exercise of all outstanding share options granted under the 2018 Share Option Scheme and any other share option scheme(s) of the Company must not exceed 30% of the total number of shares in issue from time to time. The total number of shares issued and to be issued upon exercise of the share options granted and to be granted to each eligible participant in any 12-month period shall not exceed 1.0% of the total number of shares in issue of the Company.

The eligible participants as defined under the 2018 Share Option Scheme are as follows:

(i) any employee (whether full time or part time, including any executive directors but excluding any non-executive directors) of the Company, or of any of its subsidiaries or invested entity in which the Group holds any equity interest;

(ii) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any invested entity;

(iii) any shareholders of any members of the Group or any invested entity or any holder of any securities issued or proposed to be issued by any member of the Group or any invested entity;

(iv) any other entity (including any consultant, adviser, distributor, contractor, supplier, agent, customer, business partner, joint venture business partner, promoter or service provider of any member of the Group) whom the Board considers, in its sole discretion, has contributed or will contribute to the Group; or

30. SHARE OPTIONS (CONTINUED)

2018 Share Option Scheme (Continued)

(v) any other persons (including any individual staff member of any consultant, adviser, distributor, contractor, supplier, agent, customer, business partner, joint venture business partner, promoter or service provider of any member of the Group) whom the Board considers, in its sole discretion, has contributed or will contributed to the Group.

The 2018 Share Option Scheme is valid and effective for a period of 10 years commencing on the date of adoption.

On 29 August 2018, 247,987,622 share options were granted at an exercise price of HK$0.0976 per share under the 2018 Share Option Scheme, all of which have been accepted. The share options are exercisable during a period of 10 years commencing from the date of grant.

The number and weighed average exercise price of share options are as follows:

	2018		2017	
	Number of options '000	Weighted Average exercise price HK$	Number of options '000	Weighted average exercise price HK$
As at 1 January	16,250	1.6800	220,300	1.6800
Adjustment for share consolidation	—	—	(198,270)	1.6800
Granted on 16 April 2018	97,250	0.1432	—	
Granted on 20 August 2018	247,988	0.0976	—	
Lapsed/Forfeited during the year	(1,050)	1.6800	(5,780)	1.6800
As at 31 December	360,438	0.1766	16,250	1.6800
Exercisable as at 31 December	360,438	0.1766	16,250	1.6800

The options granted under the 2008 Share Option Scheme and the 2018 Share Option Scheme had fully vested and were wholly exercisable as at 31 December 2018 and 2017. As at 31 December 2018, these outstanding options have exercise prices ranging from HK$0.0976 to HK$1.6800 (2017: HK$1.6800) and an average remaining contractual life of 9.3 years (2017: 3.30 years).

No options were exercised during the years ended 31 December 2018 and 2017.

30. SHARE OPTIONS (CONTINUED)

2018 Share Option Scheme (Continued)

The fair value of the share options granted on 16 April 2018 and 20 August 2018 was approximately HK$7,953,000 and HK$12,905,000 respectively. The Binomial Option Pricing Model was used to estimate the fair value. Inputs to the model were as follows:

Grant date	16 April 2018	20 August 2018
Weighted average stock price on grant date	HK$0.138	HK$0.094
Exercise price	HK$0.1432	HK$0.0976
Risk-free rate	2.04%	2.771%
Expected option period	10 years	10 years
Expected volatility	91.02%	88.56%
Dividend yield	0%	0%

The expected volatility was determined based on the historic volatility of the Company's share price over the previous 10 years.

31. DEFERRED TAX

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

As at 31 December 2018, the Group had unused tax losses of HK$3,660,000 (2017: HK$3,660,000) available for offset against future profits, which can be carried forward indefinitely.

32. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the consolidated financial statements, the Group entered into the following related party transactions in the ordinary course of the Group's business.

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

b) Members of key management during the year comprised the directors only whose remuneration is set out in note 9.

c) The Company has provided a counter-guarantee to GCL as disclosed in note 21(a).

d) Interest expenses of other borrowings of approximately HK$1,978,000 (2017: HK$2,241,000) were charged by GCL and its subsidiaries as disclosed in note 21(b).

32. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS (CONTINUED)

e) The amount due from Golden Concord as disclosed in note 19 is unsecured, interest-free, and repayable on demand.

f) Interest expenses in relation to GIC Convertible Bonds of approximately HK$12,601,000 (2017: HK$Nil) were charged by GIC.

Transactions disclosed in note 32(c) constitute connected transactions as defined under the Listing Rules, and the directors confirmed that it has complied with the relevant disclosure requirements of the Listing Rules. The related party transactions disclosed in notes 32(a), 32(d), 32(e) and 32(f) constitute connected transactions exempted from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

33. OPERATING LEASE COMMITMENTS

The Group as lessee

As at 31 December, the Group had outstanding minimum commitments under non-cancellable operating leases, which fall due as follows:

	2018 **HK$'000**	2017 HK$'000
Within one year	**2,917**	2,205
In the second to fifth years inclusive	**2,663**	—
	5,580	2,205

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

33. OPERATING LEASE COMMITMENTS (CONTINUED)

The Group as lessor

The Group leases out its vessels under operating leases, with lease terms of 23 months and with options to renew the leases upon expiry at new terms. The future aggregate minimum charter income receivables under non-cancellable operating leases are as follows:

	2018 HK$'000	2017 HK$'000
Within one year	47,423	1,020
In the second to fifth years inclusive	10,394	—
	57,817	1,020

34. CAPITAL COMMITMENTS

	2018 HK$'000	2017 HK$'000
Authorised and contracted for:		
— Railway construction and operations	257,402	279,879
— Shipping and logistics	2,136	—
	259,538	279,879

35. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The Group's financial assets and financial liabilities as at 31 December 2018 and 2017 are categorised as follows:

Financial assets as at 31 December 2018	HK$'000
Amortised cost	
Trade receivables	345
Financial assets included in other receivables	28,883
Bank balances and cash	18,456
	47,684

35. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (CONTINUED)

Financial liabilities as at 31 December 2018	HK$'000
FVPL	
— Contingent consideration payable	3,700
— Derivative components of GIC Convertible Bonds	15,157
	18,857
Amortised cost	
— Trade payables	2,392
— Financial liabilities included in other payables	151,190
— Bank and other borrowings	1,647,783
— Amount due to a joint venture	143,411
— Amount due to minority equity owners of subsidiaries	8,348
— GIC Convertible Bonds	71,330
— Convertible Bonds	12,152
	2,036,606
	2,055,463

Financial assets as at 31 December 2017	HK$'000
Loans and receivables	
Financial assets included in other receivables	37,939
Bank balances and cash	5,968
	43,907

35. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (CONTINUED)

Financial liabilities as at 31 December 2017	HK$'000
FVPL	
— Contingent consideration payable	7,928
— Derivative components of Convertible Notes	3,006
	10,934
Amortised cost	
— Trade payables	672
— Financial liabilities included in other payables	163,731
— Bank and other borrowings	1,657,275
— Convertible Notes	30
— Amount due to a joint venture	118,680
— Amount due to minority equity owners of subsidiaries	8,750
	1,949,138
	1,960,072

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Groups' financial instruments (Note 35) are foreign currency risk, credit risk, liquidity risk and equity price risk. The management generally adopts conservative strategies on its risk management and limits the Group's exposure to these risks to minimum level as follows:

a) Foreign currency risk

The Group's transactions are mainly denominated in HK$, RMB and US$.

Since the exchange rate of HK$ is pegged with US$, the Group does not expect any significant movements in the US$/HK$ exchange rates.

The following table details the Group's exposure as at 31 December 2018 and 2017 to currency risk arising from recognised financial assets and financial liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the end of the reporting period.

	Exposure to foreign currencies			
	2018		2017	
	RMB HK$'000	**Hong Kong Dollars HK$'000**	RMB HK$'000	Hong Kong Dollars HK$'000
Trade and other receivables	**23,682**	**—**	24,823	—
Bank balances and cash	**7**	**—**	8	—
Bank and other borrowings	**(8,560)**	**(43,860)**	(8,972)	(43,730)
Net exposure	**15,129**	**(43,860)**	15,859	(43,730)

The following table indicates the approximate change in the Group's pre-tax results if exchange rates of HK$ and RMB had changed against the functional currencies of the respective group entities by 5% and the other variables were held constant as at 31 December 2018 and 2017.

