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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 licensed securities dealer or other registered institution 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 the bank, licensed 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 any securities of the Company.

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) PLACING OF NEW SHARES UNDER SPECIFIC MANDATE;
(2) CONNECTED TRANSACTION IN RELATION TO
THE SUBSCRIPTION OF CONVERTIBLE BONDS
BY A CONNECTED PERSON UNDER SPECIFIC MANDATE; AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee and
Independent Shareholders**



Placing Agent



Capitalised terms used in this cover page shall have the same meaning as those defined in the section headed "Definition" in this circular.

A letter from the Board is set out on pages 7 to 28 of this circular.

A notice convening the General Meeting to be held at Holiday Inn Express Hong Kong Soho, 38/F., No. 83 Jervois Street, Sheung Wan, Hong Kong on Friday, 26 January 2018 at 11:30 a.m. is set out on pages N-1 to N-3 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, 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.

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DEFINITIONS

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

“2017 Interim Report”	the interim report of the Company for the six months ended 30 June 2017
“Affiliate(s)”	in relation to any person, any other person directly or indirectly Controlling, Controlled by or under common Control with, such person. “Control” means the power of a person to secure that the affairs of another person are conducted directly or indirectly in accordance with the wishes of that first person by means of being the beneficial owner of more than 50% of the voting rights of that other person, or having the right to appoint or remove a majority of the members of or otherwise control the votes at the board of directors (or its equivalent) of that other person, and “Controlling” and “Controlled” shall be construed accordingly
“Announcement”	the announcement of the Company dated 30 November 2017 in relation to the Placing and the Subscription
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Bondholder(s)”	holder(s) of Convertible Bond(s)
“Business Day”	any day (not being a Saturday, Sunday or public holiday or any day in Hong Kong on which a typhoon signal number 8 or above or a black rainstorm warning is hoisted) on which licensed banks in Hong Kong are open for business
“Company”	Asia Energy Logistics Group Limited, a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 351)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Conversion Cap”	the maximum number of Conversion Shares that may be issued to a Bondholder without triggering an obligation on such Bondholder or any of its Affiliates to make a mandatory general offer for the Shares (other than those already owned or agreed to be acquired by such Bondholder and parties acting in concert with it) under Rule 26.1 of the Code on Takeovers and Mergers

DEFINITIONS

“Conversion Price”	initially, HK\$0.1701 per Conversion Share, subject to adjustments
“Conversion Share(s)”	587,889,476 new Share(s) (subject to adjustments) to be allotted and issued by the Company to the Bondholders upon the exercise in full of the conversion rights attaching to the Convertible Bonds at the initial Conversion Price pursuant to the Convertible Bonds Instrument, assuming the Conversion Cap is not exceeded
“Conversion Specific Mandate”	the specific mandate to be granted to the Directors by the Shareholders (or, where appropriate, the Independent Shareholders) at the General Meeting for the allotment and issue of the Conversion Shares
“Convertible Bonds”	the 5.5% convertible bonds due 2021 in the aggregate principal amount of HK\$100,000,000 to be issued by the Company to the Subscriber pursuant to the Subscription Agreement
“Convertible Bonds Instrument”	the instrument to be executed by the Company constituting the Convertible Bonds
“Current Market Price”	<p>in respect of a Share at a particular date, the average of the closing prices as quoted on the Stock Exchange for the five (5) consecutive trading days ending on the trading day immediately preceding such date, provided that if at any time during the said five (5) trading day period the Shares shall have been quoted ex-dividend and during some other part of that period the Shares shall have been quoted cum-dividend then:</p> <ul style="list-style-type: none">(a) if the Shares to be issued in such circumstances do not rank for the dividend in question, the quotations on the dates on which the Shares shall have been quoted cum-dividend shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Share; or(b) if the Shares to be issued in such circumstances rank for the dividend in question, the quotations on the dates on which the Shares shall have been quoted ex-dividend shall for the purpose of this definition be deemed to be the amount thereof increased by such similar amount,

DEFINITIONS

and provided further that if the Shares on each of the said five trading days have been quoted cum-dividend in respect of a dividend which has been declared or announced but the Shares to be issued do not rank for that dividend, the quotations on each of such dates shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Share

“Director(s)”	the director(s) of the Company
“DWT”	deadweight tonnage
“General Meeting”	the extraordinary general meeting of the Company to be held at Holiday Inn Express Hong Kong Soho, 38/F., No. 83 Jervois Street, Sheung Wan, Hong Kong on Friday, 26 January 2018 at 11:30 a.m. to consider and, if thought fit, pass with or without amendments the resolutions to approve, among other things: (i) the Placing Agreement and the transactions contemplated thereunder; (ii) the grant of the Placing Specific Mandate for the allotment and issue of the Placing Shares; (iii) the Subscription Agreement and the transactions contemplated thereunder; and (iv) the grant of the Conversion Specific Mandate for the allotment and issue of the Conversion Shares upon conversion of the Convertible Bonds, the notice of which is set out on pages N-1 to N-3 of the circular
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Chan Chi Yuen, Mr. Siu Miu Man and Mr. Wong Cheuk Bun
“Independent Financial Adviser”	Lego Corporate Finance Limited, a licensed corporation to carry out Type 6 regulated activity as defined under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Subscription Agreement and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than Mr. Zhu and his associates

DEFINITIONS

“Independent Third Party(ies)”	person(s) who is (are) third party(ies) independent of the Company and its connected persons
“Issue Date”	the date on which the Convertible Bonds are originally issued in accordance with the Subscription Agreement
“Last Trading Day”	30 November 2017, being the date of the Subscription Agreement and the date of the Placing Agreement
“Latest Practicable Date”	2 January 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Zhu”	Mr. Zhu Gongshan, who is a director of various subsidiaries of the Company and is interested in approximately 7.45% of all the issued Shares as at the Latest Practicable Date
“Nominee”	a wholly-owned subsidiary of the Company to be set up as the purchaser to acquire the Vessel pursuant to the Vessel Purchase Agreement
“Placee(s)”	any person or entity whom the Placing Agent has procured to subscribe for the Placing Shares
“Placing”	the placing of the Placing Shares to the Placee(s) pursuant to the Placing Agreement
“Placing Agent”	Taiping Securities (HK) Co., Limited, a licensed corporation to carry out Type 1 (dealing in securities) regulated activity as defined under the SFO
“Placing Agreement”	the placing agreement dated 30 November 2017 between the Company and the Placing Agent in respect of the Placing
“Placing Completion”	completion of the Placing in accordance with the terms and conditions of the Placing Agreement
“Placing Period”	the period commencing immediately after the Placing Agreement is entered into by the parties and expiring at 11:59 p.m. on 28 February 2018

