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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, a bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Asia Energy Logistics Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to licenced securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.

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亞洲能源物流  
**ASIA ENERGY**  
Logistics  
**ASIA ENERGY LOGISTICS GROUP LIMITED**  
亞洲能源物流集團有限公司  
*(Incorporated in Hong Kong with limited liability)*  
**(Stock Code: 351)**

- (1) PROPOSED SHARE CONSOLIDATION;**  
**(2) VERY SUBSTANTIAL ACQUISITION IN RESPECT OF ACQUISITION OF**  
**A VESSEL; AND**  
**(3) PLACING OF NEW SHARES UNDER SPECIFIC MANDATE**

**Financial adviser to the Company**



**Placing Agent**



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A letter from the Board is set out on pages 8 to 35 of this circular.

A notice convening the General Meeting to be held at 9/F., Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong on Friday, 24 March 2017 at 11:00 a.m. is set out on pages 66 to 68 of this circular. Whether or not you are able to attend the meeting in person, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's registrar, Tricor Secretaries Limited, located at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable but in any event not less than 48 hours before the time fixed for the holding of the meeting or any adjournment thereof. Completion and return of the accompanying form of proxy will not preclude you from attending and voting at the meeting or any adjournment thereof should you so wish.

8 March 2017

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## DEFINITIONS

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*In this circular, the following expressions have the following meanings, unless the context otherwise requires:*

“Acquisition”	the acquisition of the Vessel by the Purchaser from the Vendor subject to and upon the terms and conditions of the Memorandum of Agreement;
“Acquisition Completion”	completion of the Acquisition;
“Acquisition Consideration”	the consideration of US\$103.3 million payable by the Purchaser to the Vendor for the Acquisition of the Vessel;
“Announcement”	the announcement of the Company dated 8 February 2017 in relation to, among other things, the proposed Share Consolidation, the proposed Acquisition and the proposed Placing;
“associate(s)”	has the meaning ascribed thereto under Rule 1.01 of the Listing Rules;
“Banking Day”	any day on which banks in Hong Kong, Taiwan and Singapore are open for business;
“BIMCO”	The Baltic and International Maritime Council, an international shipping association representing ship-owners;
“Board”	the board of Directors;
“Business Day”	any day (other than statutory holiday) on which banks in Hong Kong are open for business;
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC;
“Company”	Asia Energy Logistics Group Limited, a company incorporated in Hong Kong with limited liability, the Existing Shares of which are listed on the main board of the Stock Exchange;
“connected person(s)”	has the meaning ascribed thereto under Rule 1.01 of the Listing Rules;
“Consideration Shares”	new Consolidated Shares to be issued and allotted to the Vendor as partial settlement of the Acquisition Consideration;

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## DEFINITIONS

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“Consolidated Share(s)”	ordinary share(s) in the share capital of the Company immediately after the Share Consolidation becoming effective;
“Conversion Price”	<p>represents the conversion price of the Convertible Notes as set out in the circular of the Company dated 11 April 2016, which shall be the greater of the Floating Conversion Price (as defined below) or 50% of the Closing Price (as defined below) as set out below:</p> <p>(i) Floating Conversion Price</p> <p>HK\$0.032 per Existing Share (or HK\$0.32 per Consolidated Share, assuming the Share Consolidation becoming effective), being 80% of the average of the closing prices per Existing Share on 9 January 2017 to 11 January 2017, representing the lowest average of the closing prices of the three consecutive Business Days during the 45 Business Days on which the Existing Shares were traded on the Stock Exchange immediately preceding the date of the Announcement, assuming the conversion is made on the date of the Announcement; or</p> <p>(ii) 50% of the Closing Price</p> <p>HK\$0.0245 per Existing Share (or HK\$0.245 per Consolidated Share, assuming the Share Consolidation becoming effective), being 50% of the closing price per Existing Share, which represents 50% of the closing price per Existing Share on 7 February 2017 immediately preceding the date of the Announcement on which Existing Shares were traded on the Stock Exchange, assuming the conversion is made on the date of the Announcement;</p>
“Convertible Notes”	Convertible Notes with interest of 2.0% per annum (details of which are set out in the circular of the Company dated 11 April 2016);
“CSBC”	CSBC Corporation, Taiwan, the foremost and largest ship building company in Taiwan;
“Director(s)”	the director(s) of the Company;

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## DEFINITIONS

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“Existing Share(s)”	ordinary share(s) in the share capital of the Company before the Share Consolidation becoming effective;
“General Meeting”	the general meeting of the Company to be held at 9/F., Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong on Friday, 24 March 2017 at 11:00 a.m. or an adjournment thereof, details of which are set out on pages 66 to 68 of this circular;
“Group”	the Company and its subsidiaries;
“Heavy Lift Business”	has the meaning ascribed thereto in the sub-section headed “Business model of the heavy lift business” in this circular;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“HKSCC”	The Hong Kong Securities Clearing Company Limited;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Third Party(ies)”	a party/parties who is/are not a connected person of the Company and is/are independent of the Company and its connected persons;
“Independent Valuer”	Roma Appraisals Limited;
“Latest Practicable Date”	6 March 2017, being the latest practicable date prior to the publication of this circular for the purpose of ascertaining certain information contained in this circular;
“LIBOR”	the London Interbank Offered Rate;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Memorandum of Agreement”	the memorandum of agreement dated 8 February 2017 entered into between the Vendor and the Purchaser in relation to the Acquisition;
“Placee(s)”	placee(s) of the Placing Shares under the Placing Agreement;
“Placing”	the placing of the Placing Shares to the Placees pursuant to the Placing Agreement;

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## DEFINITIONS

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“Placing Agent”	Eternal Pearl Securities Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 2 (dealing in futures contracts) regulated activities as defined under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Placing Agreement”	means the placing agreement dated 8 February 2017 entered into between the Company and the Placing Agent in relation to the Placing;
“Placing Completion”	completion of the Placing;
“Placing Period”	the period commencing immediately after the Placing Agreement is entered into by the parties and expiring at 11:59 p.m. on 31 March 2017 (or such later time and date as the parties may agree in writing);
“Placing Price”	HK\$0.10 per Placing Share;
“Placing Share(s)”	4,000,000,000 new Consolidated Shares to be placed by the Placing Agent under the Placing Agreement;
“PRC”	The People’s Republic of China and for the purpose of this circular, exclude Hong Kong, Taiwan and the Macau Special Administrative Region;
“Purchaser”	GPO Grace (Hong Kong) Limited, a company incorporated in the Republic of Liberia with limited liability and an indirect wholly-owned subsidiary of the Company;
“RMB”	Renminbi, the lawful currency of the PRC;
“Shareholder(s)”	holder(s) of the Existing Share(s)/Consolidated Share(s), as the case may be;
“Share Consolidation”	the proposed consolidation of every ten (10) Existing Shares into one (1) Consolidated Share;
“Shipbuilding Contract”	the shipbuilding contract dated 6 October 2014 entered into between the Vendor as buyer and CSBC whereby CSBC agreed to design, build, launch, equip, fit out, complete the Vessel upon and subject to the terms and conditions therein contained;

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## DEFINITIONS

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“Specific Mandate”	the specific mandate to be sought from the Shareholders at the General Meeting to authorise the Directors to allot, issue and deal in the Consideration Shares and the Placing Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder(s)”	has the meaning ascribed thereto under Rule 1.01 of the Listing Rules;
“US\$”	United States dollars, the lawful currency of the United States of America;
“Vendor”	GPO Grace Limited, a company incorporated in the Marshall Islands with limited liability;
“Vessel”	a new 65,000 DWT semi-submersible heavy lift vessel being constructed under the Shipbuilding Contract;
“Zunxiao Railway”	a railway of approximately 121 kilometers being constructed by the Group to connect Zunhua South (遵化南), Tangshan City (唐山市) to Xiaosigou (小寺溝), Chengde City (承德市), Hebei Province (河北省), the PRC;
“%”	per cent.

*This circular has been printed in English and Chinese. In the event of any inconsistency, the English text of this circular shall prevail over its Chinese text.*

*For the purposes of illustration only, any amount denominated in US\$ in this circular was translated into HK\$ at the rate of US\$1 = HK\$7.78 and any denominated in RMB in this circular was translated into HK\$ at the rate of RMB1 = HK\$1.17. Such translations should not be construed as a representation that the amounts in question have been, could have been or could be, converted at any particular rate or at all.*

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## EXPECTED TIMETABLE

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### EXPECTED TIMETABLE

The expected timetable for the implementation of the Share Consolidation is set out below:

Event	Time and Date
Date of despatch of circular with notice of the General Meeting and form of proxy . . . . .	On or before Wednesday, 8 March 2017
Latest time and date for lodging forms of proxy . . . . .	11:00 a.m. on Wednesday, 22 March 2017
General Meeting . . . . .	11:00 a.m. on Friday, 24 March 2017
Publication of announcement of results of the General Meeting . . . . .	Friday, 24 March 2017
 <b>The following events are conditional on the results of the General Meeting and therefore the dates are tentative:</b>	
Expected effective date of the Share Consolidation . . . . .	9:00 a.m. on Monday, 27 March 2017
First day for free exchange of existing share certificates in yellow colour for new share certificates in purple colour for the Consolidated Shares . . . . .	Monday, 27 March 2017
Commencement of dealings in the Consolidated Shares . . . . .	9:00 a.m. on Monday, 27 March 2017
Original counter for trading in Existing Shares in board lots of 10,000 Existing Shares (in the form of existing share certificates in yellow colour) temporarily closes . . . . .	9:00 a.m. on Monday, 27 March 2017
Temporary counter for trading in the Consolidated Shares in board lots of 1,000 Consolidated Shares (in the form of existing share certificates in yellow colour) opens . . . . .	9:00 a.m. on Monday, 27 March 2017
Original counter for trading in the Consolidated Shares in board lots of 10,000 Consolidated Shares (in the form of new share certificates in purple colour) re-opens . . . . .	9:00 a.m. on Tuesday, 11 April 2017



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## EXPECTED TIMETABLE

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Parallel trading in the Consolidated Shares (in the form of new share certificates in purple colour in board lots of 10,000 Consolidated Shares and existing share certificates in yellow colour in board lots of 1,000 Consolidated Shares) commences . . . . . 9:00 a.m. on Tuesday, 11 April 2017

Designated broker starts to stand in the market to provide matching services for the odd lots of the Consolidated Shares . . . . . 9:00 a.m. on Tuesday, 11 April 2017

Temporary counter for trading in the Consolidated Shares in board lots of 1,000 Consolidated Shares (in the form of existing share certificates in yellow colour) closes . . . . . 4:00 p.m. on Friday, 5 May 2017

Parallel trading in the Consolidated Shares (in the form of new share certificates in purple colour in board lots of 10,000 Consolidated Shares and existing share certificates in yellow colour in board lots of 1,000 Consolidated Shares) ends . . . . . 4:00 p.m. on Friday, 5 May 2017

Designated broker ceases to provide matching services for odd lots of the Consolidated Shares . . . . . 4:00 p.m. on Friday, 5 May 2017

Last day for free exchange of existing share certificates in yellow colour for new share certificates in purple colour for the Consolidated Shares . . . . . Tuesday, 9 May 2017

All times and dates specified in the timetable above refer to Hong Kong times and dates.

This timetable is indicative only and any subsequent changes to the expected timetable will be announced by the Company.

### **WARNING**

Shareholders should note that the Share Consolidation is conditional upon satisfaction of the conditions set out in the paragraph headed “Conditions of the proposed Share Consolidation” below. Therefore, the Share Consolidation may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Existing Shares, and if they are in any doubt about their position, they should consult their professional advisers.

亞洲能源物流  
**ASIAENERGY**  
Logistics

**ASIA ENERGY LOGISTICS GROUP LIMITED**

**亞洲能源物流集團有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 351)**

*Executive Directors:*

Mr. Liang Jun  
Mr. Fung Ka Keung, David  
Mr. Fu Yongyuan  
Mr. Lin Wenqing

*Registered Office:*

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

*Non-Executive Director:*

Mr. Yu Baodong (*Chairman*)

*Independent Non-Executive Directors:*

Mr. Chan Chi Yuen  
Professor Sit Fung Shuen, Victor  
Mr. Siu Miu Man

8 March 2017

*To the Shareholders,*

Dear Sir or Madam,

- (1) PROPOSED SHARE CONSOLIDATION;**  
**(2) VERY SUBSTANTIAL ACQUISITION IN RESPECT OF ACQUISITION OF**  
**A VESSEL; AND**  
**(3) PLACING OF NEW SHARES UNDER SPECIFIC MANDATE**

**INTRODUCTION**

Reference is made to the announcement of the Company dated 8 February 2017 in relation to, among other things, the proposed Share Consolidation, the proposed Acquisition and the proposed Placing.

The purpose of this circular is to provide you with, among other things, (i) further details of the proposed Share Consolidation, the proposed Acquisition and the proposed Placing; and (ii) the notice of the General Meeting.

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## LETTER FROM THE BOARD

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### 1. PROPOSED SHARE CONSOLIDATION

The Board proposes to implement the Share Consolidation of every ten (10) Existing Shares into one (1) Consolidated Share and, where applicable, the total number of Consolidated Shares in issue immediately following the Share Consolidation will be rounded down to a whole number.

#### **Effects of the Share Consolidation**

As at the Latest Practicable Date, 14,401,869,875 Existing Shares have been issued and are fully paid. On the basis that no further Existing Shares will be issued or repurchased by the Company from the Latest Practicable Date to the effective date of the Share Consolidation, there will be 1,440,186,987 Consolidated Shares in issue immediately upon the Share Consolidation becoming effective.

The Existing Shares are currently traded in board lots of 10,000 Existing Shares each and the market value per board lot of the Existing Shares is HK\$330, based on the closing price of HK\$0.033 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date. Upon the Share Consolidation becoming effective, the board lot size will remain the same and the Consolidated Shares will be traded in board lots of 10,000 Consolidated Shares and the estimated market value per board lot of the Consolidated Shares will be HK\$3,300.

As at the Latest Practicable Date, there were outstanding Convertible Notes in the aggregate principal amount of HK\$3.5 million, entitling the holders to subscribe for a total of 109.4 million Existing Shares at the Conversion Price (or 10.94 million Consolidated Shares upon the Share Consolidation becoming effective). Details of the Convertible Notes are set out in the circular of the Company dated 11 April 2016. On the other hand, there were approximately 220.3 million share options outstanding, entitling the holders thereof to subscribe for a total of 220.3 million Existing Shares (or 22.03 million Consolidated Shares upon the Share Consolidation becoming effective).

Save as disclosed above, the Company has no outstanding options, warrants, conversion rights or other similar rights giving rights to subscribe for the Existing Shares. For further information of the effect of the share options and Convertible Notes on the shareholding structure of the Company, please refer to the section headed “Effect on the shareholding structure of the Company” in this circular.

Other than the relevant expenses incurred, the implementation of the Share Consolidation will have no effect on the consolidated net asset value of the Group, nor will it alter the underlying assets, business, operations, management or financial position of the Group or the interests of the Shareholders as a whole, save for any fractional Consolidated Shares (if any) to which the Shareholders would otherwise be entitled to. The Board believes that the Share Consolidation will not have any material adverse effect on the financial position of the Company.

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## LETTER FROM THE BOARD

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### **Conditions of the proposed Share Consolidation**

The Share Consolidation is conditional upon the following:

- (i) the passing of the necessary resolution(s) by the Shareholders to approve the Share Consolidation at the General Meeting;
- (ii) the Listing Committee of the Stock Exchange granting the approval for the listing of, and the permission to deal in, the Consolidated Shares to be in issue upon the Share Consolidation becoming effective; and
- (iii) the obtaining of all necessary approvals from the regulatory authorities or otherwise as may be required in respect of the Share Consolidation, if any.

Subject to the above conditions, it is expected that the Share Consolidation will become effective on Monday, 27 March 2017, which is the next Business Day immediately following the date on which the relevant resolution approving the Share Consolidation is passed at the General Meeting.

### **Status of the Consolidated Shares**

All Consolidated Shares in issue immediately following the Share Consolidation becoming effective will rank pari passu in all respects with each other and the Share Consolidation will not result in any change in the relative rights of the Shareholders.

### **Listing application**

Application will be made to the Listing Committee of the Stock Exchange for the approval of the listing of, and permission to deal in, the Consolidated Shares arising from the Share Consolidation. Subject to the granting of the approval for the listing of, and permission to deal in, the Consolidated Shares on the Stock Exchange, the Consolidated Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Consolidated Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The Consolidated Shares will be identical in all respects and rank pari passu in all respects with each other as to all future dividends and distributions which are declared, made or paid. All necessary arrangements will be made for the Consolidated Shares to be admitted into CCASS.