	2018 HK$'000	2017 HK$'000
RMB	**756**	793
HK$	**2,193**	2,187

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to the Group's exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant. The stated changes in foreign currency represent management's assessment of reasonably possible changes in foreign exchange rates over the year until the end of the next annual reporting period.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

b) Credit risk

The carrying amount of financial assets recognised on the consolidated statement of financial position, which is net of impairment losses, represents the Group's exposure to credit risk without taking into account the value of any collateral held or other credit enhancements.

Trade receivables

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group limits its exposure to credit risk from trade receivables by establishing payment period of 15 days in advance.

The Group's customer base consists of a wide range of clients and the trade receivables are categorised by common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The Group applies a simplified approach in calculating ECL for trade receivables and recognises a loss allowance based on lifetime ECL at each reporting date and has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The expected loss rate used in the provision matrix is calculated for each category based on actual credit loss experience over the past three years and adjusted for current and forward-looking factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's estimate on future economic conditions over the expected lives of the receivables. There was no change in the estimation techniques or significant assumptions made during the year.

The management of the Company considers the ECL of trade receivables to be insignificant so no loss allowance was recognised during the year ended 31 December 2018.

Other receivables

The Group determines that the consideration receivable is credit-impaired after taken into account the age of the consideration receivable and the past settlement history of the debtor. An impairment loss of HK$9,750,000 was made in respect of the consideration receivable as a result of the ECL assessment conducted by the management of the Company.

The Group considers that the amount due from Golden Concord has low credit risk based on Golden Concord's strong capacity to meet its contractual cash flow obligations in the near term and low risk of default.

In estimating the ECL and whether the amount due from Golden Concord is credit-impaired, the Group has taken into account the historical actual credit loss experience over the past 3 years and the financial position of Golden Concord by reference to, among others, their management accounts, adjusted for forward-looking factors, in estimating the probability of default, as well as the loss upon default. The management of the Group considers the ECL of the amount due from Golden Concord to be insignificant so no loss allowance was recognised in this respect.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

b) Credit risk (Continued)

Other receivables (Continued)

There was no change in the estimation techniques or significant assumptions made during the year.

c) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

The undiscounted contractual maturity profile of the Group's non-derivative financial liabilities as at 31 December 2018 and 2017, based on contractual undiscounted payments is summarised below:

2018	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
Trade and other payables	153,582	153,582	153,582	—	—
Amount due to a joint venture	143,411	143,411	143,411	—	—
Amounts due to minority equity owners of subsidiaries	8,348	8,348	8,348	—	—
Bank and other borrowings	1,647,783	1,694,877	1,694,877	—	—
Liability component of Convertible Bonds	12,152	19,350	450	450	18,450
Liability component of GIC Convertible Bonds	71,330	113,750	5,500	5,500	102,750
	2,036,606	2,133,318	2,006,168	5,950	121,200

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

c) Liquidity risk (Continued)

2017	Carrying Amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
Trade and other payables	164,403	164,403	164,403	—	—
Amount due to a joint venture	118,680	118,680	118,680	—	—
Amounts due to minority equity owners of subsidiaries	8,750	8,750	8,750	—	—
Bank and other borrowings	1,657,275	1,712,919	1,712,919	—	—
Liability component of Convertible Notes	3,036	3,015	3,015	—	—
	1,952,144	2,007,767	2,007,767	—	—

d) Equity price risk

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

37. CAPITAL RISK MANAGEMENT

The objectives of the Group's capital management are to safeguard the entity's ability to continue as a going concern and to provide returns for shareholders. The Group manages its capital structure and makes adjustments, including payment of dividend to shareholders, return of capital to shareholders or issue of new shares or sale of assets to reduce debts. No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 2017.