DEFINITIONS

“Placing Price”	HK\$0.1083 per Placing Share
“Placing Shares”	923,361,034 new Shares, to be allotted and issued pursuant to the Placing Agreement, assuming such Shares are placed in full
“Placing Specific Mandate”	the specific mandate to be granted to the Directors by the Shareholders (or, where appropriate, the Independent Shareholders) at the General Meeting for the allotment and issue of the Placing Shares
“Security Agreements”	security agreements to be entered into between the Company or (as the case may be) the Nominee and the Subscriber, pursuant to which, among others, the Vessel to be acquired and the proceeds from claims of insurance over the Vessel are to be pledged to the Subscriber to secure the obligations of the Company in relation to the Convertible Bonds
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of the Company
“Shareholder(s)”	holder(s) of Shares(s)
“Specific Mandates”	the Placing Specific Mandate and the Conversion Specific Mandate
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	GIC Investment Limited
“Subscription”	the subscription of the Convertible Bonds by the Subscriber
“Subscription Agreement”	the subscription agreement dated 30 November 2017 and entered into between the Company and the Subscriber in respect of the Subscription
“Subscription Completion”	completion of the Subscription in accordance with the terms and conditions of the Subscription Agreement
“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules
“Transaction Documents”	the Subscription Agreement, the Convertible Bonds Instrument and the Security Agreements

DEFINITIONS

“Vessel”	a bulk carrier intended to be purchased by the Company (or the Nominee), and to be mortgaged in favour of the Subscriber subject to the terms and conditions set forth in the Security Agreements
“Vessel Purchase Agreement”	the memorandum of agreement to be entered into between the intended seller of the Vessel and the Company (or the Nominee) for the sale and purchase of the Vessel
“%”	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.

亞洲能源物流
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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. 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
Mr. Siu Miu Man
Mr. Wong Cheuk Bun

5 January 2018

To the Shareholders,

Dear Sir or Madam,

**(1) PLACING OF NEW SHARES UNDER SPECIFIC MANDATE;
(2) CONNECTED TRANSACTION IN RELATION TO
THE SUBSCRIPTION OF CONVERTIBLE BONDS
BY A CONNECTED PERSON UNDER SPECIFIC MANDATE; AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcement. On 30 November 2017 (after trading hours), the Company entered into (a) the Placing Agreement with the Placing Agent in relation to the Placing; and (b) the Subscription Agreement with the Subscriber in relation to the Subscription.

The purpose of this circular is to provide you with, among other things, (i) further information of the Placing; (ii) further information of the Subscription; (iii) general information of the Company; and (iv) the notice of the General Meeting.

LETTER FROM THE BOARD

PLACING OF NEW SHARES UNDER PLACING SPECIFIC MANDATE

On 30 November 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, on a best effort basis, to subscribe for, and the Company has conditionally agreed to allot and issue, a total of 923,361,034 Placing Shares at the Placing Price of HK\$0.1083 per Placing Share.

Date

30 November 2017 (after trading hours)

Parties

- (1) The Company
- (2) The Placing Agent: Taiping Securities (HK) Co., Limited

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Placing Agent and its ultimate beneficial owners were Independent Third Parties as at the Latest Practicable Date.

Conditions of the Placing

Placing Completion is conditional upon fulfillment of the following conditions:

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

None of the foregoing conditions can be waived by any party to the Placing Agreement. If the foregoing conditions are not satisfied on or before 28 February 2018, the Placing Agreement will lapse and become null and void and 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 relation to the Placing, save for rights and remedies in respect of liabilities for any antecedent breach hereof.

Placees

The Placing Shares will be placed to not less than six Placees (who will be individual, corporate or other investors) and who and whose ultimate beneficial owners (where appropriate) shall be Independent Third Parties. It is expected that none of the Placees will become a substantial shareholder of the Company immediately after the Placing.

LETTER FROM THE BOARD

Placing Shares

The 923,361,034 Placing Shares, representing (i) approximately 60.52% of all the existing issued Shares; (ii) approximately 37.70% of all the issued Shares immediately after the allotment and issue of the Placing Shares (assuming the Placing Shares are placed in full); and (iii) approximately 30.40% of all the issued Shares immediately after the allotment and issue of the Placing Shares (assuming the Placing Shares are placed in full) and the allotment and issue of the Conversion Shares after the full conversion of the Convertible Bonds. The Placing Agent has conditionally agreed to place a maximum of 923,361,034 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 Placing 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, among others, the Placing Agreement and the transactions contemplated thereunder, including the grant of the Placing Specific Mandate.

Placing Price

The Placing Price is HK\$0.1083 per Placing Share, representing:

- (i) a discount of approximately 26.82% to the closing price of HK\$0.148 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 29.95% to the average closing price of approximately HK\$0.1546 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the Last Trading Day;
- (iii) a discount of approximately 30.58% to the closing price of HK\$0.156 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (iv) a premium of approximately 20.33% over the consolidated net liability value per Share of approximately HK\$0.09 based on the consolidated net liability value attributable to the owners of the Company of HK\$138,615,000 as at 30 June 2017 as extracted from the 2017 Interim Report (based on the total number of issued Shares of 1,458,617,753 Shares as at 30 June 2017).

The Placing Price was determined after arm's length negotiations between the Company and the Placing Agent with reference to, among other matters, (i) the financial position of the Group which has worsened from net liabilities HK\$101.5 million as at 31 December 2016 to net liabilities of HK\$138.6 million as at 30 June 2017; (ii) the financial burden of the annual finance costs of the Group and operating cost of the Group's investment in railway construction and operations; (iii) the thin trading volumes of the Shares as illustrated in the paragraph headed "Trading Volumes of the Shares" below; and (iv) the outstanding financial liabilities of the Group and the uncertainty in the progress of the construction of the Zunxiao Railway, which is the railway connecting Tangshan City (唐山市) and Chengde City (承德市), Hebei Province of the People's Republic of China.

LETTER FROM THE BOARD

The Directors consider that the terms of the Placing Agreement (including the Placing Price and the placing commission) are fair and reasonable based on the current market conditions and the Placing is in the interests of the Company and the Shareholders as a whole.

Trading Volumes of the Shares

	Total monthly trading volume of the Shares	Average trading volume of the Shares per trading day during the month	Approximate % of average daily trading volume of the Shares to the average total issued Shares <i>(Note 1)</i>	Approximate % of average daily trading volume of the Shares to average public float Shares <i>(Note 2)</i>	Number of trading days in each month
2017					
January	34,489,000	1,815,211	0.1264	0.2095	19
February	78,369,530	3,918,477	0.2722	0.4502	20
March	57,973,820	2,520,601	0.1747	0.2886	23
April	19,298,630	1,135,214	0.0786	0.1296	17
May	25,744,240	1,287,212	0.0891	0.1470	20
June	15,874,900	721,586	0.0496	0.0815	22
July	14,781,600	703,886	0.0483	0.0791	21
August	11,739,100	533,595	0.0365	0.0597	22
September	32,528,400	1,548,971	0.1057	0.1729	21
October	174,295,240	8,714,762	0.5869	0.9516	20
November	44,631,700	2,028,714	0.1343	0.2154	22
December	61,332,340	3,228,018	0.2116	0.3374	19

Notes:

1. The average total issued shares of the corresponding months represent a weighted average of the Shares outstanding, in which new issued Shares during the month were also taken into the calculation.
2. In the calculation of the average public float Shares, the Shares from substantial shareholders were excluded from the average total issued Shares of the corresponding months.

Source: the website of the Stock Exchange (www.hkex.com.hk)

LETTER FROM THE BOARD

Placing Commission

Upon Placing Completion, the Company will pay the Placing Agent a placing commission of 1.5% 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 Shares then in issue.