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## LETTER FROM THE BOARD

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### **Exchange of share certificates**

Subject to the Share Consolidation becoming effective, which is expected to be on Monday, 27 March 2017, Shareholders may on or after Monday, 27 March 2017 and until Tuesday, 9 May 2017 (both days inclusive) submit their existing share certificates in yellow colour for the Existing Shares to the Company's share registrar, Tricor Secretaries Limited at Level 22 Hopewell Centre, 183 Queen's Road East, Hong Kong for exchange for new share certificates in purple colour for the Consolidated Shares at the expense of the Company. Thereafter, existing share certificates in yellow colour for the Existing Shares will be accepted for exchange only on payment of a fee of HK\$2.5 (or such higher amount as may from time to time be allowed by the Stock Exchange) for each new share certificate issued for the Consolidated Shares or each existing share certificate for the Existing Shares submitted for cancellation, whichever the number of certificates issued or cancelled is higher. As from Tuesday, 9 May 2017, existing share certificates in yellow colour for the Existing Shares will continue to be good evidence of legal title and may be exchanged for new share certificates in purple colour for Consolidated Shares at any time but are not acceptable for trading, settlement and registration purposes.

### **Arrangement for matching service for odd lots**

In order to alleviate the difficulties arising from the existence of odd lots of the Consolidated Shares as a result of the Share Consolidation, the Company has appointed Ever-Long Securities Company Limited as an agent to arrange for matching service on a best efforts basis regarding the sale and purchase of odd lots of the Consolidated Shares from 11 April 2017 to 5 May 2017 (both days inclusive). Shareholders should note that matching of the sale and purchase of odd lots of the Consolidated Shares is not guaranteed. Any Shareholder who is in any doubt about the odd lot arrangement is recommended to consult his/her/its own professional advisers. Shareholders of odd lots of the Consolidated Shares or to top up to board lot size may contact Mr. Yu of Ever-Long Securities Company Limited at (852) 2815-3522 or at 18/F, Dah Sing Life Building, 99-105 Des Voeux Road Central, Hong Kong.

Shareholders should note that matching of the sale and purchase of odd lots of Consolidated Shares is on a 'best effort' basis and successful matching of the sale and purchase of such odd lots is not guaranteed. The Company will bear the costs relating to the matching of sale and purchase of odd lots of the Consolidated Shares. Shareholders are advised to consult the professional advisers if they are in doubt about the above procedures. To the best of knowledge, information and belief of the Directors, having made all reasonable enquiries, Ever-Long Securities Company Limited and its ultimate beneficial owner(s) are Independent Third Parties.

### **Reasons for the proposed Share Consolidation**

Pursuant to Rule 13.64 of the Listing Rules, where the market price of the securities of an issuer approaches the extremities of HK\$0.01 or HK\$9,995.00, the issuer may be required either to change the trading method or to proceed with a consolidation or splitting of its securities. In view of the recent trading price of the Existing Shares, the Board proposes to implement the Share Consolidation. The Share Consolidation will enable the Company to comply with the trading requirements under the Listing Rules. Further, it is expected that the Share Consolidation would bring about a corresponding upward adjustment in the trading price of the Consolidated Shares on the Stock Exchange, which will reduce the overall transaction costs for dealing in the Consolidated Shares per board lot. Accordingly, the Board is of the view that the Share Consolidation is beneficial to and in the interests of the Company and Shareholders as a whole.

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## LETTER FROM THE BOARD

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### 2. THE ACQUISITION

The Board announced that on 8 February 2017 (after trading hours), the Purchaser entered into the legally binding Memorandum of Agreement with the Vendor, pursuant to which, among other things, the Purchaser agreed to acquire and the Vendor agreed to sell the Vessel at the Acquisition Consideration of US\$103.3 million (equivalent to approximately HK\$803.67 million).

#### The Memorandum of Agreement

##### Date

8 February 2017 (after trading hours)

##### Parties

- (1) Vendor: GPO Grace Limited, a company incorporated in the Marshall Islands with limited liability
- (2) Purchaser: GPO Grace (Hong Kong) Limited, an indirect wholly-owned subsidiary of the Company

#### Assets to be acquired

The Vessel, which is a semi-submersible heavy lift vessel (the “SSHVLV”), is a specialized vessel for transporting sizeable objects such as offshore drilling rigs, safety vessels, oil production platforms and heavy cranes. The SSHVLV can also be used as floating deck for onsite maintenance and repair works for the rigs.

There are 4 types of SSHLV in the heavy lift shipping industry, including (a) type-0 vessel with capacity over 75,000 tons; (b) type-1 vessel with capacity between 50,000 and 75,000 tons; (c) type-2 vessel with capacity below 50,000 tons; and (d) type-3 vessel, old-design vessels with capacity below 50,000 tons. As at the Latest Practicable Date, there are two type-0 vessels, three type-1 vessels, twenty-seven type-2 vessels and twelve type-3 vessels in the global heavy lift shipping industry.

The Vessel, a SSHLV with type-1 specification is currently under construction in Taiwan by CSBC and will be delivered in May 2017. Currently, the Vendor has signed two legally binding charterparties (the “Charterparty(ies)”) (both in BIMCO “Heavycon 2007” form) and four non-legally binding letters of intent (the “LOIs”) with different energy, rig building and shipbuilding companies for transportation of large offshore structures.

One of the Charterparties, awarded by a leading service company in the oil and gas industry in Norway (“Customer A”), amounts to US\$8.6 million (equivalent to approximately HK\$66.9 million) and involves the transportation of a drilling platform main support frame from Thailand to Norway during the period from June to August 2017. The other Charterparty, awarded by another oil facilities construction company in Singapore (“Customer B”), amounts to US\$7.2 million (equivalent to approximately HK\$56 million) and involves the transportation of jack-up rig modules from Singapore to Mexico during the period from September to December 2017.

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## LETTER FROM THE BOARD

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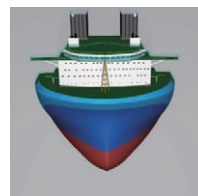
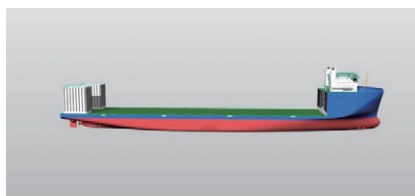
The Acquisition Completion is conditional on, among others, the Vendor having entered into two separate legally binding voyage charters with the Purchaser on terms identical to the Charterparties to enable the Vendor to perform the Charterparties on a “back-to-back” basis without any charges payable to the Vendor (“**Back-to-Back Arrangement**”). Under such arrangement, the Purchaser will become the owner of the Vessel and receive the same freight level for the same shipment as in the original Charterparties and the Vendor will become the charterer of the Vessel and will act as the operator (commonly known as the disponent owner) of the Vessel to perform the original Charterparties. Since this is a common practice to maintain the charter for change of ownership of vessels, there will not be any charges payable to the Vendor. Operating under the Back-to-Back Arrangement (i) ensures that the Purchaser will be entitled to all the revenue to be generated under the Charterparties; (ii) minimizes the operational risk to the Purchaser in performing the shipments; and (iii) avoids the lengthy negotiations among the Purchaser, the Vendor and the customers for the novation of the relevant charterparties. The two separate legally binding voyage charters will only be valid after the successful delivery of the Vessel upon the Acquisition Completion.

Upon the entering into of the two separate legally binding voyage charters and the completion of the relevant shipments, approximately US\$15.8 million (equivalent to approximately HK\$122.9 million) is expected to be recognized in the financial statements of the Group for the year ending 31 December 2017.

On the other hand, the voyage charters contemplated under the LOIs, if materialized, are capable of generating revenue amounting to approximately US\$36.8 million (equivalent to approximately HK\$286.3 million) to the Group in the year 2018 subject to the availability of the Vessel and further negotiations among the Purchaser, the Vendor and the respective potential charterers to finalize the terms.

The Company decided to acquire the Vessel from the Vendor instead of a vessel constructor after having considered that (i) the Vessel has been under construction by the time the Company negotiated the Memorandum of Agreement with the Vendor and the Vessel is expected to be delivered by May 2017 which is much faster than contracting a ship builder to build a vessel from scratch; and (ii) the Vendor has already signed the existing Charterparties and the Vendor has also agreed with the Company the Back-to-Back Arrangement which could secure an income stream to the Group.

Given the Vessel is still under construction by CSBC up to the Latest Practicable Date, there was no direct identifiable income stream in connection with the chartering services. As stated above, the Vessel will be delivered in May 2017 and will start to generate revenue afterwards but without a complete full year record and direct identifiable income stream.



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## LETTER FROM THE BOARD

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Set out below are the specifications of the Vessel:

Length:	225 meters
Breadth:	48 meters
Depth:	13.8 meters
Draft:	10.8 meters
Deadweight tonnage:	65,000 tonnes
Submersion depth:	15 meters

### **Business model of the heavy lift business**

Upon the Acquisition Completion, the Group will commence its operation in the heavy lift vessel industry (the “**Heavy Lift Business**”). Its scope of service mainly covers the transportation of sizeable objects such as offshore drilling rigs, safety vessels, oil production platforms and heavy cranes.

### **Business operation**

The Vendor has entered into two legally binding Charterparties with two customers. Customer A is a leading service company in the oil and gas industry in Norway and Customer B is an oil facilities construction company in Singapore. The services to be provided to Customer A and Customer B involve the transportation of a drilling platform main support frame from Thailand to Norway and the transportation of jack-up rig modules from Singapore to Mexico, respectively. Apart from the two legally binding Charterparties, the Vendor has also signed four non-legally binding LOIs with customers principally engaged in the energy sector, rig building and shipbuilding for the transportation of large offshore structures. The shipment services to be provided under the Charterparties to the customers will be performed under the Back-to-Back Arrangement as mentioned in the sub-section headed “Assets to be acquired” above.

Apart from the two separate legally binding voyage charters to be entered under the Back-to-Back Arrangement, the Group will continue to develop direct business relationship with potential customers worldwide. The Group has a team of professionals from a wide range of fields including but not limited to commercial management, semi-submersible vessels management and technical management. Therefore, the Group is confident in taking up the commercial management services to effect and coordinate sales, marketing, promotion, cargoes bookings and customer relation development for the Vessel.

In addition, the Group has identified two reputable business operation companies, which are the Independent Third Parties, to provide the Group with the business operation services which include (i) providing of technical support to the carrying out of existing transportation contracts such as the provision of superintendence services to oversee the preparations, loading, discharging, ballasting and on site installation during the cargo operations; and (ii) providing technical support to the tendering process for potential transportation contracts such as pre-bidding technical evaluation, cost estimation, preparation of transportation manual, attending bidding and pre-bidding meetings and the preparation and submission of bidding document. As at the Latest Practicable Date, the Company has been in negotiation with one of the business operation companies (the “**Business Operation Company**”) in relation to entering into a business operation agreement (the “**Business Operation Agreement**”). The proposed Business Operation Agreement is valid for one year and renewable annually. The estimated management fee to be charged by the Business Operation Company shall be around US\$600,000 per year.



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## LETTER FROM THE BOARD

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### **Vessel management**

To maintain the daily operation of the Vessel, the Group has been in close discussion with a shipping management company (the “**Shipping Management Company**”), to contemplate an agreement (the “**Shipping Management Agreement**”) (in BIMCO “Shipman 2009”, which is a standard ship management agreement) for the provision of technical management services (the “**Technical Management Services**”) that the Vessel normally requires, which includes regular replenishment of bunker, lubricating oil, spares and stores of the Vessel. The Shipping Management Company, based in Norway, is one of the world’s largest third party ship management companies with proven track record, required qualification and relevant experience in heavy lift vessel management. The Shipping Management Company has established a pool of 11,000 seafarers supporting more than 400 vessels. To the best of knowledge, information and belief of the Board, the Shipping Management Company and its ultimate beneficial owner are Independent Third Parties of the Company and the Vendor. Pursuant to the Shipping Management Agreement, the Shipping Management Company will (i) serve as a manager of the Vessel; (ii) provide technical management and technical consultancy for the Company; and (iii) provide all services relating to the Vessel’s business operation such as crew recruitment and management, vessel repairing and maintenance, technical support, supervision of loading and discharging operations, etc. The Shipping Management Agreement, valid for one year and to be renewed annually, can be terminated by either party serving adequate advance notice in accordance with the terms of the Shipping Management Agreement. The estimated management fee to be charged by the Shipping Management Company shall be around US\$150,000 per year.

### **Market competition**

To the best knowledge of the Board, as at the Latest Practicable Date, there are two type-0 vessels, three type-1 vessels, twenty-seven type-2 vessels and twelve type-3 vessels in the global heavy lift shipping industry operated by a limited number of shipping companies due to the high capital requirement and the technical expertise required. As the voyage in the heavy lift industry normally requires several months, the market competition mainly depends on the availability of suitable vessels within a particular time frame and the particular specifications of the vessels such as deadweight tonnage and dimensions that are required for each voyage.

### **Pricing, payment terms, revenue recognition**

The freight rate depends on the nature of the cargo, size and the distance of the ocean passage as well as the place of loading/discharging. Freight payment terms are subject to mutual negotiation but freight is normally paid in several phases such as on contract signing, completion of loading and the final payment will be upon arriving the discharging port.

Revenue from the charterparties represents charter hire income and is recognized on a percentage-of-completion basis, which is determined on the time proportion method of each individual voyage.

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## LETTER FROM THE BOARD

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### **Costs structure**

The direct costs of the Vessel include broker commission, management fee payable to the Ship Management Company for the provision of the technical management and technical consultancy services and the reimbursement of the operating costs of the Vessel including the salaries of the crew members, utilities and fuel costs, port expenses, canal costs, vessel insurance, repair and maintenance, technical support etc. Other costs of the Vessel operation include drydocking provision and the depreciation expense for the Vessel which will be recognized on a straight-line basis over the useful life of 25 years of the Vessel.

### **Legal framework**

Maritime transport is inherently international in character and on each voyage vessel will be operated under the regulatory requirements of many jurisdictions. Therefore, our Vessel operation will be governed by government regulation in the form of international conventions, national, state and local laws and regulations in force in the jurisdictions in which the Vessel will be operated and in the country in which the Vessel will be registered. Most existing international regulations, including the International Maritime Organization (“**IMO**”), the International Labour Organization (“**ILO**”) and the United Nations Conference on Trade and Development (“**UNCTAD**”), have been developed to maintain a comprehensive regulatory framework for shipping. The Group and the Shipping Management Company will comply with the relevant laws and regulations in the operations of the Vessel.

As the Vessel will be registered in Hong Kong, to enable a Vessel to operate under the Hong Kong flag, the vessel’s owner will have to comply with the licensing and/or regulatory requirements as set out by the Marine Department of Hong Kong.

The related Vessel agreements including the Memorandum of Agreement, the two separate legally binding voyage charters and the ship management agreement have adopted BIMCO standards and so will all future agreements and charterparties. BIMCO is the largest of the international shipping associations representing ship-owners and one of its objectives is to standardize the commercial shipping practices and contracts.

### **Insurance**

The Vessel will be insured by a world class insurance company for Hull & Machinery and Protection & Indemnity to 100% of the Vessel value. The insurance policies, which will be renewed annually, will protect against the physical damages during marine operations including collisions, machinery breakdown and other accidents, third-party risks of damage caused and even risks of environmental damage such as oil spills and pollution.

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## LETTER FROM THE BOARD

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### **Environmental protection**

The operations of the Vessel are subject to various environmental laws and regulations that regulate sewage, oil and other types of pollutions. In light of these challenges, the Vessel is designed, built and equipped to meet the IMO, Det Norske Veritas & Germanischer Lloyd (“**DNV GL**”) classification and Flag States regulations in regards to environmental protection, such that the Vessel has been granted International Sewage Pollution Prevention Certificate, International Oil Pollution Prevention Certificate and International Air Pollution Prevention Certificate. Moreover, the Shipping Management Company, which will carry out the business operations of the Vessel, will be obliged to comply with the laws of the countries while in the territorial waters of the respective countries.

### **Management team**

The Group has and will continue to build a team of professionals from a wide range of fields. Combined with key competences ranging from freight management, commercial management, semi-submersible vessels management, technical management, the Group is confident in managing and running the Heavy Lift Business going forward. Biographies of the key personnel are set out below.

By leveraging the vast network and resources of Mr. Fu Yongyuan (“**Mr. Fu**”), the Executive Director of the Company, the Board captures the opportunity of the Acquisition. Mr. Fu has extensive experience and high standing status in the shipping industry. He is a marine engineer and an economist for 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. He was then appointed as an executive director of Titan Petrochemicals Group Limited (“**TPGL**”) (Stock Code: 1192) on 3 July 2012 and the chairman and legal representative of 泉州船舶工業有限公司 (Titan Quanzhou Shipyard Co., Ltd.) on 27 August 2012. He was redesignated as the deputy chief executive of TPGL on 30 September 2015 and resigned all positions in TPGL on 2 September 2016.