37. CAPITAL RISK MANAGEMENT (CONTINUED)

The Group monitors capital on the basis of debt-to-adjusted capital ratio, which is net debt divided by adjusted capital. The Group's policy is to keep not more than 100%. The debt-to-adjusted capital ratios at the end of the reporting period were as follows:

	2018 HK$'000	2017 HK$'000
Current liabilities	1,954,211	1,952,268
Non-current liabilities	102,339	7,928
Total liabilities	2,056,550	1,960,196
Less: Bank balances and cash	(18,456)	(5,968)
Net debt	2,038,094	1,954,228
Total deficits	(187,394)	(192,022)
Adjusted capital	1,850,700	1,762,206
Debt-to-adjusted capital ratio	110%	111%

38. OTHER CASH FLOW INFORMATION

a) Reconciliation of liabilities arising from financing activities:

	Bank and other borrowings HK$'000	Convertible Notes HK$'000	Convertible Bonds HK$'000	GIC Convertible Bonds HK$'000
As at 1 January 2018	1,657,275	3,036	—	—
Changes from cash flows:				
Proceeds from bank and other borrowings	210,903	—	—	—
Repayment of bank and other borrowings	(141,621)	—	—	—
Proceeds from issue of Convertible Notes	—	2,500	—	—
Proceeds from issue of GIC Convertible Bonds	—	—	—	98,778
Proceeds from issue of Convertible Bonds	—	—	17,440	—
Redemption of Convertible Notes	—	(2,056)	—	—
Total changes from financing cash flows	69,282	444	17,440	98,778
Exchange adjustments	(78,774)	—	—	—
Changes in fair value	—	20	—	—
Finance costs	—	1	283	9,813
Loss on redemption of Convertible Notes	—	42	—	—
Conversion of Convertible Notes	—	(3,543)	—	—
Transfer to convertible bonds reserve	—	—	(5,571)	(35,043)
Transfer to derivative	—	—	—	(2,218)
As at 31 December 2018	1,647,783	—	12,152	71,330

38. OTHER CASH FLOW INFORMATION (CONTINUED)

a) Reconciliation of liabilities arising from financing activities: (Continued)

	Bank and other borrowings HK$	Convertible Notes HK$
As at 1 January 2017	1,483,652	3,278
Changes from cash flows:		
Proceeds from bank and other borrowings	125,124	—
Repayment of bank and other borrowings	(57,711)	—
Proceeds from issue of convertible notes	—	12,500
Interest element on convertible notes	—	8
Total changes from financing cash flows	67,413	12,508
Exchange adjustments	106,210	—
Changes in fair value	—	338
Conversion of convertible notes	—	(13,088)
As at 31 December 2017	1,657,275	3,036

b) Major non-cash transactions:

During the year ended 31 December 2018, the carrying amounts of the liability component and derivative components of the Convertible Notes of HK$34,000 (2017: HK$248,000) and HK$3,509,000 (2017: HK$12,840,000) respectively were transferred to share capital upon conversion (Note 22).

c) Cash at banks

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods from one day to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS		
Interests in subsidiaries	—	25
CURRENT ASSETS		
Amount due from subsidiaries	224,402	60,664
Other receivables	249	10,008
Bank balances and cash	9,116	1,201
	233,767	71,873
CURRENT LIABILITIES		
Other payables	2,914	2,484
Amount due to subsidiaries	6,030	6,319
Convertible Notes	—	3,036
	8,944	11,839
NET CURRENT ASSETS	224,823	60,034
NON-CURRENT LIABILITIES		
Convertible Bonds	12,152	—
GIC Convertible Bonds	71,330	—
Derivative components of GIC Convertible Bonds	15,157	—
	98,639	—
NET ASSETS	126,184	60,059
CAPITAL AND RESERVES		
Share capital	1,709,316	1,608,309
Reserves	(1,583,132)	(1,548,250)
TOTAL EQUITY	126,184	60,059

This statement of financial position was approved and authorised for issue by the Board of Directors on 28 March 2019 and signed on its behalf by

Liang Jun
Director

Fu Yongyuan
Director

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

39(a) Reserves of the Company

	Capital reserve*	Convertible bonds reserve*	Share option reserve*	Accumulated losses*	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 January 2017	4,190	—	25,270	(1,542,246)	(1,512,786)
Total comprehensive loss for the year	—	—	—	(35,464)	(35,464)
Lapse/Forfeiture of share options	—	—	(6,796)	6,796	—
As at 31 December 2017	4,190	—	18,474	(1,570,914)	(1,548,250)
Total comprehensive loss for the year	**—**	**—**	**—**	**(96,354)**	**(96,354)**
Issuance of GIC Convertible Bonds	**—**	**35,043**	**—**	**—**	**35,043**
Issuance of Convertible Bonds	**—**	**5,571**	**—**	**—**	**5,571**
Share options granted	**—**	**—**	**20,858**	**—**	**20,858**
Lapse/Forfeiture of share options	**—**	**—**	**(129)**	**129**	**—**
As at 31 December 2018	**4,190**	**40,614**	**39,203**	**(1,667,139)**	**(1,583,132)**

* As at 31 December 2018, these reserves constituted the reserves balance of HK$1,583,132,000 (2017: HK$1,548,250,000) in the Company's statement of financial position.