Placing Completion

The Placing Completion will take place within 5 Business Days after the date on which all the conditions precedent set out above in the section headed "Conditions of the Placing" are satisfied or such other date as the Company and the Placing Agent may agree in writing.

Application for Listing

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

SUBSCRIPTION OF CONVERTIBLE BONDS

On 30 November 2017 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, the Convertible Bonds in the aggregate principal amount of HK\$100,000,000.

Date

30 November 2017 (after trading hours)

Parties

- (1) Issuer: the Company
- (2) Subscriber: GIC Investment Limited

The Convertible Bonds carry the right to convert into Conversion Shares at the initial Conversion Price of HK\$0.1701 per Conversion Share (subject to adjustments).

LETTER FROM THE BOARD

Assuming (a) the Conversion Rights attaching to the Convertible Bonds are exercised in full at the Conversion Price of HK\$0.1701 per Conversion Share and (b) the Conversion Cap is not exceeded, 587,889,476 Conversion Shares will fall to be allotted and issued to the Bondholders, representing (i) approximately 38.76% of all the existing Shares as at the date of the Announcement; (ii) approximately 38.53% of all the existing issued Shares as at the Latest Practicable Date; (iii) approximately 27.81% of all the issued Shares as enlarged by the allotment and issue of the Conversion Shares; and (iv) approximately 19.36% of all the issued Shares as enlarged by the allotment and issue of the Placing Shares (assuming the Placing Shares are placed in full) and the Conversion Shares.

Principal Terms of the Convertible Bonds

The principal terms of the Convertible Bonds are arrived at after arm's length negotiations between the Company and the Subscriber and are summarised as follows:

- | | |
|-----------------------------|--|
| Aggregate Principal Amount: | an aggregate principal amount of up to HK\$100,000,000. |
| Maturity Date: | the date falling on the third anniversary of the Issue Date, or if such date is not a Business Day, the Business Day immediately following such date. |
| Interest: | 5.5% per annum, payable in arrears on semi-annual basis. |
| Conversion Price: | <p>the initial price at which each Conversion Share shall be issued upon conversion shall be HK\$0.1701, subject to adjustments as set out and in accordance with the terms and conditions of the Convertible Bonds. The initial conversion price of HK\$0.1701 represents:</p> <ul style="list-style-type: none">(i) a premium of approximately 14.93% over the closing price of HK\$0.148 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement;(ii) a premium of approximately 10.03% over the average closing price of approximately HK\$0.1546 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the date of the Subscription Agreement;(iii) a premium of approximately 9.04% over the closing price of HK\$0.156 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and |

LETTER FROM THE BOARD

- (iv) a premium of approximately 89.00% over the consolidated net liability value per Share of approximately HK\$0.09 based on the consolidated net liability value attributable to the owners of the Company of HK\$138,615,000 as at 30 June 2017 as extracted from the 2017 Interim Report (based on the total number of issued Shares of 1,458,617,753 Shares as at 30 June 2017).

The Conversion Price was determined after arm's length negotiations between the Company and the Subscriber having considered that (i) the Subscriber could enjoy the potential upside of the share price of the Shares since the beginning of the conversion period as a result of the potential improvement of the financial performance of the Group in future mainly attributable to the expected increase in revenue generated from the target vessels to be acquired by using the proceeds from the Subscription; and (ii) the Subscriber will receive fixed coupon payment during the term of the Convertible Bonds.

Adjusting Events:

The Conversion Price is subject to adjustments in accordance with the terms and conditions set out in the Convertible Bonds if any of the following specific events occurs:

- (a) if and whenever the Company shall distribute any distribution (other than by way of a bonus issue) to the Shareholders, the Conversion Price shall be subject to adjustment;
- (b) if and whenever the Company shall make any bonus issue, the Conversion Price shall be subject to adjustment;
- (c) if and whenever there shall be a consolidation or subdivision of the Shares, the Conversion Price shall be subject to adjustment;

LETTER FROM THE BOARD

- (d) if and whenever the Company shall issue, grant or offer Shares, securities related to the Shares, rights in respect of Shares or rights in respect of securities related to the Shares to all or substantially all of the Shareholders as a class by way of rights as a result of which, in each case, Shareholders have the right to acquire Shares at a consideration per Share which is less than 90% of the share price of the Shares on the relevant effective date, the Conversion Price shall be subject to adjustment;
- (e) if and whenever the Company shall issue or grant any securities (other than Shares, securities related to the Shares, rights in respect of Shares, rights in respect of securities related to the Shares or Shares after spin-off) to all or substantially all of the Shareholders as a class by way of rights or the Company shall issue or grant any rights in respect of any securities (other than Shares, securities related to the Shares, rights in respect of Shares, rights in respect of securities related to the Shares or Shares after spin-off) or assets to all or substantially all of the Shareholders as a class, in each case at a price which is less than 90% of the market value of such rights on the relevant effective date, the Conversion Price shall be subject to adjustment;
- (f) if and whenever the Company shall issue, wholly for cash, any Shares or the Company shall issue or grant, wholly for cash or for no consideration, rights in respect of Shares or rights in respect of securities related to the Shares as a result of which, in each case, persons to whom the Shares or rights are issued or granted have the right to acquire Shares at a Consideration per Share which is less than 90% of the closing price of the Share on the date of the Subscription Agreement, the Conversion Price shall be subject to adjustment. However, if any such issue or grant also falls within event (d) above or constitutes an issue of Shares consequent upon the exercise of rights of the Convertible Bonds or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares, the Conversion Price shall not be subject to adjustment;

LETTER FROM THE BOARD

- (g) if and whenever the Group or (pursuant to arrangements with the Group) any other person or entity shall issue, wholly for cash or for no consideration, any securities related to the Shares or shall grant to any existing securities so issued such rights as to make such securities related to the Shares as a result of which, in each case, persons to whom the securities related to the Shares or such rights are issued or granted have the right to acquire Shares at a consideration per Share which is less than 90% of the closing price of the Share on the date of the Subscription Agreement, the Conversion Price shall be subject to adjustment. However, if any such issue or grant also falls within event (d), (e) or (f) above, the Conversion Price shall not be subject to adjustment;
- (h) if and whenever the rights to subscribe for, purchase or otherwise acquire Shares pursuant to the terms of any rights or securities related to the Shares are amended (other than in accordance with their terms of issue (including terms as to adjustment of such rights)) so that following such amendment the consideration per Share is (i) reduced and (ii) less than 90% of the closing price of the Share on the date of the Subscription Agreement, the Conversion Price shall be subject to adjustment;
- (i) if and whenever the Group or (pursuant to arrangements with the Group) any other person or entity shall offer any securities in connection with which the Shareholders as a class are entitled to participate in arrangements whereby such securities may be acquired by them, the Conversion Price shall be subject to adjustment. However, if any such offer also causes the Conversion Price to be adjusted under event (d) or (e) (or would cause the Conversion Price to be so adjusted if the relevant consideration per Share is less than the share price of the Share on the relevant day), the Conversion Price shall not be subject to adjustment. This adjusting event mainly caters for demerger and re-domicile of the Company, pursuant to which securities (shares or otherwise) will be offered to the Shareholders as a class; and