Mr. Lee Man Sang, Paul (“**Mr. Lee**”), our General Manager of the shipping department, has been working in the shipping industry for more than 30 years. He graduated from Hong Kong Polytechnic with Diploma in Maritime Science in 1980 and started his shipping career as a deck officer on merchant ships (dry bulk carrier, tankers and general cargo ships). Upon obtaining of Chief Officer Certificate of Competency from HK Marine Department in 1987, Mr. Lee joined Wardley Shipping Limited (changed name to HSBC Shipping Services Ltd) in 1994 to build his commercial management skills. Mr. Lee was designated as the director-in-charge of HSBC Shipping Services Ltd in 2000. In 2002, Mr. Lee started working as an independent shipping consultant and broker. Mr. Lee joined the Company in 2010 and has been working as the general manager of the shipping department and contributing the Group with his expertise in dry bulk and asset investment.

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## LETTER FROM THE BOARD

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Mr. Wu Xiaoming (“**Mr. Wu**”), as consultant of the shipping department, graduated from Shanghai Maritime University in 1982 with a bachelor degree in economics and is a senior economist. Mr. Wu has over 30 years of experience in shipping and management especially in heavy-lift transportation. Prior to joining the Group, he worked as different positions for different subsidiaries of COSCO Group since 1982. In 2000, he was appointed as the manager of business department of Cosco Shipping Co., Ltd and was responsible for the marketing, operation and management of the entire fleet, the developing and the operation of oversized specialized vessels and the formation of the semi-submersible fleet. He also supervised the delivery of the new built semi-submersible vessels, put them into operation, negotiated and implemented the semi-submersible vessel transportation and project. From 2003 to 2010, Mr. Wu was sent to Houston of USA, acted as the chief representative of Cosco Shipping Co., Ltd., he was responsible for the market development and business promotion of the semi-submersible vessels fleet, the customer relationship and maintenance, negotiation and contracting for offshore transportation as well as projects. During the 7 years in the United States, he mainly worked with the world’s top oil companies such as Essomobile, Conocophilip, Shell; offshore contractors such as Technip, KBR, Modec; offshore drilling companies like ENSCO, Transocean, Noble Drilling, Hercules, as well as Malaysia’s Talisman, S.Korea’s Hyundai Heavy Industries and Samsung Heavy Industries, etc. In early 2010 he came back from the USA and was appointed as the deputy general manager of the Shipping Department and the manager of semi-submersible vessel section of COSCO Shipping Co., Ltd. He participated in the reorganization of the in-house management and operation team for semi-submersible fleet so to cover extensive aspects from marketing to engineering support and had successfully completed several significant projects within China and overseas. Mr. Wu kept working for COSCO till the end of 2015 then retired according to the relevant regulation in the PRC.

Mr. Huang Zisheng (“**Mr. Huang**”), as consultant of the shipping department, graduated from Jimei Navigation College with diploma in Engine Engineering. He has an A1 Chief Engineer certificate, Continuous Inspection Certificate of Russian Maritime Register of Shipping Classification Societies and higher registered equipment management engineer certificate. He joined Titan Quanzhou Shipyard Co., Ltd from 2007 to 2015, and was responsible for the overall operation of the Quanzhou Shipyard. Mr. Huang has more than 15 years of hands-on experience in tanker operation and maintenance and is well aware of IMO (International Maritime Organization) regulations. From 1991 to 2007, he worked as the Engineer Officer, First Engineer Officer and Chief Engineer Officer successively on several seagoing tankers. He was responsible for the routine operation and maintenance of propulsion and other ship systems, including electrical power generation plan, lighting, fuel oil, lubrication, water distillation and separation, water systems on board the vessel, etc. In addition, he has obtained Certificate in Safety Management, Fire Fighting Training Certificate, First Aid Certificate and Certificate of Proficiency in Survival Craft and Rescue Boats.

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## LETTER FROM THE BOARD

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### Consideration

The Acquisition Consideration is US\$103.3 million (equivalent to approximately HK\$803.67 million). According to the Memorandum of Agreement, the Acquisition Consideration comprises:

- (i) US\$10 million (equivalent to approximately HK\$77.8 million) to be settled in cash (the “**Down Payment**”) within 3 Banking Days after the date of the Placing Completion, which will be funded by the proceeds generated from the Placing, details of which are provided under the section headed “Placing of New Shares under Specific Mandate” below;
- (ii) US\$83.30 million (subject to final adjustment in accordance with the Shipbuilding Contract) (equivalent to approximately HK\$648.07 million) to be settled in cash on delivery of the Vessel, but not later than 3 Banking Days after the date that notice of readiness has been given under the Shipbuilding Contract which will be partly funded by the proceeds generated from the Placing of approximately HK\$213.17 million and partly funded by a mortgage loan of approximately HK\$434.9 million; and
- (iii) US\$10 million (equivalent to approximately HK\$77.8 million) to be settled by the issuance of Consideration Shares (being 311,200,000 Consideration Shares, based on the issue price of HK\$0.25 per Consideration Share) on delivery of the Vessel, but not later than 3 Banking Days after the date that notice of readiness has been given under the Shipbuilding Contract.

If the Vendor fails to give notice of readiness in accordance with the terms of the Memorandum of Agreement or fails to validly complete a legal transfer by 31 May 2017, the Purchaser shall have the option to cancel the Memorandum of Agreement. In the event that the Purchaser elects to cancel the Memorandum of Agreement, the Vendor shall immediately refund the Down Payment, together with interest (if any), to the Purchaser. The Vendor shall compensate the Purchaser for its loss and for all expenses if the failure is due to proven negligence and whether or not the Purchaser cancels the Memorandum of Agreement. Based on the latest construction progress of the Vessel, the Directors believe that the Vessel will be delivered on or before 15 May 2017. In an unlikely event that the Vendor fails to deliver the Vessel, the Company will acquire another SSHLV which is similar to the Vessel by using the proceeds from the Placing.

The Acquisition Consideration was arrived at after arm’s length negotiation between the Purchaser and the Vendor after taking into account (i) the preliminary valuation of the Vessel as at 31 January 2017 of approximately US\$104.80 million (equivalent to HK\$815.34 million) as appraised by the Independent Valuer; (ii) the contract price of US\$103.3 million (equivalent to HK\$803.67 million) under the Shipbuilding Contract; (iii) the increasing demand for heavy lift shipping services as a result of the positive prospect of the offshore oil production business; (iv) the amount of revenue of approximately US\$15.8 million (equivalent to HK\$122.9 million) to be generated from the two separate legally binding voyage charters to be entered into by the Purchaser and the Vendor; and (v) the reasons set out in the sub-section headed “Reasons for and benefits of the Acquisition” in this circular.

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## LETTER FROM THE BOARD

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With respect to the Independent Valuer, the Directors understand that Mr. Frank F. Wong, an associate director of the Independent Valuer who has extensive experience in assets valuation as well as relevant experience on purpose-built vessels, vehicle carriers, liquefied gas carriers, shipyards and docks in the Asia-Pacific region, who is responsible of signing of the valuation report. Furthermore, with reference to publicly available documents, the Independent Valuer has substantial experience in providing valuation services to listed companies in Hong Kong. Therefore, the Directors are satisfied that the Independent Valuer has appropriate qualification and sufficient experience to perform the valuation.

Moreover, the Independent Valuer confirms that the valuation standard adopted in the valuation report is the applicable standard for valuing vessels and also confirms that the Independent Valuer, who are responsible for signing the valuation report, have relevant qualifications for vessel valuation.

As at the Latest Practicable Date, in respect of the mortgage loan, the Company has approached several financial institutions and obtained preliminary term sheets from two of them. The details on both term sheets are similar. The interest rate and the terms of the loan of both term sheets are 3-month prevailing LIBOR plus 3.3% per annum and 7 years respectively, while the prevailing 3-months LIBOR is 1.1% as at the Latest Practicable Date. In addition, the maximum facility amount on both term sheets is US\$72.3 million (equivalent to approximately HK\$562.5 million) or 70% of the Acquisition Consideration, whichever is lower. The drawdown date is negotiable while the first instalment repayment date shall be 3 months after the initial drawdown date and each succeeding repayment date shall fall on the 15th day of March, June, September or December, whichever falls first. The Directors expect to obtain adequate financing by a firm commitment in writing on a “not subject to contract basis” from the financial institutions or the signing of the relevant loan or facility agreement on or before 31 March 2017. In case the above preliminary offers are rejected, the Directors believe the Company can approach other financial institutions to offer similar terms of mortgage loan. The Company will repay the mortgage loan by internally generated cash flows through the operation of the Vessel after settling relevant expenses, including costs of services, management fee charged by the Shipping Management Company and the Business Operation Company, and other overhead costs, the net cash flow generated by the operation of the Vessel will sufficiently cover the interest arising from the mortgage loan.

As at the Latest Practicable Date, saved for the Acquisition, the Company has not identified or is not in negotiation for any other potential acquisitions or development plan relating to existing or new business or any injection of new substantial business to the Company.

### **The Consideration Shares**

The issue price is HK\$0.25 per Consideration Share, representing:

- (i) a discount of approximately 47.9% to the closing price of HK\$0.48 per Consolidated Share as quoted on the Stock Exchange on the date of the Memorandum of Agreement and adjusted for the effect of the Share Consolidation;
- (ii) a discount of approximately 46.6% to the average closing price of approximately HK\$0.468 per Consolidated Share as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the date of the Memorandum of Agreement and adjusted for the effect of the Share Consolidation;

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## LETTER FROM THE BOARD

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- (iii) a discount of approximately 24.2% to the closing price of HK\$0.33 per Consolidated Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Share Consolidation; and
- (iv) a premium of approximately 525% over the consolidated net asset value per Consolidated Share of approximately HK\$0.04 based on the consolidated net asset value attributable to the owners of the Company of HK\$57,991,000 as at 30 June 2016 as extracted from the interim report of the Company for the six months ended 30 June 2016 (the “**2016 Interim Report**”) (based on the number of issued Consolidated Shares of 1,440,186,987 as at the Latest Practicable Date and adjusted for the effect of the Share Consolidation).

The 311,200,000 Consideration Shares, representing (i) approximately 21.61% of the total number of Consolidated Shares then in issue and (ii) approximately 17.77% of the total number of Consolidated Shares then in issue as enlarged by the allotment and issue of the Consideration Shares.

The Consideration Shares will be allotted and issued under the Specific Mandate to be sought at the General Meeting, and when issued, will rank pari passu in all respects with the Consolidated Shares in issue on the date of allotment and issuance.

### **Conditions precedent**

The obligation of the Purchaser to pay the Down Payment will be conditional upon the following conditions having been fulfilled:

- (i) the passing of the resolution(s) of the Shareholders of at the General Meeting to approve the Memorandum of Agreement and the transactions contemplated in the Memorandum of Agreement;
- (ii) all relevant regulatory requirements (including but not limited to those under the Listing Rules and all relevant regulatory requirements in Hong Kong) having been complied with and satisfied;
- (iii) the Placing Completion having taken place; and
- (iv) the Purchaser having used its best endeavor and successfully obtained adequate financing for financing the Acquisition pursuant to the Memorandum of Agreement as evidenced either by a firm commitment in writing on a “not subject to contract basis” from the financier or the signing of the relevant loan or facility agreement.

The Acquisition Completion will be conditional upon the Vendor having entered into two separate legally binding voyage charters with the Purchaser on terms identical to the Charterparties to enable the Vendor to perform the Charterparties under the Back-to-Back Arrangement without any charges payable to the Vendor.

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## LETTER FROM THE BOARD

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If the above conditions are not fulfilled on or before 31 March 2017 or such later date as agreed between the Vendor and the Purchaser, the Memorandum of Agreement shall be terminated with immediate effect, and neither party shall have any rights or obligations against the other under the Memorandum of Agreement except for any antecedent breach.

As at the Latest Practicable Date, none of the above conditions are fulfilled or satisfied or capable of being waived.

### **Acquisition Completion**

Acquisition Completion shall take place on the day on which the Vessel is successfully delivered (or such later date as the parties thereto may agree in writing).

## **RISK FACTORS IN RELATION TO THE ACQUISITION**

### **Demand of heavy lift shipping service is associated with the demand of the crude oil**

The demand of the heavy lift shipping service is associated with the demand of the crude oil, which in turn, could have material impact on the profitability of the Group. According to the analysis on the international crude oil price (the “**Oil Price**”) set out in the sub-section headed “Reasons for and benefits of the Acquisition” below, the Oil Price has seen the lowest of approximately US\$26 per barrel in February 2016 and rebounded to approximately US\$54 per barrel in late December 2016. Conversely, if the Oil Price and demand drop, the investment related to oil extraction or production will decrease, so will the demand of the heavy lift shipping services, which will in turn affect the profitability of the Group. The demand of and the fluctuation of the Oil Price are also subject to many economic and political factors that are beyond the control, including but not limited to the political instability in oil exporting regions.

### **Competition in the heavy lift shipping industry may affect the business results of the Group**

The Group may face keen competition in the future if there are new entrants to the heavy lift shipping industry who are able to offer heavy lift shipping services at lower prices. New participants may enter the heavy lift shipping industry if they have the appropriate skills, experience, necessary vessels, equipment and capital. With intensified competition, the Group may have to compete for getting new charterparties by reducing the price. In addition, there is no assurance that competitors in the industry will not have the necessary technical expertise and resources to provide more competitive services than the Group. Failure to maintain the competitiveness of the Group, compounded with possible increases in raw materials and labour costs in the future, the Group may result in a reduction of profit and impairment loss of the Vessel, which in turn may have material adverse effects on the financial performance and position of the Group.



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## LETTER FROM THE BOARD

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### **The insurance may be insufficient to cover all losses under unforeseeable circumstances**

In the case of unforeseeable circumstances such as business interruption due to political circumstances, labour strikes or marine disasters, the existing insurance coverage may be insufficient to cover all losses despite the Group will use its best endeavour to adopt the most adequate scheme available. If an uninsured loss or a loss in excess of insured limits, the Group may be required to pay for losses, damages and liabilities out of its own funds, which could materially and adversely affect the Company's business operation and its financial position. Even if the insurance coverage is adequate to cover the direct losses, the Group may not be able to take remedial actions or other appropriate measures under any unforeseeable circumstances.

### **Significant interest rate fluctuations may affect the financial condition and results of operations of the Group**

The exposure to interest rate risk is primarily associated with interest expenses to be incurred in the mortgage loan of the Vessel. With reference to the preliminary term sheets obtained from the financial institutions as mentioned in the paragraph headed "Acquisition Consideration" above, the interest rate of the mortgage loan on both term sheets are on floating interest rate basis. As the Group has not entered into any financial derivatives to hedge the exposure to the interest rate risk, significant interest rate increase will increase the Group's interest expenses, which will adversely affect financial condition and results of operations of the Group.

### **Failure to handle the time lags between making payments to suppliers and receiving payments from customers may adversely affect the Group's cash flow and financial position**

The Group requires charter income from its customers in order to settle its trade payable to suppliers or to repay the bank borrowings in a timely manner. There is no assurance that the customers will make payment on time and in full. If the Group fails to properly manage its exposure from such cash flow mismatch or if the Group experiences any difficulty in collecting a substantial portion of its trade receivables, the Group's cash flows and financial position could be materially and adversely affected. Moreover, the Group's reputation may also be affected if the Group fails to pay its suppliers on time.

### **The Group is exposed to credit risk of its customers**

If the credit worthiness of the Group's customers deteriorates or a significant number of its customers fail to settle their trade and bill receivables in full for any reason, the Group will incur impairment losses and its results of operations and financial position could be materially and adversely affected. In addition, there may be a risk of delay in payment by the Group's customers from their respective credit period, which in turn may also result in an impairment loss provision. There is no assurance that the Group will be able to fully recover its trade and bill receivables from its customers or that they will settle our trade and bill receivables in a timely manner. In the event the settlements from the customers are not made on a timely manner, the financial position, profitability and cash flow of the Group may be adversely affected.

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## LETTER FROM THE BOARD

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### **Reliance on the Shipping Management Company**

With reference to the sub-section headed “Vessel Management” in this circular, the Shipping Management Company will serve as the manager of the Vessel to perform the technical management and business operations of the Vessel for the Group. Although the Group is intended to enter into the Shipping Management Agreement with it, there is no assurance that the Shipping Management Company will not terminate the Shipping Management Agreement before expiry or renew the shipping management agreements with the Group when they expire. In the event that the Shipping Management Agreement is not extended or renewed when it expires or if it is terminated before expiry, the Group will have to find alternative solutions for its Heavy Lift Business. There is also no guarantee that the Group can identify suitable shipping management company as replacement on a timely basis, this may cause adverse impact on the Group’s business and operation.