The Company did not have any reserves available for distribution to shareholders as at 31 December 2018 and 2017.

40. SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2018 are as follows:

Name of subsidiary	Place of incorporation/ establishment and operation	Issued and paid-up share capital/registered capital	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities
Palace View International Limited	British Virgin Islands ("BVI")	1 ordinary share of United States Dollars ("US$")	100%	—	Investment holding
Teleroute Enterprises Limited	BVI	1 ordinary share of US$1	100%	—	Investment holding
Bright Master Investments Limited	Hong Kong	1 ordinary share with HK$1 paid up	—	100%	Investment holding
China Railway Logistic Holdings Limited (Note a)	Hong Kong	1 ordinary share with HK$1 paid up	—	100%	Investment holding
Colour Sunlight Limited	BVI	1 ordinary share of US$1	—	100%	Investment holding
CSCP Management Limited	Hong Kong	1 ordinary share with HK$1 paid up	—	100%	Investment holding
Gofar Holdings Limited	BVI	100 ordinary shares of US$1 each	—	100%	Investment holding
Hillmax Enterprises limited	BVI	1 ordinary share of US$1	—	100%	Investment holding
Ocean Jade Investments Limited	BVI	1 ordinary share of US$1	—	100%	Investment holding
Talent Will Administration Limited	BVI	1 ordinary share of US$1	—	100%	Investment holding
Chengde Kuanping Railway Limited* (承德寬平鐵路有限公司) (Note b)	PRC, limited liability company	RMB129,000,000	—	62.5%	Railway construction and operations
Chengde Zunxiao Railway Limited* (承德遵小鐵路有限公司) (Note b)	PRC, limited liability company	RMB224,000,000	—	62.5%	Railway construction and operations
Tangshan Tangcheng Railway Transportation Company Limited* (唐山唐承鐵路運輸有限責任公司) (Note b)	PRC, limited liability company	RMB205,000,000	—	51%	Railway construction and operations
Asia Energy Inc.	Liberia	1 ordinary share of US$1	—	100%	Shipping and Logistics
Laurel Gold Shipping Limited	Hong Kong	1 ordinary share with HK$1 paid up	—	100%	Shipping and Logistics
Lotus Gold Shipping Limited	Hong Kong	1 ordinary share with HK$1 paid up	—	100%	Shipping and Logistics

40. SUBSIDIARIES (CONTINUED)

Notes:

a) A share mortgage was executed in respect of this subsidiary in favour of GCL as detailed in Note 21.

b) Equity and assets pledges were executed in respect of these subsidiaries in favour of GCL as detailed in Note 21.

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

* English name for identification purposes only

41. EVENTS AFTER THE END OF REPORTING PERIOD

On 29 January 2019, the Board received a report from its indirect wholly-owned subsidiary, namely China Railway Logistic Holdings Limited ("China Railway"), which is the holding company of the Railway Companies.

The report from China Railway enclosed a copy of an urgent letter of request dated 28 January 2019 ("Letter of Request") jointly issued by the Railway Companies. In their Letter of Request, the Railway Companies requested China Railway to pay in February 2019 the proportional contribution to the anticipated increase of the respective registered capital of the Railway Companies in an aggregate amount of RMB417 million. This aggregate amount of proportional contribution being requested to be made by China Railway to the registered capital of the Railway Companies was calculated with reference to the investment estimate in a project engineering report prepared in September 2018 in respect of Zunxiao Railway, which is the railway construction and operation project of the Railway Companies in Hebei Province of the PRC. According to the request of the Railway Companies, China Railway is being requested to pay an amount of RMB258 million by 3 February 2019 and the remaining balance of RMB159 million by the end of February 2019.