LETTER FROM THE BOARD

- (j) if either the Company or the Bondholder(s) reasonably determines that:
 - (i) an adjustment should be made to the Conversion Price as a result of one or more events or circumstances not referred to in the condition (a) to (i) above (even if the relevant event or circumstance is specifically excluded from the operation of condition (a) to (i) above); or
 - (ii) more than one event which gives rise or may give rise to an adjustment to the Conversion Price has occurred or will occur within such a short period of time that a modification to the operation of the adjustment provisions is required in order to give the intended result; or
 - (iii) one event which gives rise or may give rise to more than one adjustment to the Conversion Price has occurred or will occur such that a modification to the operation of the adjustment provisions is required in order to give the intended result,

(where such determination is made by the Bondholder(s) acting reasonably) the Bondholder(s) shall notify the Company, or (where such determination is made by the Company acting reasonably) the Company shall notify the Bondholder(s), and in each case, the Company shall, at its own expense, use all reasonable endeavours to procure that such adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof and the date on which such adjustment should take effect shall be determined by an expert, a qualified professional valuer independent from the Group, the Subscriber, the Bondholder and their connected person (as defined in the Listing Rules), provided that the Conversion Price may not be increased pursuant to this event. The fairness and reasonableness of such adjustment on the Conversion Price are to be determined by an expert. The Directors expect that the abovementioned adjusting event(s) is/are unlikely to happen. In case where such adjusting event(s) do happen, the Company shall comply with the requirements of the Listing Rules from time to time.

LETTER FROM THE BOARD

Conversion Shares:

1. Based on the initial Conversion Price of HK\$0.1701, a maximum of 587,889,476 Conversion Shares, representing approximately 38.53% of the issued Shares as at the Latest Practicable Date and approximately 19.36% of the issued Shares as enlarged by the allotment and issue of the Placing Shares and full exercise of the conversion rights attaching to the Convertible Bonds, will be allotted and issued upon exercise in full of the conversion rights attaching to the Convertible Bonds.

However, should the exercise by a Bondholder of the conversion right attaching to its Convertible Bonds exceed the Conversion Cap, the Company shall only issue such number of Conversion Shares to the extent not exceeding the Conversion Cap as advised by the Bondholder in its notice of conversion delivered to the Company, and shall pay to such Bondholder an amount in cash calculated by multiplying the remaining number of Conversion Shares which would otherwise be issued by the Current Market Price per Share.

2. The Conversion Shares to be issued and allotted upon exercise of the conversion rights attaching to the Convertible Bonds will be allotted and issued under the Conversion Specific Mandate to be granted to the Directors by the Shareholders at the General Meeting.

Conversion Period:

the period beginning on, and including, the date of expiry of the period of 18 months after the Issue Date and ending on, and including, the earlier to occur of:

- (a) 5:00 p.m. on the day which is five (5) Business Days before the Maturity Date; and
- (b) if such Convertible Bond has been called for redemption before the Maturity Date, 5:00 p.m. on the day which is five (5) Business Days before the proposed date of redemption.

LETTER FROM THE BOARD

Company's Early Redemption: At any time on or after two (2) years from the Issue Date, provided that no event of default under the conditions of the Convertible Bonds has occurred as at such time, the Company has the right to redeem the Convertible Bonds (in full but not in part) held by a Bondholder at an amount equal to the aggregate of:

- (i) 105.5% of the aggregate principal amount of the outstanding Convertible Bonds held by the Bondholder(s);
- (ii) any accrued but unpaid interest on the Convertible Bonds; and
- (iii) any outstanding amounts due under the Transaction Documents (including, without limitation, default interest).

Bondholders' Early Redemption: At any time on or after two (2) years from the Issue Date, a Bondholder has the right to require the Company to redeem the Convertible Bonds at an amount equal to the aggregate of:

- (i) 105.5% of the aggregate principal amount of the outstanding Convertible Bonds held by such Bondholder;
- (ii) any accrued but unpaid interest on the Convertible Bonds; and
- (iii) any outstanding amounts due under the Transaction Documents (including, without limitation, default interest).

In the event that (A) the Vessel Purchase Agreement is terminated for whatever reason; (B) the Vessel is not delivered to the Company or the Nominee within two (2) months of the Issue Date or such longer period as the Subscriber may agree; or (C) there is a total loss of the Vessel, a Bondholder has the right to redeem the Convertible Bonds held by a Bondholder at an amount equal to the aggregate of:

- (i) 116.5% of the aggregate principal amount of the outstanding Convertible Bonds held by such Bondholder;

LETTER FROM THE BOARD

- (ii) any accrued but unpaid interest on the Convertible Bond; and
- (iii) any outstanding amounts due under the Transaction Documents (including, without limitation, default interest).

Default Redemption:

If the Bondholder elects to require the Company to redeem the Convertible Bonds upon the occurrence of an event of default under the conditions of the Convertible Bonds, the Company will redeem such number of outstanding Convertible Bonds held by the Bondholder at an amount equal to the aggregate of:

- (i) 133% of the aggregate principal amount of the outstanding Convertible Bonds held by such Bondholder;
- (ii) any accrued but unpaid interest on the Convertible Bonds; and
- (iii) any outstanding amounts due under the Transaction Documents (including, without limitation, default interest).

Ranking:

Conversion Shares to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds shall rank pari passu in all respects among themselves and with all other existing Shares outstanding at the date of conversion.

Transferability:

Unless to its Affiliates, no Bondholder shall transfer its Convertible Bonds within two (2) years from the Issue Date. After the expiry of such two year period, the Convertible Bonds are freely transferable.

Application for Listing:

No application will be made by the Company to the Stock Exchange for listing of Convertible Bonds. Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares.

LETTER FROM THE BOARD

The Directors are of the view that the terms of the Subscription Agreement are fair and reasonable after taking into account (i) the general terms of the Subscription Agreement including the conversion price which is at premium over the closing price on the date of Subscription Agreement and the consolidated net liability value per Share of the Company; (ii) the 116.5% of aggregate principal amount of the outstanding Convertible Bonds representing three-year interest of 5.5% per annum under the early redemption by the Bondholders triggered by the events (a), (b) and (c) as set out above; and (iii) the imminent need for the Group to raise additional fund for its proposed acquisition of vessels and working capital.

Further, the mechanism in determining the Conversion Shares, in which the Company shall issue number of Conversion Shares not exceeding the Conversion Cap and settle the remaining amount in cash calculated by multiplying the remaining number of Conversion Shares by the Current Market Price per Share, was determined after arm's length negotiation between the Company and the Subscriber taking into account that (i) the potential upside gain from the exercise of the conversion rights entitled by the Subscriber shall not be limited by the Conversion Cap; and (ii) there is an imminent need for the Group to acquire revenue generating assets to turnaround its existing unfavourable financial performance and position.

In view of the above and the reasons and benefits as set out in the section headed "Reasons for and Benefits of the Placing and the Subscription of Convertible Bonds and the Use of Proceeds from the Placing and the Subscription of the Convertible Bonds" in this circular, the Directors consider that the terms of the Subscription Agreement, including the conversion mechanism, are the best possible terms and conditions available to the Company, and therefore consider that the Subscription is in the interest of the Company and the Shareholders as a whole.