### **Internal Control Procedures**

The Company has had in place for many years an internal control manual which is reviewed and updated continuously. The management is responsible for implementing while the Board is responsible for maintaining sound and effective internal control of the Group. SHINEWING Risk Services Limited has been engaged to assist the Board in evaluating the internal control environment of the Group.

With reference to the key risks relating to the Heavy Lift Business set out in the section headed “Risk factors in relation to the Acquisition” above, the following sets out the key measures adopted by the Group under its risk management and internal control systems for managing the risks relating to our business operation:

*(i) Risk relating to the Oil Price*

In light of the positive correlation between the demand of the heavy lift shipping service and the Oil Price, the Group will continue to closely monitor the Oil Price. Moreover, the Group will diversify the application of the Vessel from oil production related sectors to other sectors which has low correlation with the Oil Price. The Directors believe that the risk of the Oil Price fluctuation can be mitigated through the diversification of application of the Vessel.

*(ii) Risk relating to the competition in the heavy lift shipping industry*

Leveraging from the experience and expertise of the management team of the Group, the Directors believe that, the Group aims to broaden its customer base and enhance its market position in the industry as well as strengthen the sales and marketing force of the Group. On the other hand, the Group will (i) streamline its general workflow; (ii) optimise to make best use of its available resources; and (iii) closely monitor the development of the existing shipping business and the Heavy Lift Business, so as to ensure that the Group is well prepared to future competition.

*(iii) Risk relating to insufficient coverage offered by insurance company*

Before insuring the vessel, the insurance policy will be properly reviewed with the broker and the insurer to ensure that the insurance policy will adequately cover all the foreseeable potential losses. To ensure safety during the operations and prevent any unnecessary accident, the Group also performs regular maintenance checks on the vessels and other equipment.

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## LETTER FROM THE BOARD

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*(iv) Interest rate risk*

The interest rate risk of the Group is managed and monitored regularly by senior management of the Group. The Group currently does not have an interest rate hedging policy. However, the senior management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

*(v) Liquidity risk*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the operations and mitigate the effects of fluctuations in cash flows. The senior management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

*(vi) Credit risk*

In order to minimize the credit risk, the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The amounts of net of allowances for doubtful receivables are estimated by the management based on prior experience and the current economic environment. The Group also reviews the recoverable amount of each individual debt at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors believe that credit risk can be significantly reduced.

*(vii) Risk relating to the reliance on the Shipping Management Company*

During the process of the selection of shipping management company, except the Shipping Management Company, the Group has identified and obtained fee quotation from two companies which are also qualified to perform the heavy lift shipping services. In case the Shipping Management Company terminates the Shipping Management Agreement before its expiry, the Directors believe that the Group can replace the Shipping Management Company with other companies in the market without leading to any material adverse impact to the Group.

### INFORMATION ON THE PARTIES

#### **The Company and the Purchaser**

The Company is a company incorporated in Hong Kong with limited liability, the Existing Shares of which are listed on the Main Board of the Stock Exchange. The Group is principally engaged in the (i) railway construction and operations and (ii) shipping and logistics business.

The Purchaser is an investment holding company incorporated in the Republic of Liberia with limited liability, and is an indirect wholly-owned subsidiary of the Company.

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## LETTER FROM THE BOARD

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### **The Vendor**

The Vendor is an investment holding company incorporated in the Marshall Islands with limited liability. Its principal asset is its rights, title, benefits and interest in and to the Shipbuilding Contract for the construction of the Vessel. The sole shareholder of the Vendor is Greenland Heavylift Holdings Limited, a company incorporated in the Cayman Islands with limited liability, and it was founded in 2014 for the purpose of owning and operating newly-built SSSLV with modern type-1 classification that are under construction in Taiwan. It is supported by a team of experienced professionals in the heavy lift shipping industry. The ultimate beneficial owners of Greenland Heavylift Holdings Limited have extensive experience in oil and gas industry. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, each of the Vendor, its shareholder and its ultimate beneficial owner is an Independent Third Party of the Company, the Placing Agent, vendors of the Company's past acquisitions and their respective connected persons. Save for disclosed in this Circular, to the best of the knowledge, information and belief of the Directors have made all reasonable enquiries, the Vendor has not entered into any discussion, negotiation, agreement, arrangement, understanding or undertaking (whether formal or informal, express or implied) with the Company's connected person or other parties regarding the Acquisition, the Placing and the Shipping Management Agreement.

### **3. PLACING OF NEW SHARES UNDER SPECIFIC MANDATE**

On 8 February 2017 (after trading hours), the Company entered into the Placing Agreement with the Placing Agent, pursuant to which the Placing Agent has conditionally agreed to procure not less than six Placees, to subscribe for, and the Company has conditionally agreed to allot and issue, on a best effort basis, a total of 4,000,000,000 Placing Shares at the Placing Price of HK\$0.10 per Placing Share.

#### **Date**

8 February 2017 (after trading hours)

#### **Parties**

- (1) The Company
- (2) The Placing Agent

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Placing Agent and its substantial shareholders and/or controlling shareholders (as defined under the Listing Rules) are Independent Third Parties as at the Latest Practicable Date.

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## LETTER FROM THE BOARD

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### Conditions of the Placing

The Placing is conditional upon the following conditions being fulfilled on or before 31 March 2017:

- (i) the Company having convened the General Meeting at which resolution(s) shall have been passed by the Shareholders, by way of poll, to approve the grant of the Specific Mandate to issue and allot the Placing Shares in accordance with the Listing Rules;
- (ii) the Share Consolidation having become effective;
- (iii) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Placing Shares on the Stock Exchange; and
- (iv) the obligations of the Placing Agent under the Placing Agreement not being terminated in accordance with the terms thereof.

If the foregoing conditions are not satisfied on or before 31 March 2017, all obligations and liabilities of the Placing Agent and of the Company under the Placing Agreement shall cease and determine and none of the parties to the Placing Agreement shall have any claim against the other in respect of the Placing, save for rights and remedies in respect of liabilities for any antecedent breach thereof.

As at the Latest Practicable Date, none of the above conditions are fulfilled or satisfied or capable of being waived.

### Placees

The Placing Shares will be placed to not less than six Placees (who will be individual, corporate or other investors). As at the Latest Practicable Date, the Placing Agent is identifying the Placees. Under the Placing Agreement, the Placing Agent has undertaken to the Company that the Placees and their ultimate beneficial owner(s) shall be Independent Third Parties of the Company and its subsidiaries and not connected with nor acting in concert with any of the connected persons of the Company or any of their respective associates. Moreover, no Placee will become a substantial shareholder immediately following the Placing Completion.

### Placing Shares

The 4,000,000,000 Placing Shares, representing (i) approximately 277.74% of the total number of Consolidated Shares then in issue and (ii) approximately 73.53% of the total number of Consolidated Shares then in issue as enlarged by the allotment and issue of the Placing Shares. The Placing Agent has conditionally agreed to place a maximum of 4,000,000,000 Placing Shares at the Placing Price on a best effort basis during the Placing Period.

The Placing Shares will be allotted and issued pursuant to the Specific Mandate to be sought from the Shareholders at the General Meeting. The General Meeting will be convened for the Shareholders to consider and, if thought fit, approve the Placing Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate.

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## LETTER FROM THE BOARD

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### Placing Price

The Placing Price is HK\$0.10 per Placing Share, representing:

- (i) a discount of approximately 79.2% to the closing price of HK\$0.48 per Consolidated Share as quoted on the Stock Exchange on the date of the Placing Agreement and adjusted for the effect of the Share Consolidation;
- (ii) a discount of approximately 78.6% to the average closing price of approximately HK\$0.468 per Consolidated Share as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the date of the Placing Agreement and adjusted for the effect of the Share Consolidation;
- (iii) a discount of approximately 69.7% to the closing price of HK\$0.33 per Consolidated Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Share Consolidation; and
- (iv) a premium of approximately 150% over the consolidated net asset value per Consolidated Share of approximately HK\$0.04 based on the consolidated net asset value attributable to the owners of the Company of HK\$57,991,000 as at 30 June 2016 as extracted from the 2016 Interim Report of the Group (based on the number of issued Consolidated Shares of 1,440,186,987 after the completion of the Share Consolidation).

The Placing Price was arrived at after arm's length negotiation between the Company and the Placing Agent with reference to, among other things, (i) the net current liabilities of the Group of approximately HK\$ 892.8 million as at 30 June 2016; (ii) the financial burden of the annual finance costs of the Group and operating cost of the Zunxiao Railway; (iii) the net asset value per Consolidated Share of approximately HK\$0.04 as at 30 June 2016; (iv) the thin trading volumes of the Shares; and (v) the outstanding financial liabilities of the Group and uncertain compensation in relation to the construction of the Zunxiao Railway. For details of the basis of determining the Placing Price and the terms in the Placing Agreement, please refer to the sub-section headed "Reasons for and benefits of the Placing" in this circular.

### Commission

Upon Placing Completion, the Company will pay the Placing Agent a placing commission of 2.5% of the aggregate amount which is equal to the Placing Price multiplied by the number of the successfully placed Placing Shares.

### Ranking of the Placing Shares

The Placing Shares, when issued and fully paid up, shall rank *pari passu* in all respects among themselves and with all other Consolidated Shares then in issue.

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## LETTER FROM THE BOARD

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### **Placing Completion**

The Placing Completion will take place within 5 Business Days following the satisfaction of the conditions precedent set out in the Placing Agreement (or such other date as the Company and the Placing Agent may agree).

### **Application for Listing**

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to, deal in the Placing Shares on the Stock Exchange.

### **Use of Proceeds**

The estimated net proceeds from the Placing are HK\$384 million. The Company intends to apply the net proceeds from the Placing (i) as to approximately HK\$77.8 million to the Down Payment of the Acquisition Consideration of the Vessel; (ii) as to HK\$46.5 million for defraying the costs and expenses to be incurred in connection with the taking physical delivery of the Vessel by the Purchaser after Acquisition Completion; (iii) as to HK\$213.17 million for partial settlement of the remaining amount of the Acquisition Consideration; and the (iv) remaining balance of approximately HK\$46.5 million for the general working capital of the Group (which mainly consists of (i) administrative expenses for twelve-month period to be incurred by the Company of approximately HK\$35.0 million; (ii) minimal operational costs for twelve-month period for two years to be incurred by the railway business of approximately HK\$7.5 million; and (iii) other expenses in relation to mortgage arrangement of approximately HK\$4.0 million).

In case of insufficient funding generated from the Placing to support the Acquisition, the Company intends to finance the shortfall by bank borrowing, which will incur additional finance cost.

In case of the Vendor's failure to deliver the Vessel, the Company will acquire another SSHLV which is similar to the Vessel by using the proceeds from the Placing.

## LETTER FROM THE BOARD

### EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon the completion of the Share Consolidation; (iii) immediately after the allotment and issuance of the Placing Shares; (iv) immediately after the allotment and issuance of the Placing Shares and the Consideration Shares; (v) immediately after the allotment and issuance of the shares upon the full exercise of outstanding share options; and (vi) immediately after the allotment and issuance of shares upon the full exercise of outstanding Convertible Notes on the assumption that there will be no other change in the number of issued Existing Shares/Consolidated Shares after the Latest Practicable Date and before the Placing Completion:

Shareholder	As at the Latest Practicable Date		Immediately upon completion of the Share Consolidation		Upon the completion of the Share Consolidation and the allotment of the Placing Shares		Upon the completion of the Share Consolidation, the allotment and issuance of the Placing Shares and the Consideration Shares and the allotment and issuance of the shares upon the full exercise of outstanding share options		Upon the completion of the Share Consolidation, the allotment and issuance of the Placing Shares and the Consideration Shares and the allotment and issuance of the shares upon the full exercise of outstanding Convertible Notes	
	Number of Existing Shares	Approximately %	Number of Consolidated Shares	Approximately %	Number of Consolidated Shares	Approximately %	Number of Consolidated Shares	Approximately %	Number of Consolidated Shares	Approximately %
<b>Controlling Shareholder &amp; director</b>										
Mr. Wong Kin Tung	4,552,970,325	31.61	455,297,032	31.61	455,297,032	8.37	455,297,032	7.92	455,297,032	7.88
Mr. Liang Jun	2,000,000	0.01	200,000	0.01	200,000	0.01	200,000	-	5,200,000	0.09
Mr. Fung Ka Keung, David	-	-	-	-	-	-	-	-	1,000,000	0.02
Ms. Yu Sau Lai (Note 1)	-	-	-	-	-	-	-	-	730,000	0.01
Mr. Yu Baodong	-	-	-	-	-	-	-	-	5,000,000	0.09
Ms. Sun Wei (Note 1)	-	-	-	-	-	-	-	-	5,000,000	0.09
Option holders (Note 2)	-	-	-	-	-	-	-	-	1,000,000	0.01
<b>Subtotal</b>	<b>4,554,970,325</b>	<b>31.62</b>	<b>455,497,032</b>	<b>31.62</b>	<b>455,497,032</b>	<b>8.38</b>	<b>455,497,032</b>	<b>7.92</b>	<b>473,227,032</b>	<b>8.19</b>
<b>Public shareholders</b>										
Mr. Zhu Gongshan	1,137,450,000	7.90	113,745,000	7.90	113,745,000	2.09	113,745,000	1.98	113,745,000	1.97
Convertible Notes holder	33,205,634	0.23	3,320,563	0.23	3,320,563	0.06	3,320,563	0.06	3,320,563	0.06
Placees	-	-	-	-	4,000,000,000	73.53	4,000,000,000	69.55	4,000,000,000	69.28
Vendor	-	-	-	-	-	-	311,200,000	5.41	311,200,000	5.39
Other option holders (Note 3)	-	-	-	-	-	-	-	-	4,300,000	0.08
Other public Shareholders	8,676,243,916	60.25	867,624,392	60.25	867,624,392	15.94	867,624,392	15.08	867,624,392	15.03
<b>Subtotal</b>	<b>9,846,899,550</b>	<b>68.38</b>	<b>984,689,955</b>	<b>68.38</b>	<b>4,984,689,955</b>	<b>91.62</b>	<b>5,295,889,955</b>	<b>92.08</b>	<b>5,300,189,955</b>	<b>91.81</b>
<b>Total</b>	<b>14,401,869,875</b>	<b>100.00</b>	<b>1,440,186,987</b>	<b>100.00</b>	<b>5,440,186,987</b>	<b>100.00</b>	<b>5,751,386,987</b>	<b>100.00</b>	<b>5,773,416,987</b>	<b>100.00</b>

**Notes:**

- Ms. Yu Sau Lai and Ms. Sun Wei resigned as an Executive Director and a Non-Executive Director with effect from 31 August 2016 but are entitled to exercise their option until 31 May 2017 pursuant to the terms of the share option scheme of the Company.
- Option holders represent 2 participants of the share option scheme of the Company including directors of the Group companies (other than the Directors).
- Other option holders represent 13 participants of the share option scheme of the Company including employees of the Group.



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## LETTER FROM THE BOARD

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### FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has not conducted any equity fund raising activities in the past twelve months preceding the Latest Practicable Date.

### REASONS FOR AND BENEFITS OF THE ACQUISITION AND THE PLACING

#### Reasons for and benefits of the Acquisition

The Group is principally engaged in the (i) railway construction and operations; and (ii) shipping and logistics businesses.

The Board considers that the Acquisition will enable the Group to diversify its business and broaden its source of revenue by entering into the Heavy Lift Business. The Acquisition therefore offers a valuable opportunity to enhance the long-term growth potential of the Group which is in line with the Company's business plan.

The Heavy Lift Business, a highly consolidated market with large barriers to entry, mainly involves transportation of offshore oil and gas production platforms, drilling and process plant units which are highly specialized activities. These units are the largest physical objects, whose weight can be over 50,000 tons, moved by marine transportation regularly between different geographical locations. The safe and effective transportation of these units has therefore developed into a niche sector of the shipping industry with a fleet of specialist vessels. Currently, the market has been dominated by a large incorporation with headquarter based in the Netherlands and a China state-owned enterprise, owning 21 SSHLV and 5 SSHLV, respectively. As mentioned in the sub-section headed "Assets to be acquired" in this circular, there are only five SSHLV characterized in the type-0 and type-1 categories in the world. Accordingly, the Vessel will become the sixth SSHLV in the category.