In light of the request being made by the Railway Companies to China Railway on an urgent basis as disclosed in the Company's announcement dated 30 January 2019, the Board has promptly and carefully assessed the available resources of the Company and come to the view that the Company does not currently have sufficient resources to satisfy the abovementioned request of the Railway Companies within the prescribed timeframe. For this reason, the Board believes that there may be a need to restructure the equity interest of the Company indirectly in the Railway Companies (the "Possible Restructuring") with the objective to preserve the interests of the Company in Zunxiao Railway to the utmost extent. As at the date of authorisation of these consolidated financial statements, the structure and scale of the Possible Restructuring are yet to be developed.

Five-Year Financial Summary

Year ended 31 December 2018

	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
Revenue	**50,669**	15,797	10,392	21,922	36,680
Loss before income tax	**(168,775)**	(97,403)	(433,367)	(344,190)	(242,344)
Income tax credit	**—**	—	—	—	6,579
Loss for the year	**(168,775)**	(97,403)	(433,367)	(344,190)	(235,765)
Loss attributable to non-controlling interests	**(30,216)**	(35,399)	(165,982)	(46,326)	(50,953)
Loss attributable to owners of the Company	**(138,559)**	(62,004)	(267,385)	(297,864)	(184,812)
ASSETS AND LIABILITIES					
Total assets	**1,869,156**	1,768,174	1,670,770	2,137,066	2,297,123
Total liabilities	**(2,056,550)**	(1,960,196)	(1,772,308)	(1,808,175)	(1,745,422)
	(187,394)	(192,022)	(101,538)	328,891	551,701
Equity attribute to owners of the Company	**(59,924)**	(90,274)	(37,839)	223,159	390,229
Non-controlling interests	**(127,470)**	(101,748)	(63,699)	105,732	161,472
	(187,394)	(192,022)	(101,538)	328,891	551,701

Glossary

2008 Share Option Scheme	The share option scheme adopted by the Company on 20 August 2008, which was terminated by the Shareholders on 20 August 2018.
2018 Share Option Scheme	The share option scheme adopted by the Company on 20 August 2018
2018 AGM	The Company's Annual General Meeting on 17 May 2018
2019 AGM	The Company's Annual General Meeting to be held on 27 May 2019
Annual General Meeting or AGM	The Company's annual general meeting
Articles of Association	The Company's Articles of Association as amended, supplemented or modified from time to time
Audit Committee	The audit committee of the Company
Board	The Board of Directors of the Company
CG Code	The Corporate Governance Code and Corporate Governance Report as set out Appendix 14 to the Listing Rules
Chairman	Chairman of the Company
Companies Ordinance or CO	The Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
Company or AELG	Asia Energy Logistics Group Limited
Consolidated Financial Statements	The audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2018
Director(s)	Director(s) of the Company
ED(s)	Executive director(s) of the Company
Executive Committee	The executive committee of the Company established in April 2018
Group	AELG together with its subsidiaries
HKAS(s)	Hong Kong Accounting Standard(s)
HKFRS(s)	Hong Kong Financial Reporting Standard(s)

Glossary

HKICPA	Hong Kong Institute of Certified Public Accountants
HK$	Hong Kong dollars, the lawful currency of Hong Kong
INED(s)	Independent Non-executive Director(s) of the Company
Listing Rules	The Rules Governing the Listing of Securities on the Stock Exchange
Main Board	The main board of the Stock Exchange
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
NED	Non-executive Director of the Company
Nomination Committee	The nomination committee of the Company
PRC	The People's Republic of China
Remuneration Committee	The remuneration committee of the Company established in 2006
RMB	Renminbi, the lawful currency of the People's Republic of China
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Share(s)	Ordinary share(s) of the Company
Shareholder(s)	Holder(s) of the Share(s)
Share Consolidation	The share consolidation on the basis that every ten issued Shares being consolidated into one consolidated Share, which was approved pursuant to an ordinary resolution passed at the general meeting of the Company held on 24 March 2017
Stock Exchange	The Stock Exchange of Hong Kong Limited
Tricor	Tricor Secretaries Limited, the share registrar of the Company
US$	Unites States dollars, the lawful currency of United States of America