Conditions of the Subscription

Subscription Completion is conditional upon the following conditions:

- (a) all necessary regulatory filings, notifications and approvals to the relevant government authorities to enter into the Subscription Agreement and the Convertible Bonds Instrument and perform the Company's obligations thereunder with respect to the Convertible Bonds having been made and obtained, and such filings, notifications and approvals remaining valid and effective, and no government authority having taken or initiated any action which would prohibit the transactions contemplated under the Subscription Agreement and the Convertible Bonds Instrument;
- (b) since the date of the Subscription Agreement, there having been, in the reasonable opinion of the Subscriber, no material adverse change;
- (c) there having been no event of default under the Convertible Bonds Instrument (as if the Convertible Bonds Instrument has been executed);
- (d) all obligations under the Transaction Documents required to be performed by the Company on or before the date of the Subscription Completion having been performed, and there having been no material breach of any provision of any Transaction Document by the Company;

LETTER FROM THE BOARD

- (e) the warranties given by the Company under the Subscription Agreement remaining true, accurate and not misleading in each case in accordance with their terms;
- (f) the undated Security Agreements, signed by the Company or the Nominee, as applicable, in a form satisfactory to the Subscriber, having been deposited with and held by the Company's legal advisers for and on behalf of the Company;
- (g) the Placing having been completed under its terms and the net proceeds thereof received by the Company;
- (h) all consents necessary under the pre-existing obligations of the Company involving the issue of Shares subsisting as at the date of the Subscription Agreement to enter into the Transaction Documents and perform the Company's obligations thereunder having been made and obtained, and such consents remaining valid and effective;
- (i) (where necessary) Shareholders' approval (or, where appropriate, Independent Shareholders' approval) to enter into the Transaction Documents and perform the Company's obligations thereunder having been made and obtained, and such approvals remaining valid and effective;
- (j) the Company having obtained the Conversion Specific Mandate; and
- (k) the Listing Committee having granted the approval for the listing of, and permission to deal in, the Conversion Shares (with or without conditions).

The Subscriber may at its discretion waive any of the conditions above, other than the conditions in paragraphs (h), (i), (j) and (k) above which cannot be waived. If the above conditions are not either waived or satisfied, as the case may be, by 31 March 2018 (or such later date as may be agreed by the Subscriber and the Company), the Subscription Agreement shall automatically terminate and no party will have any claim against the other for costs, damages, compensation or otherwise (save for antecedent breaches or as otherwise agreed in the Subscription Agreement). As at the Latest Practicable Date, none of the conditions had been fulfilled.

Subscription Completion

Subscription Completion will take place on the third (3rd) Business Day following the satisfaction or waiver of the conditions precedent set out in the subsection "Conditions of the Subscription" above (or such other date as the Company and the Subscriber may agree).

Information on the Subscriber

The Subscriber is a limited company incorporated in the British Virgin Islands and is a wholly owned subsidiary of GCL-Poly Energy Holdings Limited, a public limited liability company incorporated in the Cayman Islands and whose shares are listed on the Stock Exchange (Stock Code: 3800). The principal activity of the Subscriber is investment holding.

LETTER FROM THE BOARD

EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the Company had 1,525,780,526 Shares in issue. The following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the allotment and issue of the Placing Shares (assuming (a) there will be no other change in the number of issued Shares after the Latest Practicable Date and before the Placing Completion; and (b) the Placing Shares are placed in full); and (iii) the full exercise of the conversion rights attaching to the Convertible Bonds (assuming (a) there will be no other change in the number of issued Shares after the Latest Practicable Date and before the Subscription Completion; and (b) the Conversion Cap is not exceeded):

Shareholders	As at the Latest Practicable Date		Immediately after the Placing Completion		Immediately after the Placing Completion and the full conversion of the Convertible Bonds at the initial Conversion Price of HK\$0.1701 per Conversion Share	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
Substantial Shareholders						
Mr. Wong Kin Ting	455,297,032	29.84	455,297,032	18.59	455,297,032	14.99
Subscriber	–	–	–	–	587,889,476	19.36
Mr. Zhu Gongshan	113,745,000	7.45	113,745,000	4.64	113,745,000	3.75
Subtotal	569,042,032	37.29	569,042,032	23.23	1,156,931,508	38.10
Public Shareholders						
Places	–	–	923,361,034	37.70	923,361,034	30.40
Other public Shareholders	956,738,494	62.71	956,738,494	39.07	956,738,494	31.50
Subtotal	956,738,494	62.71	1,880,099,528	76.77	1,880,099,528	61.90
Total	1,525,780,526	100.00	2,449,141,560	100.00	3,037,031,036	100.00

LETTER FROM THE BOARD

FUNDRAISING ACTIVITIES IN THE PAST TWELVE MONTHS

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

REASONS FOR AND BENEFITS OF THE PLACING AND THE SUBSCRIPTION OF CONVERTIBLE BONDS AND THE USE OF PROCEEDS FROM THE PLACING AND THE SUBSCRIPTION OF CONVERTIBLE BONDS

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

As set out in the 2017 Interim Report, the Company has been actively discussing and exploring other possible options with a view to further developing the Group's existing business operations and to improving the Group's current financial position. During the six months ended 30 June 2017, the Group recorded revenue generated from its shipping and logistics segment of approximately HK\$7.8 million (30 June 2016: approximately HK\$3.8 million, representing an increase of approximately 105.3% as compared to the corresponding period of 2016). The Group recorded segment profit for its shipping and logistics business for the six months ended 30 June 2017 of approximately HK\$3.3 million while there was segment loss of approximately HK\$13.2 million in the corresponding period of 2016. The turnaround of the Group's shipping and logistics segment is mainly attributable to the improvement of the shipping market following the rebound of the general commodities price. The Baltic Dry Index (BDI), an important economic indicator reflecting the supply and demand trends of global shipping market, also recovered significantly since 2016. The BDI has shown an increasing trend, which rose from 677 points on 1 July 2016 to 961 points on 31 December 2016 and further to 1,230 points on 2 January 2018, representing an increase by approximately 81.7% since 1 July 2016. The Group intends to seize the opportunity to expand the dry bulk vessel business after taking into account the improving performance of its shipping and logistics segment and the potential recovery of the international shipping market.

As at 30 June 2017, the Group's unaudited consolidated total assets amounted to approximately HK\$1,712.4 million (comprising unaudited consolidated non-current assets of approximately HK\$1,668.3 million and unaudited consolidated current assets of approximately HK\$47.1 million), whereas its unaudited consolidated total liabilities amounted to approximately HK\$1,854.0 million (comprising unaudited consolidated non-current liabilities of approximately HK\$1,046.2 million and unaudited consolidated current liabilities of approximately HK\$807.8 million). Therefore, the Group's unaudited consolidated net liabilities as at 30 June 2017 amounted to approximately HK\$138.6 million, representing an increase as compared to the audited consolidated net liabilities of HK\$101.5 million as at 31 December 2016. The Directors consider that the Group's net liabilities position may persist in the future if there is no additional fund to enhance the Group's asset base and develop its shipping and logistics business to improve the Group's financial performance. As at 30 June 2017, the Group's unaudited consolidated balances of bank and cash amounted to approximately HK\$9.9 million. Having taken into account the capital expenditure of the abovementioned proposed acquisition of vessels and the need to retain sufficient funds for the working capital of the Group, the Directors consider that there is an imminent need for the Group to raise additional fund since the existing cash level of the Group is not sufficient to fulfill the above expenditure of the Group.