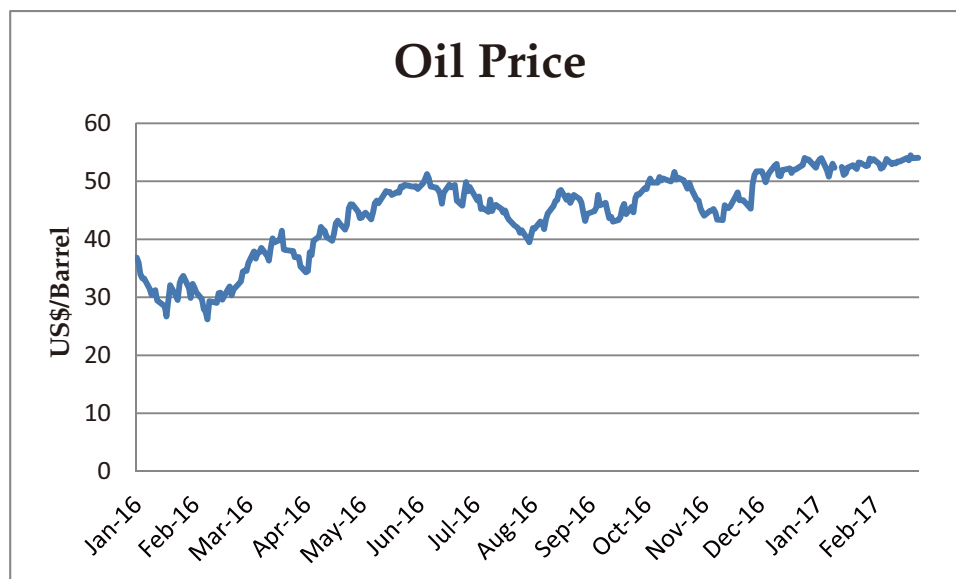
Furthermore, as mentioned in the sub-section headed "Assets to be acquired" in this circular, the Purchaser will enter into two separate legally binding voyage charters on terms identical to the Charterparties. There are also signed LOIs which are expected to be materialized. Therefore, the Group will be expecting a greater revenue stream and better profit margin upon the Acquisition Completion. The Directors consider that the income from the Heavy Lift Business will become the core income source of the Company after the Acquisition.

The Vessel, a newly designed SSHLV, will be equipped with robust technical specifications to perform heavy lift duties continuously at sea. In comparison with other older and less advanced SSHLV, the Vessel, equipped with the most advanced technology, can be operated at comparatively lower fuel cost and maintenance costs, and provides better and safer transportation services which in turn will provide competitive edge over other companies in the same industry. The Directors consider that the Vessel will be a quality asset which provides advantage and a better profit margin over current vessels consisting mostly of older converted vessels owned by other market players in the industry.

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## LETTER FROM THE BOARD

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Source: The U.S. Energy Information Administration (EIA)

In addition, the heavy lift shipping industry has been benefited from the soaring Oil Price since early 2016. The Oil Price has seen the lowest of approximately US\$26 per barrel in February 2016, rebounded to approximately US\$54 per barrel in late December 2016 stabilised above US\$50 per barrel up to the Latest Practicable Date. In light of such upward trend of the Oil Price, a number of international oil companies have increased their investment in offshore oil drilling including construction of jack-up rigs and semi-submersible rigs which require the heavy transportation services provided by SSSLV. With the positive correlation between the Oil Price and the investment in offshore oil projects, the Directors considered that the Acquisition will bring long term benefit to the Company and the Shareholders as a whole.

After taking into account the above factors, the Director consider that (i) the Acquisition shall be complementary and synergistic to the Company's existing bulk shipping business, which is in line with the Company's business development strategy; (ii) the Acquisition shall also broaden the scope of the Company's shipping business and provide the valuable opportunity for the Company to enter into the Heavy Lift Business; (iii) the Acquisition shall provide a promising and sustainable income stream upon the delivery of the Vessel, the entering into of the two separate legally binding voyage charters and the materialization of the LOIs; (iv) the Company can enjoy a better profit margin benefiting from the lower operating costs compared to other competitors in the industry which carry their business with older and less advanced vessels; (v) the sustainable increase in Oil Price provides optimistic prospect for the offshore oil production industry as well as the heavy lift shipping industry; and (vi) the management with extensive industry experience shall enhance the strength of Heavy Lift Business to sharpen the competitive edge amongst other market players. The Directors consider that the Acquisition is fair and reasonable and is in the interest of the Company and Shareholders as a whole.

### **Reasons for and benefits of the Placing**

The Directors are of the view that the Placing represents an opportunity for the Group to (i) enable the Company to broaden its Shareholders' base with listed company and sizeable financial institutions on one hand, and allow the Placing Agent to introduce investors to the Company through the Placing to cater

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## LETTER FROM THE BOARD

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for the Group's funding needs on the other hand; (ii) invite new strategic shareholders who may introduce new business development opportunities to the Group in the future, especially in its planned logistic business, which will diversify and broaden the income streams of the Group; and (iii) provide the Group with the financial flexibility necessary for its future business development and the capability to capture any prospective investment opportunity as and when it arises.

The Directors have exercised due care and discharged their fiduciary duties when considering alternative fund raising activities, including but not limited to debt financing, rights issue or open offer. With regard to debt financing, the Company approached the existing Convertible Notes subscriber (the "**Existing CN Subscriber**") for additional subscription of Convertible Notes. Having considered that (i) further subscription would increase the gearing level of the Group; (ii) interest expenses would be increased which would impose additional financial burden to the Group's future cash flows; (iii) the terms offered by the Existing CN Subscriber are not favourable to the Group, and (iv) the Group does not have further assets which can be pledged as collateral for further debt financing, therefore, the Directors consider that debt financing or any combination of financing that include debt financing is not feasible to the Group as well as not suitable for its long-term development. In respect of the rights issue and open offer, the Directors had approached several underwriters and none of them indicated an interest in underwriting the Consolidated Shares in light of the financial position of the Company with high gearing ratio. In addition, given the fund raising size and the thin trading volumes of the Existing Shares/Consolidated Shares, the Directors consider that they may have difficulty to find an independent underwriter in Hong Kong which is interested to underwrite a rights issue or open offer of the Company. Moreover, the Directors considered that the rights issue or open offer would incur costly underwriting commission and the process would be relatively more time-consuming, even if such an independent underwriter were identified. On the contrary, the Placing can be completed within a short period of time subject to the Shareholders' approval with a lower cost as compared to that of rights issue or open offer. Therefore, the Directors are of the view that the Placing is in the best interest to the Company amongst debt financing, rights issue and open offer.

The Company had approached several financial institutions that are independent of the Company and its connected persons for the negotiation of the terms of the Placing before entering into the Placing Agreement. For the sake of minimizing the dilution effect to the Shareholders as a result of the allotment and issuance of the Placing Shares, the Directors had also considered raising the Placing Price and reducing the size of the Placing. However, after taking into account (i) the existing financial position of the Company, in particular the net current liabilities of approximately HK\$892.8 million and the high gearing ratio of approximately 97% as at 30 June 2016; (ii) the financial burden of the annual finance cost of approximately RMB57.8 million (equivalent to approximately HK\$67.6 million) with reference to the total borrowings of approximately HK\$1,658.0 million as at 30 June 2016; (iii) the financial burden of annual minimal operational cost of approximately HK\$7.5 million as a result of the construction in progress of Zunxiao Railway which has not yet generated any revenue to the Group; (iv) further capital commitment of at least RMB450.0 million (equivalent to approximately HK\$526.5 million) required for the construction of Zunxiao Railway; and (v) the minimum size of placing to cover the use of proceeds as set out in the sub-section headed "Use of Proceeds" in this circular, the Directors failed to reach any consensus in these respect with the financial institutions except the Placing Agent. During the negotiation with the Placing Agent, in view of the above factors, the Company and the Placing Agent had reached a consensus on the Placing Price of HK\$0.10 per Consolidated Share and the Placing Shares of 4,000,000,000 Consolidated Shares. The Placing Agent also indicated that it would enter into the Placing Agreement on the basis that no new substantial shareholders shall be introduced to the Company and no change shall be made to the existing Board. Accordingly, the Placing Agreement was entered into on these bases.

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## LETTER FROM THE BOARD

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After considering the above, the Directors are of the view that the Placing (including the Placing Price, number of the Placing Shares and terms of the Placing) is fair and reasonable. After taking into account (i) placing being the most appropriate way of fund raising of the Company among other options including debt financing, rights issue and open offer; (ii) no other available terms of placing except the Placing; (iii) the size of the Placing, (iv) the financial position and the loss making position of the Group; (v) an aggregate amount of cash to be paid of approximately US\$37.4 million (equivalent to approximately HK\$291.0 million) which comprises the cash portion of the Acquisition Consideration of the Vessel of US\$10 million (equivalent to approximately HK\$77.8 million) and cash portion of the remaining amount of the Acquisition Consideration of US\$27.4 million (equivalent to approximately HK\$213.17 million); (vi) the reasons for and benefits of the Acquisition and the Placing as discussed above; (vii) the thin trading volumes of the Existing Shares/Consolidated Shares; and (viii) the premium of approximately 150% over the consolidated net asset value per Consolidated Share as at 30 June 2016, the discount of approximately 69.7% to the closing price of HK\$0.033 per Existing Share as at the Latest Practicable Date would be necessary to attract potential investors and align the benefit and risk between the Company and its potential investors.

### **FINANCIAL EFFECTS OF THE ACQUISITION AND THE PLACING ON THE GROUP**

Upon Completion, the Vessel will become one of the major assets of the Company and its relevant revenue and expenses will be recognized in the Group's result for the year ending 31 December 2017.

As referred to in the 2016 Interim Report, the unaudited consolidated net assets of the Group as at 30 June 2016 amounted to approximately HK\$65.7 million, comprising total assets of approximately HK\$1,894.8 million and total liabilities of approximately HK\$1,829.1 million.

As referred to the annual report of the Group for the year ended 31 December 2015, the total loss for the year ended 31 December 2015, attributable to the owners of the Company, was approximately HK\$297.9 million.

According to the unaudited pro forma financial information of the Group as set out in Appendix II in this circular, the unaudited pro forma consolidated total assets of the Group as at 30 June 2016 would be increased by approximately HK\$904.4 million to approximately HK\$2,799.2 million and the unaudited pro forma consolidated total liabilities of the Group as at 30 June 2016 would be increased by approximately HK\$430.9 million to approximately HK\$2,260.0 million upon completion of the Acquisition and the Placing, assuming that the Acquisition and the Placing had taken place on 30 June 2016. Accordingly, the unaudited pro forma consolidated net assets of the Group as at 30 June 2016 would be increased by approximately HK\$473.5 million to approximately HK\$539.2 million.

The unaudited pro forma consolidated statement of financial position of the Group as at 30 June 2016 is prepared based on the unaudited consolidated statement of financial position of the Group as at 30 June 2016 after incorporating the unaudited pro forma adjustments described in the accompanying notes, as if the Acquisition and the Placing had been completed on or before the Acquisition Completion and Placing Completion, respectively.

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## LETTER FROM THE BOARD

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### **Implications under the Listing Rules**

As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the Acquisition exceeds 100%, the Acquisition constitutes a very substantial acquisition for the Company and is therefore subject to the notification, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Placing Shares will be allotted and issued pursuant to the Specific Mandate to be sought from the Shareholders at the General Meeting.

### **GENERAL MEETING**

The General Meeting will be held to consider and, if thought fit, pass the requisite resolutions to approve, among other things: (i) the proposed Share Consolidation; (ii) the proposed Acquisition; and (iii) the proposed Placing by way of poll. A notice convening the General Meeting to be held at 9/F., Gloucester Tower, The Landmark, 15 Queen's Road, Central, Hong Kong on Friday, 24 March 2017 at 11:00 a.m. is set out on pages 66 to 68 of this circular. A form of proxy for use at the General Meeting is enclosed with this circular. Whether or not you intend to attend the General Meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the General Meeting or any adjournment thereof should you so wish.

Pursuant to Rule 13.39(4) of the Listing Rules, all votes for the Shareholders at a general meeting must be taken by poll. As such, all resolutions to be proposed at the General Meeting will be put to vote by way of poll.

### **RECOMMENDATION**

The Board considers that the resolutions to be proposed at the General Meeting are in the best interests of the Company and the Shareholders as a whole and recommends the Shareholders to vote in favour of such resolutions at the General Meeting.

### **ADDITIONAL INFORMATION**

Your attention is drawn to the additional information contained in the appendices to this circular.

By order of the board of  
**Asia Energy Logistics Group Limited**  
**Liang Jun**  
*Executive Director*

## 1. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE COMPANY

Financial information of the Group for the year ended 31 December 2013, the year ended 31 December 2014, the year ended 31 December 2015 and six months ended 30 June 2016 are disclosed on pages 31-93 of the 2013 annual report published on 21 March 2014, pages 33-103 of the 2014 annual report published on 20 March 2015, pages 35-103 of the 2015 annual report published on 24 March 2016 and pages 25-58 of the 2016 Interim Report published on 31 August 2016 respectively.

The said annual reports and interim report of the Company are available on the Company's website at <http://www.aelg.com.hk/> and website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) through the links below:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0831/LTN20160831155.pdf>

<http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0407/LTN20160407289.pdf>

<http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0402/LTN20150402057.pdf>

<http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0401/LTN201404012053.pdf>

## 2. INDEBTEDNESS STATEMENT

As at the close of business on 31 January 2017, being the latest practicable date for the purpose of this indebtedness statements of prior to printing of this circular, the Group had outstanding bank and other loans of approximately HK\$1,553 million and Convertible Notes in the principal amount of HK\$4.5 million as detailed below:

### **Bank and other borrowings**

As at the close of business on 31 January 2017, the Group had outstanding secured bank loans of approximately HK\$1,121 million and unsecured other loans of approximately HK\$432 million. The bank loans were secured by guarantees provided by a connected party, Golden Concord Holdings Limited (“GCHL”). In return for GCHL's guarantees, the Group has provided a counter-guarantee to the extent of the equity interest held by the Group in each of the relevant subsidiaries principally engaged in railway construction and operations (the “**Railway Subsidiaries**”), and share mortgage, equity and asset pledges of the Company's Railway Subsidiaries in favour of GCHL.

### **Convertible Notes**

As at the close of business on 31 January 2017, the Group had outstanding Convertible Notes in the principal amount of approximately HK\$4.5 million.

**Material guarantees and contingent liabilities**

The material guarantees and contingent liabilities of the Group as at 31 January 2017 are as follows:

- (i) The Company has executed a counter-guarantee to indemnify GCHL up to approximately RMB558,528,000 equivalent to approximately HK\$653,478,000 as at 31 January 2017, in return of which GCHL has agreed to execute guarantees to a bank in respect of bank loans granted to the Group's Railway Subsidiaries. Under the counter-guarantee, the Company will be liable to pay GCHL (including all related accrued interests, costs and expenses incurred, if any) in the event of any default of the bank loans.
- (ii) The Group has three non-wholly owned subsidiaries which are principally engaged in the construction and operations of Zunxiao Railway. These subsidiaries have compensation payable to an overlaid mine owner (the "**Mine Owner**") as the Zunxiao Railway runs over the mine. The Mine Owner has requested for an excessive amount of compensation, which the management of the Company considers to be exaggerated and unreasonable. Although continuous effort has been made in negotiation with the Mine Owner, no agreement has been reached by the parties involved in respect of the scope of compensation payable. As at 31 January 2017, there is no sufficient and reliable information available for the management to estimate the amount of compensation that may be payable by the Group. The Directors are of the view that the amount of compensation cannot be measured with sufficient reliability and therefore no provision has been recognised as at 31 January 2017.

Saved as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade and other payables in the ordinary course of business, the Group did not, at the close of business on 31 January 2017, have any outstanding loan capital, bank overdrafts, charges or debentures, mortgages, term loans, debt securities or any other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptance (other than normal trade bills), acceptable credits or any guarantees or other material contingent liabilities.

**3. WORKING CAPITAL SUFFICIENCY**

In determining the sufficiency of the working capital of the Group, the Directors have made the following assumptions:

- (i) for the purpose of Acquisition of the Vessel, one of the precedent conditions for completion of this Acquisition requires the Company to obtain the Vessel's mortgage loan of approximately HK\$434.87 million ("**Mortgage Loan**"). The Company has approached several financial institutions and obtained preliminary term sheets from two of them and considers it will be able to obtain the Mortgage Loan. Accordingly, the Mortgage Loan is included in the Group's working capital forecast;

- (ii) The Group started its investment in railway construction and operations in July 2009 through three subsidiaries, namely 承德遵小鐵路有限公司 (Chengde Zunxiao Railway Limited\*) (“**Zunxiao Company**”), 承德寬平鐵路有限公司 (Chengde Kuanping Railway Limited\*) (“**Kuanping Company**”), 唐山唐承鐵路運輸有限責任公司 (Tangshan Tangcheng Railway Transportation Company Limited\*) (“**Tangcheng Company**”) (collectively referred as the “**Gofar Group**”). The business scope of the Gofar Group consists of the construction and operation of Zunxiao Railway which is a 121.7 kilometer singletrack railway with 12 stations connecting two major municipalities in the Hebei Province, namely Tangshan City (唐山市) and Chengde City (承德市), in the PRC.