LETTER FROM THE BOARD

In respect of the proposed acquisition of two dry bulk vessels, the Company's shipping department has carried out a feasibility study to assess the profitability by estimating, based on the current market charter rate and with reference to the operating data of the Company's own vessel, as well as estimations provided by independent third party ship management company, the expected revenue, operating cost, finance cost and general expenses and concluded that it will be profitable and an appropriate and attainable level of operation for the Company to acquire two additional dry bulk vessels of 32,000 DWT each.

In view of the abundant second-hand dry bulk vessels available for sale in the market and the vast network and experience in the shipping industry of the Directors and the senior management of the Company, the Directors are confident that the Company will be able to take delivery of the Vessel within two months of the completion date of the Subscription. The Company's shipping department has been closely monitoring and updating the bulker candidates list on a daily basis for evaluation purposes. As at the Latest Practicable Date, the Company had shortlisted several dry bulk vessels of 32,000 DWT of US\$10 million to US\$12 million each. The Company will commence negotiations with the potential sellers as soon as practicable and arrange for technical inspection of the target vessels accordingly with a view to speeding the vessels acquisition process. The Company will comply with the Listing Rules when entering into any agreements related to the acquisition of the target vessels.

The Directors consider that applying net proceeds from the Placing and the Subscription on the proposed acquisition of vessels will enable the Company to achieve economies of scale by fully utilising and exploiting the existing manpower of the Group and bring synergy to the Group's existing shipping and logistic businesses. By building up the Group's own fleet of dry bulk vessels, the average operating costs per vessel is expected to decrease. Moreover, with the flexibility of a fleet of dry bulk vessels (including the existing MV Asia Energy of the Group), the Company can manage risk exposure of its shipping business operation to the shipping market fluctuation more effectively by way of operating certain dry bulk vessels under long-term chartering contracts with the remaining dry bulk vessel(s) being operated under relative short-term chartering contracts. Furthermore, by acquiring the dry bulk vessels without or with minimal debt financing, the cash flow of the Company will be less affected by the finance cost. It will also enable the Group's shipping business to ride through any unexpected adverse market fluctuation whilst providing a healthy cash flow. The Directors are of the view that, with a larger fleet size and more effective fleet management, the Group's shipping business will become more profitable in the future.

In respect of the funding requirement of the Group, apart from the Placing and the Subscription, the Company had considered alternative fund raising activities, including but not limited to debt financing, rights issue and open offer. In view of the existing gearing position of the Company, the Directors consider that the terms of offer of debt financing, mainly including size of principal amount, financing charge and securities charging, will not be favourable to the Group even if any offer of debt financing is available. 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. As for rights issue and open offer, the Directors had approached several underwriters and none of them indicated an interest in underwriting the 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 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.

LETTER FROM THE BOARD

With a view to exploring more favourable fund raising alternatives so as to meet the imminent funding need of the Company for the acquisition of the target vessels and general working capital, the Company had maintained communications with several financial institutions prior to the entering into the Subscription Agreement and the Placing Agreement. Taking into account (i) the substantial fund raising amount of approximately HK\$200 million; and (ii) the net liabilities position of the Group as at 30 June 2017, none of the above-mentioned financial institutions (the “**Other Financial Institutions**”) was able to provide financing for the whole of HK\$200 million. In light of the above, the Directors considered that it is not a feasible approach to use only one fund raising method to meet the funding needs but a combination of different fund raising methods should be adopted in order to meet the Company’s funding requirement. As no positive response was received from the Other Financial Institutions, the Company had discussions with Mr. Zhu, being a director of various subsidiaries of the Company and the second largest Shareholder, about the Company’s difficulties in seeking financing for its imminent funding needs as well as the none availability of any other possible financing alternatives. Since Mr. Zhu is also an executive director and a substantial shareholder of the GCL-Poly Energy Holdings Limited, the Company was referred to the Subscriber, a wholly-owned subsidiary of GCL-Poly Energy Holdings Limited, to discuss the possibility of fundraising activities. After several rounds of negotiation with the Subscriber, a fundraising by issuing of the Convertible Bonds of approximately HK\$100 million and relevant major terms including principal amount, interest rate and duration/term were agreed after comparison with those offered by the Other Financial Institutions.

In respect of the remaining funding requirement of approximately HK\$100 million, apart from the above fundraising activities the Board had taken into consideration, the Directors are of the view that it is appropriate to obtain the remaining funding by placing of new Shares as it is relatively more time efficient in order to match with the timeline of the issuing of the Convertible Bonds. The Company had discussed with the Placing Agent about the possibility of raising an amount of approximately HK\$100 million by placing of new Shares. After further negotiation with the Placing Agent and comparison of major terms, the Directors considered that (i) the combination of the Subscription and the Placing is the most appropriate method; and (ii) the above major terms in the Subscription and the Placing are better than the terms offered by the Other Financial Institutions. Moreover, the Directors considered that the involvement of the Subscriber, which has sound background in its industry, can strengthen the confidence of the Shareholders and potential investors, which in turn may broaden the Shareholder base and improve the liquidity of the Shares.

Moreover, the Directors consider that (i) the Placing and the Subscription can be completed within a shorter period of time when compared to the above alternative financing activities; (ii) lower administrative costs will be incurred in the Placing and the Subscription when compared to those of rights issue or open offer; (iii) the Placing and the Subscription will enhance the capital and shareholder base of the Group without increasing the financial burden of the Group; and (iv) the Subscription will not result in any immediate dilution effect on the shareholding of the existing Shareholders. Therefore, the Directors are of the view that the Placing and the Subscription are the more suitable options to the Company in raising the necessary funds to achieve its proposed acquisition of additional dry bulk vessels and therefore are in the best interest of the Company and the Shareholders as a whole.

Upon the Placing Completion, gross proceeds from the Placing will be approximately HK\$100.0 million, and the estimated net proceeds of the Placing will be approximately HK\$92.8 million after deducting expenses including placing commission and professional fees.

LETTER FROM THE BOARD

The Company intends to apply the net proceeds from the Placing (i) as to approximately HK\$58.1 million for the down payment of the acquisition of one dry bulk vessel with carrying capacity of 32,000 DWT; (ii) as to approximately HK\$7.8 million for the capital requirement of the shipping and logistics businesses of the Group; and (iii) the remaining balance of approximately HK\$26.9 million for the general working capital of the Group (which mainly consists of (i) administrative expenses for six-month period to be incurred by the Company of approximately HK\$19.9 million; and (ii) repayment of a loan to independent third party of HK\$7 million with annual interest of 21.6%, originally due in December 2017 but further extended to June 2018).

The Group had approached several banks to discuss about the mortgage loan which is required to settle the remaining balance of the purchase price of the above dry bulk vessel and had received positive feedbacks as at Latest Practicable Date.

Upon the Subscription Completion, gross proceeds from the Subscription will be approximately HK\$100.0 million, and the estimated net proceeds from the Subscription will be approximately HK\$98.7 million after deducting expenses including professional fees. The Company intends to apply the net proceeds from the Subscription (i) as to approximately HK\$93.8 million for full amount of the acquisition of a dry bulk vessel with carrying capacity of 32,000 DWT (together with any incidental expenses); and (ii) the remaining balance of approximately HK\$4.9 million for the general working capital of the Group.

The Group has no intention to dispose of or downsize the existing business of the Group in the near future.

IMPLICATIONS UNDER THE LISTING RULES

Mr. Zhu is a director of various subsidiaries of the Company and is interested in approximately 7.45% of all the issued Shares as at the Latest Practicable Date. Mr. Zhu is an executive director and a substantial shareholder of GCL-Poly Energy Holdings Limited, a public limited liability company incorporated in the Cayman Islands and whose shares are listed on the Stock Exchange (Stock Code: 3800), which indirectly wholly owns the entire issued share capital of the Subscriber. Therefore, the Subscriber is an associate of Mr. Zhu and a connected person of the Company under the Listing Rules. Therefore, the transactions contemplated under the Subscription constitute connected transactions for the Company under Chapter 14A of the Listing Rules. Mr. Zhu and his associates are required to abstain from voting on the resolution in respect of the Subscription at the General Meeting. In addition, Mr. Zhu and his associates will also abstain from voting on the resolution in respect of the Placing at the General Meeting.

Furthermore, as the Placing Shares and the Conversion Shares will be allotted and issued pursuant to the Specific Mandates, the Placing and the Subscription are subject to the reporting, announcement and Shareholders' approval requirements under the Listing Rules.

LETTER FROM THE BOARD

GENERAL MEETING

The General Meeting will be held to consider and, if thought fit, pass with or without amendments the resolutions to approve, among other things: (i) the Placing Agreement and the transactions contemplated thereunder; (ii) the grant of the Placing Specific Mandate for the allotment and issue of the Placing Shares; (iii) the Subscription Agreement and the transactions contemplated thereunder; and (iv) the grant of the Conversion Specific Mandate for the allotment and issue of the Conversion Shares upon conversion of the Convertible Bonds. A notice convening the General Meeting to be held at Holiday Inn Express Hong Kong Soho, 38/F., No. 83 Jervois Street, Sheung Wan, Hong Kong on Friday, 26 January 2018 at 11:30 a.m. is set out on pages N-1 to N-3 of this circular.

For the purpose of determining the entitlement to attend and vote at the General Meeting, the register of members of the Company will be closed from Tuesday, 23 January 2018 to Friday, 26 January 2018 (both days inclusive), during which period no transfer of Shares will be registered. In order to be entitled to attend and vote at the General Meeting, all transfers of Shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the Company's share registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 22 January 2018.

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.

Mr. Zhu and his associates (as defined under the Listing Rules) are required to abstain from voting on the resolutions in respect of the Placing and the Subscription at the General Meeting.

Save and except for the above, to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholder is required to abstain from voting when casting votes on the resolutions at the General Meeting in accordance with the Listing Rules.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee which comprises Mr. Chan Chi Yuen, Mr. Siu Miu Man, Mr. Wong Cheuk Bun, all being the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder.

Lego Corporate Finance Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, consider that the terms of the Subscription Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the General Meeting to approve the Subscription Agreement and the transactions contemplated thereunder.

RECOMMENDATION

Having considered the above, the Directors consider that the terms of the Subscription Agreement and the Placing Agreement are fair and reasonable and the entering into of the Subscription Agreement and the Placing Agreement is in the interests of the Company and its Shareholders as a whole, and recommend the Shareholders to vote in favour of the resolutions to be proposed at the General Meeting to approve the Subscription Agreement, the Placing Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 29 of this circular which contains its advice to the Independent Shareholders regarding the Subscription Agreement and the transactions contemplated thereunder, the letter from the Independent Financial Adviser set out on pages 30 to 53 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders regarding the Subscription Agreement and the transactions contemplated thereunder and the principal factors and reasons taken into consideration in arriving at its advice, and the additional information contained in the appendix to this circular.

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

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)

5 January 2018

To the Independent Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION IN RELATION TO
THE SUBSCRIPTION OF CONVERTIBLE BONDS
BY A CONNECTED PERSON UNDER SPECIFIC MANDATE**

We refer to the circular of the Company dated 5 January 2018 (the “**Circular**”) of which this letter forms part. Capitalised terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed by the Board as members to constitute the Independent Board Committee and to advise the Independent Shareholders in respect of the terms of the Subscription Agreement. We wish to draw your attention to the letter from the Board on pages 7 to 28 of the Circular, which sets out the details of the Subscription Agreement. We also wish to draw your attention to the letter from the Independent Financial Adviser on pages 30 to 53 of the Circular, which contains their advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Subscription Agreement.

Having taken into account the terms of the Subscription Agreement and the advice and recommendation of the Independent Financial Adviser, we consider that the Subscription Agreement is not in the ordinary and usual course of business of the Company but is on normal commercial terms and that such terms are fair and reasonable so far as the interests of the Independent Shareholders are concerned, and the Subscription Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution which will be proposed at the General Meeting to approve the Subscription Agreement (including the grant of the Conversion Specific Mandate).

Yours faithfully,

For and on behalf of the Independent Board Committee

Mr. Chan Chi Yuen

Mr. Siu Miu Man

Mr. Wong Cheuk Bun

Independent non-executive Directors

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from Lego Corporate Finance Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, in respect of the Subscription, which has been prepared for the purpose of inclusion in this circular.



5 January 2018

To the Independent Board Committee and the Independent Shareholders

Dear Sirs or Madams,

CONNECTED TRANSACTION IN RELATION TO THE SUBSCRIPTION OF CONVERTIBLE BONDS BY A CONNECTED PERSON UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription, details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 5 January 2018 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 30 November 2017 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Company has conditionally agreed to issue and the Subscriber has conditionally agreed to subscribe for the Convertible Bonds in the aggregate principal amount of HK\$100,000,000.

Mr. Zhu is a director of various subsidiaries of the Company and is interested in approximately 7.45% of all the issued Shares as at the Latest Practicable Date. Mr. Zhu is an executive director and a substantial shareholder of GCL-Poly Energy Holdings Limited, a public limited liability company incorporated in the Cayman Islands and whose shares are listed on the Stock Exchange (Stock Code: 3800), which indirectly wholly owns the entire issued share capital of the Subscriber. Therefore, the Subscriber is an associate of Mr. Zhu and a connected person of the Company under the Listing Rules. Therefore, the transactions contemplated under the Subscription constitute connected transactions of the Company under Chapter 14A of the Listing Rules. Mr. Zhu and his associates are required to abstain from voting on the resolution(s) in respect of the Subscription at the General Meeting.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Chan Chi Yuen, Mr. Siu Miu Man and Mr. Wong Cheuk Bun, has been established to advise the Independent Shareholders as to whether the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote in respect of the relevant resolution(s) to be proposed at the General Meeting to approve the Subscription Agreement and the transactions contemplated thereunder. As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