However, as disclosed in the Company’s previous financial reports, the construction progress had been obstructed significantly owing to contingent circumstances. For the past few years, GCHL has been providing financial support to the Gofar Group to meet its financial obligations. The directors, after taking into account the financial ability of GCHL, consider GCHL has sufficient financial ability to continue to provide financial support to the Company’s subsidiaries principally engaged in railway construction and operation; and

- (iii) The Group started its dry bulk shipping business in May 2010 by acquiring the entire interest in Ocean Jade Investments Limited (“**Ocean Jade**”). Ocean Jade holds a 50% interest in a company which is jointly controlled entity (the “**JV Company**”), and together with its subsidiaries (the “**JV Group**”) with Waibert Navigation Company Limited (“**Waibert**”), a wholly-owned subsidiary of the Guangdong Province Navigation Holdings Company Limited, one of the key provincial government owned enterprise. The JV Company is principally engaged in the investments in ship assets and provision of coal shipments services.

In accordance with the shareholders’ agreement, each of the joint venture partner and the Group are responsible to purchase two vessels for contribution to the JV Company as part of funds to be contributed. Two vessels had been purchased by the joint venture partner while the Group has not yet purchased the remaining two vessels.

The Group will discuss with the joint venture partner and expect that the Group will be able to reach an agreement with the joint venture partner to withhold enforcement of the Group’s obligations under a shareholders’ agreement to acquire two additional vessels until the shipping market recovers to a level which justify the further acquisition of the two remaining vessels or otherwise discharge the Group’s obligations under a shareholders’ agreement to acquire two additional vessels.

The Directors are of the opinion that, after taking into account (i) the Group’s existing cash and bank balances; (ii) the Company will be able to obtain the Mortgage Loan; (iii) the financial support from GCHL which has sufficient financial ability to continue to provide financial support to the Company’s subsidiaries principally engaged in railway construction and operation; (iv) the Group will be able to reach agreement with the joint venture partner to withhold enforcement of or otherwise discharge the Group’s obligations under a shareholders’ agreement to acquire two vessels; and (v) and other internal resources available; the Group will, following the completion of the Placing and the Acquisition, will have sufficient working capital for its present requirements for at least 12 months from the date of this circular in the absence of unforeseen circumstances.



#### 4. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is a discussion and analysis of the Group's results of operation for each of the three years ended 31 December 2015 and the six months ended 30 June 2016. The information set out below is principally extracted from the "Management Discussion and Analysis" section of the annual reports of the Company for year ended 31 December 2013, 2014 and 2015 and interim report of the Company for the six months ended 30 June 2016 respectively, in order to provide further information relating to the financial condition and results of operations of the Group during the periods stated.

##### (a) Management discussion and analysis for the six months ended 30 June 2016

###### *Financial Review*

###### Railway Construction and Operations

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

For the period under review, the unaudited turnover of the Group was approximately HK\$3,755,000 (30 June 2015: approximately HK\$13,153,000), a decrease of approximately 71% compared to the corresponding period of 2015. The decrease in turnover was due to the downturn in global shipping market.

###### Shipping and Logistics

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

For the period under review, the JV Group recorded revenue of approximately HK\$18,999,000 (30 June 2015: approximately HK\$25,324,000), representing a decrease of approximately 25% as compared to the corresponding period of 2015. The Group's share of loss from the JV Group was approximately HK\$6,950,000 (30 June 2015: loss of approximately HK\$3,744,000), representing an increase of approximately 86% as compared to the corresponding period of 2015.

For the period under review, MV Asia Energy recorded revenue of approximately HK\$3,755,000 (30 June 2015: approximately HK\$13,153,000), representing a decrease of approximately 71% as compared to the corresponding period of 2015.

The Group recorded a loss after tax for the period under review of approximately HK\$261,307,000 (30 June 2015: loss of approximately HK\$181,433,000) representing an increase of approximately 44% as compared to the corresponding period of 2015. The loss was mainly attributable to the provision of impairment loss on railway construction in progress of approximately HK\$187,076,000 and the finance costs of approximately HK\$40,872,000. The loss per share was HK1.16 cent (30 June 2015: HK1.16 cent).

#### Financial Resources, Liquidity and Gearing Ratio

The Group is mainly financed by various borrowings, shareholders' equity and internally generated cash flows. As at 30 June 2016, the Group had bank and cash balances of approximately HK\$12,140,000 (31 December 2015: approximately HK\$30,512,000). The gearing ratio of the Group as at 30 June 2016, which is calculated as net debt divided by total capital, was approximately 97% (30 June 2015: approximately 84%).

#### Pledge of Assets and Contingent Liabilities

GCHL, a company beneficially owned by Mr. Zhu Gongshan, a director of various subsidiaries of the Company, had provided guarantee to the Group's bank loan facilities in aggregate, up to RMB1,033 million (equivalent to approximately HK\$1,209 million), granted to certain non-wholly owned subsidiaries of the Company in the PRC. In return for GCHL's guarantee, the Group provided a counter-indemnity to indemnify GCHL 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\$705 million) and a share mortgage of its shares in China Railway Logistic Holdings Limited ("CRL"), an indirect wholly-owned subsidiary of the Company, and equity and asset pledges of CRL's subsidiaries in favour of GCHL. As at 30 June 2016, the outstanding bank loans amounted to approximately RMB983 million (equivalent to approximately HK\$1,150 million). Therefore, according to the Group's percentage equity interest holdings in the subsidiaries, there was a contingent liability of approximately RMB573 million (equivalent to approximately HK\$670 million).

#### Capital Commitments

As at 30 June 2016, the Group had capital commitment of approximately HK\$274,000,000 (31 December 2015: approximately HK\$279,000,000), details of which are set out in Note 15 to the unaudited condensed consolidated interim financial statements.

#### Exposure to Fluctuation in Exchange Rates

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

## Employees

As at 30 June 2016, the Group had 101 (31 December 2015: 97) full-time employees, 84 of whom were based in the PRC. Staff costs of the Group for the period under review, including directors' remuneration, were approximately HK\$8,899,000 (30 June 2015: approximately HK\$9,544,000). The Group decides the remunerations payable to its staff based on their duties, working experience and the prevailing market practices. Apart from basic remuneration, share options may be granted to eligible employees by reference to the performance of the Group and individual employees. The Group also participated in an approved mandatory provident fund scheme for its Hong Kong employees and made contributions to the various social insurance funds for its PRC employees.

## (b) Management discussion and analysis for the year ended 31 December 2015

### *Financial Review*

#### Railway Construction and Operations

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

#### Shipping and Logistics

The JV Group recorded revenue of approximately HK\$43.66 million (2014: approximately HK\$73.93 million) for the year under review, representing a decrease of approximately 40.94% as compared to last year. The Group's share of loss from the JV Group was approximately HK\$93.43 million (2014: approximately HK\$15.73 million), representing an increase of approximately 494% as compared to last year. The increase in the Group's share of loss from the JV Group was mainly attributable to the impairment loss on vessels of HK\$82 million.

As part of the Group's business strategy to restructuring the Group's current business and investment portfolios as well as broadening the scope of its shipping business operation, the Company started its own vessel owning and chartering business by the acquisition of a bulk carrier with carrying capacity of approximately 28,000 DWT, MV Tremonia, in November 2013, which was then renamed as MV Asia Energy in May 2014 upon completion of maintenance.

For the year ended 31 December 2015, the turnover of the Group was approximately HK\$22 million, representing a decrease of approximately 40% compared with approximately HK\$37 million for the year ended 31 December 2014. The loss after tax for the year ended 31 December 2015 was approximately HK\$344 million, representing an increase of approximately 46% compared with the loss of approximately HK\$236 million for the year ended 31 December 2014.

The increase in loss for the year under review as compared to the loss for the year ended 31 December 2014 was mainly attributable to, among other factors, the combined net effect of (i) increase in impairment loss on property, plant and equipment to HK\$25 million (2014: HK\$Nil); (ii) decrease in impairment loss on intangible assets to approximately HK\$18.5 million (2014: approximately HK\$55.1 million); (iii) loss arising from the change in fair values of derivative component of Convertible Notes and options/commitment to issue Convertible Notes in the amount of approximately HK\$83.1 million (2014: HK\$Nil); (iv) increase in share of loss of jointly controlled entity to approximately HK\$93.4 million (2014: approximately HK\$15.7 million); (v) decrease in other operating expenses to approximately HK\$22.3 million (2014: approximately HK\$36.2 million) and (vi) decrease in finance costs to approximately HK\$100.9 million (2014: approximately HK\$113.7 million).

The basic and diluted loss per share for the year was HK2.15 cents (2014: HK1.38 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 2015, the Group had bank and cash balances of approximately HK\$31 million (2014: approximately HK\$16 million).

As at 31 December 2015, the Group had unsecured bank loan of HK\$4 million (2014: HK\$4 million) repayable within one year and secured bank loans of approximately HK\$283 million (2014: approximately HK\$190 million) repayable within one year, approximately HK\$283 million (2014: approximately HK\$254 million) repayable within one to two years, approximately HK\$607 million (2014: approximately HK\$802 million) repayable within two to five years. The effective interest rate for the year was 6.96% (2014: 7.84%) per annum.

As at 31 December 2015, the Group had unsecured other borrowings of approximately HK\$181 million (2014: approximately HK\$67 million) repayable within one year and approximately HK\$150 million (2014: approximately HK\$191 million) repayable on demand. Other borrowings of approximately HK\$205 million (2014: approximately HK\$228 million) are interest bearing at 6.47% to 20.4% (2014: 6.5% to 20.4%) per annum with the remaining balances of HK\$125 million (2014: HK\$30 million) interest free.

The gearing ratio of the Group as at 31 December 2015, which is calculated as net debt divided by total capital, was approximately 84% (2014: approximately 76%).

### Pledge of assets and Contingent Liabilities

GCHL, had provided a guarantee to a bank in respect of the bank loan facilities, in aggregate, up to RMB1,033 million (equivalent to approximately HK\$1,233 million), granted to certain non-wholly owned subsidiaries of the Company in the PRC. In return for GCHL's guarantee, the Group provided a counter-indemnity to indemnify GCHL 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\$719 million) and a share mortgage of its shares in CRL, an indirect wholly-owned subsidiary of the Company, and equity and asset pledges of CRL's subsidiaries in favour of GCHL. As at 31 December 2015, the outstanding bank loans amounted to approximately RMB983 million (equivalent to approximately HK\$1,173 million) and therefore, according to the Group's percentage equity interest holdings in the subsidiaries, the amount indemnified by the Group under the counter-indemnity in favour of GCHL would be up to approximately RMB573 million (equivalent to approximately HK\$684 million).

### Capital Commitments

As at 31 December 2015, the Group had capital commitment of approximately HK\$279 million (31 December 2014: approximately HK\$297 million), details of which are set out in Note 30 to the consolidated financial statements.

### Exposure to Fluctuation in Exchange Rates

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

### Employee

As at 31 December 2015, the Group had 97 (2014: 99) full-time employees, 80 of whom were based in the PRC. Staff costs, including director's remuneration and share option expense, of the Group for the year ended 31 December 2015 were approximately HK\$19.1 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.

**(c) Management discussion and analysis for the year ended 31 December 2014***Financial Review*

## Railway Construction and Operations

The construction of the Zunxiao Railway was originally scheduled to be completed by the end of 2010. However, the construction process was significantly obstructed due to the deferral of a major loan facility of RMB1.033 billion expected to be granted by 中國民生銀行股份有限公司 (China Minsheng Banking Corp., Limited) and other unforeseen obstacles encountered during the construction stage, such as land resumption and demolition etc. Although continuous efforts were made with the expectation to speed up the construction process, the completion of the railway construction has been further delayed.

## Shipping and Logistics

The JV Group recorded revenue of approximately HK\$73.93 million (31 December 2013: approximately HK\$80.22 million) for the period under review, the Group's loss from this business segment was approximately HK\$15.73 million (31 December 2013: approximately HK\$14.24 million). Apart from the shipping business operated through the JV Group, the Company also started its own vessel chartering business in September 2013 by the chartering of MV Jin Yuan, a bulk vessel with a carrying capacity of approximately 55,000 DWT, for a contract period of 6–8 months. With a view to further broaden its business development in dry bulk shipping industry, the Company acquired MV Tremonia, a bulk carrier with carrying capacity of approximately 28,000 DWT, in November 2013. The vessel was then renamed as MV Asia Energy in May 2014. MV Asia Energy currently has a time-charter contract of 16–19 months which will expire between August 2015 and November 2015.

For the year ended 31 December 2014, the turnover of the Group was approximately HK\$36,680,000 (2013: approximately HK\$19,084,000). The loss after tax for the year ended 31 December 2014 amounted to approximately HK\$235,765,000 (2013: loss after tax of approximately HK\$128,846,000). The increase in loss for the year under review as compared to the loss for the year ended 31 December 2013 was mainly attributable to, among other factors, the increase in finance costs to approximately HK\$113,730,000 (2013: approximately HK\$55,196,000) and the increase in impairment loss of intangible assets to approximately HK\$55,062,000 (2013: approximately HK\$6,244,000). The basic and diluted loss per share for the year was HK1.38 cents (2013: HK0.78 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 2014, the Group had bank and cash balances of approximately HK\$16 million (2013: approximately HK\$13 million).

As at 31 December 2014, the Group had unsecured bank loan of approximately HK\$4 million (2013: HK\$Nil) repayable within one year and secured bank loans of approximately HK\$190 million (2013: approximately HK\$127 million) repayable within one year, approximately HK\$254 million (2013: approximately HK\$191 million) repayable within one to two years, approximately HK\$802 million (2013: approximately HK\$763 million) repayable within two to five years and HK\$Nil (2013: approximately HK\$169 million) repayable after five years. The effective interest rate for the year was 7.84% (2013: 7.86%) per annum.

As at 31 December 2014, the Group had unsecured other borrowings of approximately HK\$67 million (2013: approximately HK\$115 million) repayable within one year and approximately HK\$191 million (2013: approximately HK\$26 million) repayable on demand. Other borrowings of approximately HK\$228 million (2013: approximately HK\$141 million) are interest bearing at 6.5% to 20.4% (2013: 6.5% to 18%) per annum with the remaining balances of HK\$30 million (2013: Nil) interest free.

The gearing ratio of the Group as at 31 December 2014, which is calculated as net debt divided by total capital, was approximately 76% (2013: approximately 65%).

#### Pledge of assets and Contingent Liabilities

GCHL had provided a guarantee to a bank in respect of the bank loan facilities, in aggregate, up to RMB1,033 million (equivalent to approximately HK\$1,309 million), granted to certain non-wholly owned subsidiaries of the Company in the PRC. In return for GCHL's guarantee, the Group provided a counter-indemnity to indemnify GCHL 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\$763 million) and a share mortgage of its shares in CRL, an indirect wholly-owned subsidiary of the Company, and equity and asset pledges of CRL's subsidiaries in favor of GCHL. As at 31 December 2014, the outstanding bank loans amounted to approximately RMB983 million (equivalent to approximately HK\$1,246 million). Therefore, according to the Group's percentage equity interest holdings in the subsidiaries, there was a contingent liability of approximately RMB573 million (equivalent to approximately HK\$726 million).

#### Capital Commitments

As at 31 December 2014, the Group had capital commitment of approximately HK\$297 million (31 December 2013: approximately HK\$343 million), details of which are set out in Note 33 to the consolidated financial statements for the year ended 31 December 2014.

#### Exposure to Fluctuation in Exchange Rates

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

## Employees

As at 31 December 2014, the Group had 99 (2013: 137) full-time employees, 84 of whom were based in the PRC. Staff costs, including director's remuneration and share option expense, of the Group for the year ended 31 December 2014 were approximately HK\$19,814,000. 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.

## 5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in the (i) railway construction and operations; and (ii) shipping and logistics businesses.

Upon Acquisition Completion, the Vessel will become one of the major assets of the Group. Based on the unaudited pro forma statement of financial position of the Group as set out in Appendix II to this circular, net assets recorded by the Group as at 30 June 2016 was approximately HK\$65.7 million and the unaudited pro forma net assets of the Group will be approximately HK\$539.2 million, representing an increase of approximately 720.7% after the Acquisition Completion.

In coming year, after Acquisition Completion, the Group will continue to develop its existing businesses to further enhance the business portfolio of the Group and to improve its business performance. The management of the Group will continue to review its existing businesses from time to time and strive to improve the business operation and financial position of the Group.

For the railway business, the Directors intend to retain the railway business after considered that (i) the Zunxiao Railway is the major asset of the Company, which accounted for approximately 96% of the total assets of the Company as at the Latest Practicable Date; (ii) the retention of the railway business can allow the Company to maintain a sufficient level of operations; (iii) revenue of the railway business will be generated after the completion of the construction of Zunxiao Railway. Furthermore, the Company has renewed its total loans due to GCHL including accrued interest (the "GCHL Loan") of approximately RMB364.7 million (equivalent to approximately HK\$408.0 million), as such the GCHL Loan will be payable only upon the operation of Zunxiao Railway records a breakeven point according to the loan renewal agreement duly signed by the Company and GCHL. The Company intends to repay the GCHL Loan by utilizing the revenue generated from the railway business in the future. After taking into account the above, the Directors considered that the retention of the railway business is in the interests of the Company and Shareholders as a whole.



For the shipping and logistics business, the Board considers that the Acquisition will enable the Group to diversify its business and broaden its source of revenue by entering into the Heavy Lift Business. The Acquisition therefore offers a valuable opportunity to enhance the long-term growth potential of the Group which is in line with the Company's business plan. In addition, during the second half of 2016, the average Baltic Dry Index (BDI) has shown an increasing trend, which rose from 677 on 1 July 2016 to 953 points on 31 December 2016, representing an increase by approximately 40.8% during the period. The Directors consider that it is a signal of improvement in the dry bulk market and is also beneficial for the Group to maintain the existing vessel chartering business. With respect to the JV Company, the Group will discuss with the joint venture partner and expect to reach an agreement to withhold the enforcement of the Group's obligations under the shareholders' agreement to acquire two additional vessels until the shipping market recovers to a level which justifies the further acquisition of the two remaining vessels.

Looking ahead, in order to expand the scale of shipping and logistics business and improve the financial position of the Group, the Group will continue to seek suitable investment opportunities from time to time to enhance the long-term growth potential of the Group. As at the Latest Practicable Date, the Group has not yet identified any potential targets for mergers and acquisition.

#### **6. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2015 (being the date to which the latest published audited accounts of the Group were made up).

**A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP****Introduction**

The unaudited pro forma financial information (the “**Unaudited Pro Forma Financial information**”), comprising the unaudited pro forma consolidated statement of financial position of Asia Energy Logistics Group Limited (the “**Company**”) and its subsidiaries (collectively the “**Group**”) and related notes, has been prepared in accordance with paragraph 4.29 of the Listing Rules for the purpose of illustrating the effect of (i) the acquisition of a vessel (the “**Vessel**”) and (ii) placing of new shares under specific mandate (hereinafter collectively referred to as the “**Transactions**”) as if they had been completed on 30 June 2016.

The Unaudited Pro Forma Financial Information is prepared based on the unaudited consolidated statement of financial position of the Group as at 30 June 2016 as set out in the published interim report of the Group for the six months ended 30 June 2016, after making pro forma adjustments relating to the Transactions that are (i) directly attributable to the Transactions and (ii) factually supportable, as if the Transactions had been completed on 30 June 2016.

The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimates and uncertainties for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Group following the completion of the Transactions and does not purport to describe the actual financial position of the Group that would have been attained had the Transactions been effected on the dates indicated herein. Further, the Unaudited Pro Forma Financial Information of the Group does not purport to predict the future financial position of the Group after the completion of the Transactions.

The Unaudited Pro Forma Financial Information of the Group after the Transactions should be read in conjunction with the historical financial information of the Group as set out in Appendix I to this circular and other financial information included elsewhere in this circular.

## Unaudited Pro Forma Consolidated Statement of Financial Position

	Unaudited	Pro forma adjustments			Unaudited
	consolidated				Pro forma
	statement of				consolidated
	financial				statement of
	position of				financial
	the Group as				position of
	at 30 June				the Group as
	2016				at 30 June
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	2016
	(Note 1)	(Note 2a)	(Note 2b)	(Note 2c)	HK\$'000
<b>Non-current assets</b>					
Property, plant and equipment	41,159		815,344		856,503
Intangible assets	1,000				1,000
Construction in progress	1,779,321				1,779,321
Railway construction prepayment	9,299				9,299
Interest in a jointly controlled entity	–				–
	<u>1,830,779</u>				<u>2,646,123</u>
<b>Current assets</b>					
Other receivables and prepayments	51,923				51,923
Cash and cash equivalents	12,140	384,000	(291,000)	(4,000)	101,140
	<u>64,063</u>				<u>153,063</u>
<b>Current liabilities</b>					
Trade and other payables	170,335				170,335
Bank loans and other borrowings	629,080		62,124	(571)	690,633
Convertible notes	4,925				4,925
Amount due to a jointly controlled entity	143,961				143,961
Amounts due to minority equity owners of subsidiaries	8,558				8,558
	<u>956,859</u>				<u>1,018,412</u>
<b>Net current liabilities</b>	(892,796)				(865,349)
<b>Total assets less current liabilities</b>	<u>937,983</u>				<u>1,780,774</u>

	Unaudited consolidated statement of financial position of the Group as at 30 June 2016 HK\$'000 (Note 1)	Pro forma adjustments			Unaudited Pro forma consolidated statement of financial position of the Group as at 30 June 2016 HK\$'000
		HK\$'000 (Note 2a)	HK\$'000 (Note 2b)	HK\$'000 (Note 2c)	
<b>Non-current liability</b>					
Bank loans	872,261		372,746	(3,429)	1,241,578
Contingent consideration payable	—				—
	<u>872,261</u>				<u>1,241,578</u>
<b>Net assets</b>	<u>65,772</u>				<u>539,196</u>
<b>Capital and reserves attributable to owners of the Company</b>					
Share capital	1,588,011	384,000	89,474		2,061,485
Reserves	<u>(1,530,020)</u>				<u>(1,530,020)</u>
Equity attributable to owners of the Company	57,991				531,465
Non-controlling interests	<u>7,731</u>				<u>7,731</u>
<b>Total equity</b>	<u>65,722</u>				<u>539,196</u>

**Notes to the unaudited pro forma financial information**

- 1) The amounts are extracted from the unaudited consolidated statement of financial position of the Group as at 30 June 2016 as set out in the published interim report of the Group for the six months ended 30 June 2016.
- 2) These adjustments represent:
  - a) Net proceeds from placing of 4,000,000,000 new shares at the placing price of HK\$0.1 per share totaling HK\$384,000,000 after deduction of estimated placing commission of HK\$10,000,000 and other estimated issue expenses of HK\$6,000,000.
  - b) The acquisition of the Vessel represents purchase of asset and the adjustment represents the fair value for the Vessel of US\$104,800,000 (equivalent to approximately HK\$815,344,000) as stated in the valuation report prepared by an independent valuer as set out in Appendix III to this Circular.

The total consideration shall be settled by the Group in the following manner:

- (i) Part of the proceeds from placing of the aforementioned 4,000,000,000 new shares amounting to HK\$291,000,000;
- (ii) Proceeds from a mortgage loan of approximately HK\$434,870,000 to be obtained by the Group. The directors expect the term of the mortgage loan to be seven years. As such, for illustrative purpose, it is assumed that one seventh of the mortgage loan being HK\$62,124,000 and the remaining portion of HK\$372,746,000 were classified as current liabilities and non-current liabilities as at 31 December 2016 respectively; and
- (iii) The remaining purchase consideration of US\$10,000,000 (equivalent to approximately HK\$77,800,000) to be settled by the issuance of 311,200,000 new shares (representing an issue price of HK\$0.25 per share). The fair value of these new shares of HK\$89,474,000 represents the difference between the fair value of assets acquired being HK\$815,344,000 and cash consideration paid of HK\$725,870,000 as stated in 2(b)(i) and (ii) above.

- c) The adjustment represents the estimated mortgage arrangement fee of approximately HK\$4,000,000 to be paid at inception of the aforementioned mortgage loan and will be amortised over the term of the mortgage loan. For illustrative purpose, it is assumed one seventh of the mortgage arrangement fee of HK\$571,000 and the remaining amount of HK\$3,429,000 were included in current portion and non-current portion of the mortgage loan respectively.

After considered the report from the independent valuer on the two separate voyages charters agreements entered into by the Group with the vendor in connection with the acquisition of the Vessel, the directors considered that two separate voyage charters agreements have no value and therefore no intangible assets are recognised.

- 3) In the preparation of the Unaudited Pro Forma Financial Information of the Group, the directors of the Company have performed an impairment review of the Vessel to be acquired in accordance with Hong Kong Accounting Standard 36 Impairment of Assets (“**HKAS 36**”) and the Group’s accounting policies. Based on the impairment test, the recoverable amount of the Vessel was determined with reference to the valuation report dated 8 March 2017 on the fair value of the Vessel prepared by an independent valuer, Roma Appraisal Limited. Since the recoverable amount of the Vessel is not less than its carrying amount, the Company concludes there is no impairment on the Vessel.

The reporting accountant has conducted their work in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus”. In reporting on the unaudited pro forma financial information, the reporting accountant considered that the impairment assessment of the Vessel made by the directors of the Company has been properly compiled on the basis stated in the Unaudited Pro Forma Financial Information of the Group and the basis is consistent with the accounting policies adopted by the Group.

The directors of the Company confirmed that they will adopt consistent accounting policies, valuation method and principal assumptions to assess impairment of the Vessel in subsequent reporting periods in accordance with the requirements of HKAS 36. The Company also confirmed with its auditors that they will audit and opine on the consolidated financial statements of the Company in accordance with Hong Kong Standards on Auditing.

- 4) For the purpose of the unaudited pro forma adjustments in this Unaudited Pro Forma Financial Information, the exchange rate of US\$1 to HK\$7.78 has been applied as at 30 June 2016.

**(B) REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following is the text of a report received from BDO Limited, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Group as set out in this appendix and prepared for the sole purpose of inclusion in this circular.



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**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE  
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION****To the directors of Asia Energy Logistics Group Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Asia Energy Logistics Group Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position of the Company as at 30 June 2016, and related notes as set out in Appendix II of the circular dated 8 March 2017 (the “**Circular**”) issued by the Company in connection with (i) the proposed share consolidation, (ii) the very substantial acquisition in respect of acquisition of a vessel (the “**Vessel**”); and (iii) the placing of new shares under specific mandate. The acquisition of the aforementioned Vessel and placing of new shares are collectively referred to as the “**Transactions**”). The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are set out in Section A of Appendix II to the Circular.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the Transactions on the Group's financial position as at 30 June 2016 as if the Transactions had taken place at 30 June 2016. As part of this process, information about the Group's financial position has been extracted by the directors of the Company from the Company's interim report for the six months ended 30 June 2016, on which no audit or review report has been issued.

**Directors' Responsibility for the Unaudited Pro Forma Financial Information**

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountant’s Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transactions at 30 June 2016 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors of the Company in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transactions, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.



The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the entity, the event or transactions in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**BDO Limited**

*Certified Public Accountants*

Hong Kong

8 March 2017

*The following is the text of a valuation report dated 8 March 2017, prepared for the purpose of incorporation into this circular received from Roma Appraisals Limited in connection with its opinion on the fair market value of the Vessel to be acquired by the Group as at 31 January 2017.*



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26 Harbour Road, Wan Chai, Hong Kong  
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E-mail [info@romagroup.com](mailto:info@romagroup.com)  
<http://www.romagroup.com>

8 March 2017

**Asia Energy Logistics Group Limited**

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

Dear Sir/Madam,

**Re: Valuation of the Vessel (65,000 DWT Semi-submersible Deck Cargo Carrier/Heavy Lift Carrier)**

We refer to your recent instructions for us to value the 65,000 DWT Semi-submersible Deck Cargo Carrier/Heavy Lift Carrier (the “**Vessel**”) to be acquired by Asia Energy Logistics Group Limited (the “**Company**”) and/or its subsidiaries (together with the Company referred to as the “**Group**”). We confirm that we have carried out inspection, made relevant enquiries and obtained such information as we consider necessary for the purpose of providing you with opinion of the fair market value of the Vessel as at 31 January 2017 (the “**Date of Valuation**”) for the purpose of incorporation in the circular of the Company dated 8 March 2017.

**1. BASIS OF VALUATION**

Our valuation of the Vessel is our opinion of the fair market value which we would define as intended to mean “the estimated amount expressed in terms of money that may be reasonably expected for assets in exchange between a willing buyer and a willing seller with equity to both, neither being under any compulsion to sell or buy, both fully aware of all relevant facts, as of the Date of Valuation.”

Our estimate of fair market value is established based on the assumption that the asset could be sold in the open market for its continued use. An estimate of fair market value arrived at on the premises of continued use does not represent the amount that might be realized from piecemeal disposition of the asset in the marketplace or from an alternative use of the asset.

## 2. DESCRIPTION OF THE VESSEL

Pursuant to the shipbuilding contract, the details are set out as follows:

### Particulars

Description:	Specially intended for loading and unloading cargo by submerging the freeboard deck through ballast operations
Class:	Semi-submersible Heavy Transport Vessel
Deadweight:	About 65,000t
Builder:	CSBC Corporation, Taiwan
Commencing to build:	October 2014
Expected to be completed:	May 2017

### Main Dimensions

Length overall:	About 225m
Length between perpendicular:	About 215.2m
Breadth moulded:	48m
Design draught moulded:	10.8m (B-100 freeboard)
Depth extreme:	28.8m (maximum submerged draft)

### Machinery

Main generator sets:	Total about 27,920kW
Main propulsion:	Diesel electric propulsion system
Power:	Minimum 16,000kW total (2x 8,000kW)
Maximum speed:	14.5 knots

### Classification

The Vessel was classed under special survey to the classification of DNV.GL (Classification Society) and registered under the symbols of: DNV +1A1 SEMI-SUBMERSIBLE HEAVY TRANSPORT VESSEL, E0, DYNPOS-AUTR, CLEAN, DK(+), RPS, PWDK, COAT-PSPC(B), BIS, TMON, NAUT-OC, ICE-1C.

Pursuant to the shipbuilding contract entered into between CSBC Corporation, Taiwan (as the builder) and GPO Grace Limited (as the buyer) dated on 6 October 2014, we assume all the information provided by the Company is accurate and correct.

## 3. VALUATION APPROACH AND METHODOLOGIES

There are three generally accepted approaches to value that have been considered in determining the fair market value of the Vessel. These approaches are the market, cost, and income approaches.

The **Market Approach** provides an indication of value by comparing the asset being valued to comparable items recently sold. Using similar units of comparison, adjustments are made, based on the elements of comparison, to the sales price of the comparable. The market comparison approach is particularly well suited to the assessment of the asset.

The **Cost Approach** is based on the theory that an informed purchaser would pay no more for an asset than the cost of purchasing or producing a substitute asset with the same utility as the asset being valued. In applying the depreciated replacement cost approach, the reproduction cost or the replacement cost is determined. Depreciation from all causes is then deducted from that figure.

The **Income Approach** is the present worth of the future economic benefits of ownership. This approach is generally applied to an aggregation of assets that consists of all assets of a business enterprise including working capital and tangible and intangible assets.

In conducting our valuation, we have generally relied on the market approach, by making reference to the relevant market information on two similar type new built semi-submersible heavy transport vessels which are recently delivered and cross checked with the cost approaches. Due to the unavailability of discrete financial information on the Vessel, the income approach was not used in this valuation.

#### 4. VALUATION COMMENTS AND ASSUMPTIONS

We have carried out on-site inspection to verify the general condition of the Vessel in March 2017. The Vessel is currently under assembly and construction at shipyard in Kaohsiung, Taiwan.

While we have not carried out an independent investigation of the documents and information provided to us, we have no reason to doubt the truth and accuracy of these information and we were not aware of any material facts that may have been omitted. We have assumed that all material information that would affect the value of the Vessel has been properly disclosed.

We did not investigate any financial data pertaining to the present or prospective earning capacity of the operation in which the Vessel is used. It was assumed that prospective earnings would provide a reasonable return on the appraised value of the Vessel, plus the value of any assets not included in the valuation, and adequate net working capital. We did not attempt to arrive at a conclusion of value of the Vessel as a total business entity.

We have not made investigation and assume no responsibility for the titles or liabilities against the Vessel.

We have not investigated any safety regulations regarding the Vessel. It is assumed that all necessary licenses, procedures and measures were implemented in accordance with the relevant government legislation and guidance.

We have not made any deduction in respect of any grant either available or received, neither has any adjustment made for any outstanding amounts owing under financing agreements.

To the best of our knowledge, all data set forth in this report are true and accurate. The data, opinions, or estimates, identified as being furnished by others which have been used in formulating this analysis are gathered from reliable sources, yet, no guarantee is made nor liability assumed for the accuracy.

No investigation has been made of, and no responsibility is assumed for, the legal description or for legal matters, including title or encumbrances. Title to the Vessel is assumed to be good and marketable unless otherwise stated. The Vessel is further assumed to be free and clear of any or all liens, easements or encumbrances, unless otherwise stated.

## 5. REMARK

Our valuation is prepared in compliance with the International Valuation Standards published by International Valuation Standards Council.

We hereby confirm that we have neither present nor prospective interest in the Group, the Vessel and the associated companies, or the value reported herein.

Unless otherwise stated, all monetary amounts stated in our valuation is in United States Dollars (“US\$”).

## 6. OPINION OF VALUE

Our opinion of the fair market value of the Vessel assuming it had been completed and ready for immediately use as at the Date of Valuation and all outstanding construction costs have been fully paid and settled, based on the aforesaid basis, assumptions and considerations, as at 31 January 2017 was **US\$104,800,000 (UNITED STATES DOLLARS ONE HUNDRED AND FOUR MILLION EIGHT HUNDRED THOUSAND ONLY)**.

Yours faithfully,  
For and on behalf of  
**Roma Appraisals Limited**

**Dr. Alan W K Lee**

*BCom (Property) MFin PhD (BA)  
AAPI CPV CPV (Business)  
Director*

**Frank F Wong**

*BA (Business Admin in Acct/Econ) MSc (Real Est)  
MRICS Registered Valuer ACIPHE  
Associate Director*

*Notes:* Dr. Alan W K Lee is an Associate of Australian Property Institute. He has over 7 years’ valuation experience of marine assets in Hong Kong and the PRC.

Mr. Frank F Wong is a Chartered Surveyor, Registered Valuer and Associate of Chartered Institute of Plumbing and Heating Engineering who has 18 years’ experience in valuation of plant machinery in Hong Kong and 10 years’ experience in valuation of plant and machinery in the PRC as well as relevant experience on purpose-built vessels, vehicle carriers, liquefied gas carriers, shipyards and docks in the Asia-Pacific region.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. SHARE CAPITAL

Under the Hong Kong Companies Ordinance (Cap. 622, Laws of Hong Kong), the Company, being company incorporated in Hong Kong, does not have an authorized share capital and the Existing Shares/Consolidated Shares do not have a nominal value. The total number of Existing Shares in issue as at the Latest Practicable Date and immediately upon the completion of the Share Consolidation, Placing Completion and Acquisition Completion are as follows:

	<b>Number of Existing Shares/ Consolidated Shares</b>
Existing Shares in issue as at the Latest Practicable Date	14,401,869,875
Consolidated Shares in issue immediately upon completion of the Share Consolidation	1,440,186,987
Placing Shares to be fully issued	4,000,000,000
Consolidated Shares in issue immediately upon Placing Completion	5,440,186,987
Consideration Shares to be fully issued	<u>311,200,000</u>
	<b><u>5,751,386,987</u></b>

As at the Latest Practicable Date, there were outstanding Convertible Notes in the aggregate principal amount of HK\$3.5 million, entitling the holders to subscribe for a total of 109.4 million Existing Shares at the Conversion Price (or 10.94 million Consolidated Shares upon the Share Consolidation becoming effective). Details of the Convertible Notes are set out in the circular of the Company dated 11 April 2016. On the other hand, there were approximately 220.3 million share options outstanding, entitling the holders thereof to subscribe for a total of 220.3 million Existing Shares (or 22.03 million Consolidated Shares upon the Share Consolidation becoming effective).

Save as disclosed above, the Company has no outstanding options, warrants, conversion rights or other similar rights giving rights to subscribe for the Existing Shares. For further information of the effect of the share options and Convertible Notes on the shareholding structure of the Company, please refer to the section headed “Effect on the shareholding structure of the Company” in this circular.

### 3. DISCLOSURE OF INTERESTS

#### Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company and/or any of their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) (the “SFO”), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”), to be notified to the Company and the Stock Exchange, were as follows:

#### Long Position in the Existing Shares

Name of Director	Capacity	Number of Existing Shares held	Number of underlying Existing Shares held under equity derivatives (Note 1)	Total	Approximate percentage of Shareholding (Note 2)
Mr. Liang Jun	Beneficial Owner	2,000,000	50,000,000	52,000,000	0.36%
Mr. Fung Ka Keung, David	Beneficial Owner	–	10,000,000	10,000,000	0.07%
Ms. Yu Sau Lai (Note 3)	Beneficial Owner	–	7,300,000	7,300,000	0.05%
Mr. Yu Baodong	Beneficial Owner	–	50,000,000	50,000,000	0.35%
Ms. Sun Wei (Note 3)	Beneficial Owner	–	50,000,000	50,000,000	0.35%

*Notes:*

- (1) These are share options granted by the Company to the Directors under the share option scheme adopted by the shareholders of the Company on 20 August 2008 and refreshed on 3 June 2010. Such share options can be exercised by the Directors at various intervals during the period from 21 April 2011 to 20 April 2021 at an exercise price of HK\$0.168 per Existing Share.
- (2) The approximate percentage of shareholding was calculated based on the number of 14,401,869,875 Existing Shares in issue as at the Latest Practicable Date.
- (3) Ms. Yu Sau Lai and Ms. Sun Wei resigned as an Executive Director and a Non-Executive Director with effect from 31 August 2016 but are entitled to exercise their option until 31 May 2017 pursuant to the terms of the share option scheme of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

### Interests of substantial Shareholders in the Company and other members of the Group

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital:

### Long position in the Existing Shares

Name	Nature of Interest	Number of Existing Shares	Approximate percentage of shareholding (Note 4)
Mr. Wong Kin Ting ("Mr. Wong")	Interest of controlled corporations	4,552,970,325 (Note 1)	31.6%
Mr. Zhu Gongshan ("Mr. Zhu")	Beneficiary of a discretionary trust & interest of controlled corporations	2,137,450,000 (Note 2)	14.8%
Credit Suisse Trust Limited ("CST")	Trustee	2,000,000,000 (Note 3)	13.9%

*Notes:*

- (1) According to the individual substantial shareholder notice filed by Mr. Wong, Mr. Wong was deemed to be interested in 4,552,970,325 Existing Shares through his interests in the following corporations which are 100% owned by him:
- (i) 295,000,000 Existing Shares held by Delight Assets Management Limited, and
  - (ii) 4,257,970,325 Existing 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 2,137,450,000 Existing Shares that comprised:
- (i) 2,000,000,000 Existing Shares indirectly held by Asia Pacific Energy Fund, a trust fund to which Mr. Zhu is both a founder and a beneficiary, details of which are described in Note 3 below, and
  - (ii) 137,450,000 Existing Shares directly held by Profit Act Limited, which is indirectly controlled by Mr. Zhu.
- (3) According to the corporate substantial shareholder notice filed by CST on 1 November 2013, CST was deemed to be interested in 2,000,000,000 Existing Shares in its capacity as the trustee of these Existing Shares. These 2,000,000,000 Shares were beneficially owned by Fast Sky Holdings Limited which in turn is 100% directly controlled by Golden Concord Group Limited (“**Golden Concord**”). Golden Concord is 100% controlled by Asia Pacific Energy Holdings Limited which in turn is 100% controlled by Asia Pacific Energy Fund Limited (“**APEFL**”). APEFL is 50% controlled by Serangoon Limited and 50% controlled by Seletar Limited and both Serangoon Limited and Seletar Limited are 100% controlled by CST.
- (4) The approximate percentage of shareholding was calculated based on the number of 14,401,869,875 Existing Shares as at the Latest Practicable Date.

Save as disclosed above, the Directors are not aware of any person (other than a Director of the Company) who, as at the Latest Practicable Date, had an interest or short position in the shares and underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any member of the Group.

#### **Interests in contract or arrangement**

As at the Latest Practicable Date, none of the Directors was materially interested in any subsisting contract or arrangement entered into by any member of the Group which was significant in relation to the business of the Group as a whole.

#### **Interests in assets**

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest, direct or indirect, in any assets which had been, since 31 December 2015, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

#### **Service contracts**

As at the Latest Practicable Date, none of the Directors had entered into, or proposed to enter into, any service contract with the Company or any other member(s) of the Group (excluding contracts expiring or which may be terminated by the Company within a year without payment of any compensation (other than statutory compensation)).

### Interests in other competing business

As at the Latest Practicable Date, 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 independent non-executive director of the Company and does not participate in the daily operation of the Group, the Directors believe that any significant competition caused to the business of the Group would be unlikely. Mr. Chan has confirmed he is fully aware of, and has been discharging, his fiduciary duty to the Company to avoid conflict of interest. In situations where any conflict of interests arises, Mr. Chan will refrain from taking part in the decision making process and from voting on the relevant board resolution at the board meeting. Moreover, Mr. Chan has no interest in any shares of the Company and Noble Century Investment Holdings Limited.

Save as disclosed above, each Directors has confirmed that so far as they are aware, the Directors and their respective associates do not have any interests in a business which competes or likely to compete with the Group.

## 4. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

## 5. EXPERTS AND CONSENTS

The qualification of the experts who have given opinion in this circular is as follows:

<b>Name</b>	<b>Qualification</b>
BDO Limited	Certified Public Accountants
Roma Appraisals Limited	Professional valuer

As at the Latest Practicable Date, each of BDO Limited and Roma Appraisals Limited has no shareholding in any company in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Group and has no direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2015, being the date to which the latest published audited accounts of the Company were made up.

Each of BDO Limited and Roma Appraisals Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name, in the form and context in which they respectively appear.

**6. MATERIAL CONTRACTS**

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the Latest Practicable Date and are or may be material:

- (i) The second supplemental agreement dated 1 March 2016 to the subscription agreement entered into between, among others, the Company and Advance Opportunities Fund as a subscriber for the amendment of terms and conditions of the subscription agreement;
- (ii) The Placing Agreement dated 8 February 2017 entered into between the Company and the Placing Agent in respect of the Placing; and
- (iii) The Memorandum of Agreement dated 8 February 2017 entered into between the Vendor and the Purchaser in respect of the Acquisition.

**7. GENERAL**

- (a) The secretary of the Company is Ms. Ho Pui Man, who is a member of Hong Kong Institute of Certified Public Accountants and CPA Australia.
- (b) The registered office of the Company is situated at Room 2404, 24/F, Wing On Centre, 111 Connaught Road Central, Hong Kong.
- (c) The share registrar of the Company is Tricor Secretaries Limited, located at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

**8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the registered address of the Company at Room 2404, 24/F, Wing On Centre, 111 Connaught Road Central, Hong Kong during normal business hours (Saturdays and public holidays excepted) up to and including the date which is 14 days from the date of this circular:

- (a) the articles of association of the Company;
- (b) the annual reports of the Company for the two years ended 31 December 2014 and 2015 respectively;
- (c) the unaudited pro forma consolidated financial information of the Group, the text of which is set out in Appendix II to this circular;
- (d) the valuation report, the text of which is set out in Appendix III to this circular;
- (e) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;
- (f) the written consents referred to in the paragraph headed "Experts and Consents" in this appendix; and
- (g) this circular.

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## NOTICE OF GENERAL MEETING

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亞洲能源物流  
**ASIAENERGY**  
Logistics

### ASIA ENERGY LOGISTICS GROUP LIMITED

### 亞洲能源物流集團有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 351)**

**NOTICE IS HEREBY GIVEN** that a general meeting (the “**General Meeting**”) of Asia Energy Logistics Group Limited (the “**Company**”) will be held at 9/F., Gloucester Tower, The Landmark, 15 Queen’s Road, Central, Hong Kong on Friday, 24 March 2017 at 11:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendments the following resolutions:

#### ORDINARY RESOLUTIONS

1. “**THAT** subject to and conditional upon The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting approval of the listing of, and the permission to deal in, the Consolidated Shares (as defined below):
  - (a) with effect from the first business day immediately following the date on which this resolution is passed or the above condition is fulfilled (whichever is the later), every ten (10) issued and unissued ordinary shares in the share capital of the Company be consolidated into one (1) share (each a “**Consolidated Share**”), such Consolidated Share(s) shall rank pari passu in all respects with each other and have the rights and privileges and be subject to the restrictions in respect of ordinary shares contained in the articles of association of the Company (the “**Share Consolidation**”);
  - (b) any fractional entitlements to the issued Consolidated Shares arising as a result of the Share Consolidation will be disregarded and will not be issued to holders of the same but all such fractional Consolidated Shares will be aggregated and, if possible, sold and the net proceeds shall be retained for the benefit of the Company in such manner and on such terms as the directors of the Company may think fit; and
  - (c) the any one director of the Company (the “**Director**”) be and is hereby authorised, for and on behalf of the Company, to enter into any agreement, deed or instrument and/or to execute and deliver all such documents and/or do all such acts on behalf of the Company as he may consider necessary, desirable or expedient to complete, implement and give effect to any and all the arrangements in relation to the Share Consolidation.”

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## NOTICE OF GENERAL MEETING

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2. **“THAT**

- (a) subject to the fulfillment of the conditions therein, the conditional memorandum of agreement dated 8 February 2017 (the **“Memorandum of Agreement”**) entered into among GPO Grace (Hong Kong) Limited, an indirect wholly-owned subsidiary of the Company as purchaser, and GPO Grace Limited (the **“Vendor”**) as vendor, in relation to the sale and purchase of a semi-submersible heavy lift vessel (a copy of which has been produced to the meeting and marked “A” and initialled by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;
- (b) the allotment and issue of a maximum of 311,200,000 Consolidated Shares (the **“Consideration Shares”**) in the share capital of the Company, credited as fully paid, at the issue price of HK\$0.25 per Consideration Share to the Vendor pursuant to the terms and conditions of the Memorandum of Agreement and the transactions contemplated thereunder be and is hereby approved; and
- (c) any one or more of the directors (the **“Directors”**) of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents (in case of execution of documents under seal, to do so by any two Directors or any Director together with the secretary of the Company) which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Memorandum of Agreement and the transactions contemplated thereunder including but not limited to the allotment and issue of the Consideration Shares, as are, in the opinion of the Directors, in the interest of the Company and its shareholders as a whole.”

3. **“THAT:**

- (a) the placing agreement dated 8 February 2017 (the **“Placing Agreement”**) (a copy of which has been produced to the meeting and marked “B” and initialled by the chairman of the meeting for the purpose of identification) and entered into between the Company as issuer and Eternal Pearl Securities Limited as placing agent (the **“Placing Agent”**) in relation to the placing of 4,000,000,000 Consolidated Shares (the **“Placing Shares”**) in the capital of the Company to not less than six places on a best effort basis at a placing price of HK\$0.10 per Placing Share and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) subject to fulfilment of the conditions precedent set out in the Placing Agreement, the allotment and issue of the Placing Shares in accordance with the terms and conditions of the Placing Agreement be and is hereby approved;
- (c) the directors of the Company (the **“Directors”**) be and are hereby granted a specific mandate (the **“Specific Mandate”**) to exercise the powers of the Company to allot and issue the Placing Shares pursuant to the terms and conditions of the Placing Agreement, where such Placing Shares shall rank equally in all respects among themselves and with all fully paid ordinary shares of the Company in issue as at the

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## NOTICE OF GENERAL MEETING

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date of allotment and issue. The Specific Mandate is in addition to, and shall not prejudice nor revoke any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors prior to the passing of this resolution; and

- (d) any Director be and is hereby authorised to do such acts and things, to sign and execute all such further documents (in case of execution of documents under seal, to do so by any two Directors or any Director together with the secretary of the Company) and to take such steps as he/they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Placing Agreement or any transactions contemplated thereunder and all other matters incidental thereto or in connection therewith, and to agree to and make such variations, amendments or waivers of any of the matters relating thereto or in connection therewith.”

By order of the board of  
**Asia Energy Logistics Group Limited**  
**Liang Jun**  
*Executive Director*

8 March 2017

*Registered office:*

Room 2404, 24/F

Wing On Centre

111 Connaught Road Central

Hong Kong

*Notes:*

1. A member of the Company entitled to attend and vote at the General Meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares in the Company may appoint more than one proxy. A proxy need not be a member of the Company.
2. To be valid, the form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited with the Company's share registrar, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for holding the General Meeting or any adjournment thereof (as the case may be).
3. Where there are joint holders of any share in the Company, any one of such joint holders may vote at the General Meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the General Meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.