As at the Latest Practicable Date, Lego Corporate Finance Limited did not have any relationships with or interests in the Company that could reasonably be regarded as relevant to the independence of Lego Corporate Finance Limited. In the last two years, there was no engagement between the Group and Lego Corporate Finance Limited. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Company. Accordingly, we are qualified to give independent advice in respect of the terms of the Subscription Agreement and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us by the Directors and/or the management of the Group, for which they are solely and wholly responsible for, or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date of the General Meeting and the Shareholders will be notified of any material changes to such information and representations as soon as possible in accordance with Rule 13.80 of the Listing Rules until the General Meeting. We have also assumed that all such statements of belief, opinions and intentions of the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Group and/or the advisers of the Company. We have also sought and received confirmation from the management of the Group that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the General Meeting.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company or the Subscriber or any of their respective subsidiaries and associates.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect of the Subscription, we have considered the following principal factors and reasons:

1. Background information of the Group

1.1. Principal businesses and information of the Group

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

As disclosed in the 2017 Interim Report, the management has been actively discussing and exploring other possible options with a view to further developing the Group's existing business operations and to improving the Group's current financial position and is envisaging the possibility of enlarging the existing shipping and logistics business that may generate immediate cash inflow in near future

1.2. Historical financial information

The following table summarises the financial information of the Group for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2016 and 2017 as extracted from the annual report of the Company for the year ended 31 December 2016 (the "2016 Annual Report") and the 2017 Interim Report, respectively.

	For the years ended		For the six months	
	31 December	31 December	ended 30 June	ended 30 June
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	21,922	10,392	3,755	7,792
Segment revenue:				
– Railway construction and operations	–	–	–	–
– Shipping and logistics	21,922	10,392	3,755	7,792
Finance costs	100,892	76,122	40,872	28,032
Gross profit/(loss)	1,640	(4,836)	(4,337)	587
Profit/(loss) for the year/period	(344,190)	(433,367)	(261,307)	(40,848)

LETTER FROM INDEPENDENT FINANCIAL ADVISER

	As at 31 December		As at
	2015	2016	30 June
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(unaudited)
Cash and cash equivalents	30,512	7,154	9,901
Total assets	2,137,066	1,670,770	1,715,385
Current bank loans and other borrowings	617,662	468,582	520,038
Non-current bank loans	889,846	1,015,070	1,046,168
Total liabilities	1,808,175	1,772,308	1,854,000
Net assets/(liabilities)	328,891	(101,538)	(138,615)

For the years ended 31 December 2015 and 2016

The revenue of the Group decreased from approximately HK\$21.9 million for the year ended 31 December 2015 to approximately HK\$10.4 million for the year ended 31 December 2016, representing a decrease of approximately 52.6% as compared to the prior year.

The loss after tax for the year ended 31 December 2016 was approximately HK\$433.4 million, representing an increase of approximately 25.9% compared with the loss of approximately HK\$344.2 million for the year ended 31 December 2015. As stated in the 2016 Annual Report, the increase in loss for the year ended 31 December 2016 as compared to that for the year ended 31 December 2015 was mainly attributable to, among other factors, a combined net effect of (i) the impairment loss on construction in progress of approximately HK\$314.0 million; (ii) the decrease of impairment loss on intangible assets of approximately HK\$18.5 million; (iii) the decrease of loss arising from the change in fair values of derivative component of convertible notes and share options/commitment to issue convertible notes to approximately HK\$1.7 million from HK\$83.1 million for the year ended 31 December 2015; (iv) share of profit of joint venture of approximately HK\$8.5 million; and (v) decrease in finance costs to approximately HK\$76.1 million from approximately HK\$100.9 million for the year ended 31 December 2015.

As at 31 December 2016, total assets of the Group amounted to approximately HK\$1.7 billion of which construction in progress amounted to approximately HK\$1.6 billion. Meanwhile, cash and cash equivalents as at 31 December 2016 amounted to approximately HK\$7.2 million.

As at 31 December 2016, total liabilities of the Group amounted to approximately HK\$1.8 billion of which trade and other payables amounted to approximately HK\$148.8 million, interest-free loans amounted to approximately HK\$381.1 million and interest-bearing loans amounted to approximately HK\$1.1 billion.

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For the six months ended 30 June 2016 and 2017

The revenue of the Group increased from approximately HK\$3.8 million for the six months ended 30 June 2016 to approximately HK\$7.8 million for the six months ended 30 June 2017, representing an increase of approximately 107.5% as compared to the corresponding period in 2016, which was attributable to the growth in the revenue in the shipping and logistics segment.

The loss after tax for the six months 30 June 2017 was approximately HK\$40.8 million, representing a decrease of approximately 84.4% compared with the loss of approximately HK\$261.3 million for the six months ended 30 June 2016.

The decrease in loss was mainly attributable to the increase in the revenue, share of profit from the joint venture, the decrease in finance costs and general operating expenses, as well as the fact that the impairment losses recognised in the previous corresponding period no longer exist.

As at 30 June 2017, total assets of the Group were approximately HK\$1.7 billion, representing an increase of approximately 2.7% as compared to the balance as at 31 December 2016. Construction in progress amounted to approximately HK\$1.6 billion, while cash and cash equivalents amounted to approximately HK\$9.9 million as at 31 December 2016.

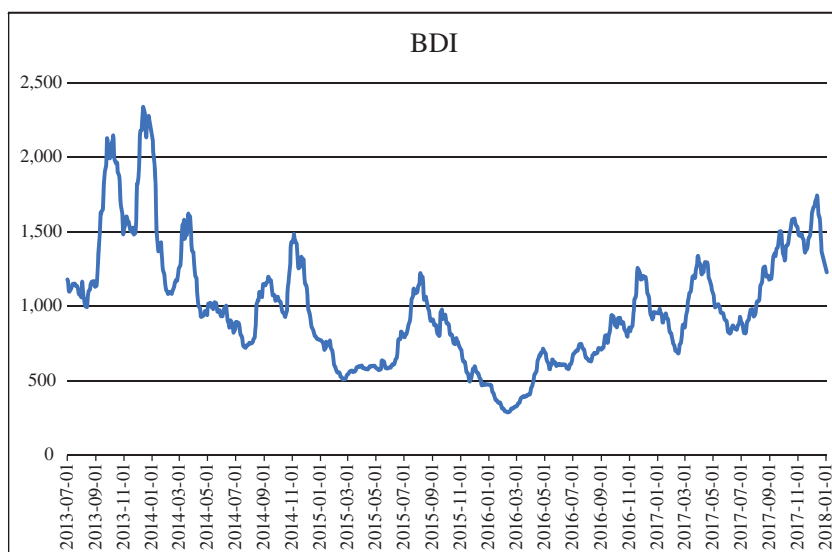
As at 30 June 2017, total liabilities of the Group amounted to approximately HK\$1.9 billion of which trade and other payables amounted to approximately HK\$153.3 million, interest-free loans amounted to approximately HK\$429.9 million and interest-bearing loans amounted to approximately HK\$1.1 billion.

1.3. Market outlook of the dry bulk vessel business

The Baltic Dry Index (“**BDI**”) is a shipping and trade index created by the London-based Baltic Exchange that measures changes in the cost to transport various raw materials. The BDI is issued daily by the Baltic Exchange, which calculates the index by assessing multiple shipping rates across multiple routes for each of the BDI component ships, and is widely used in assessing the dry bulk vessel business.

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Set out below is the BDI since 1 July 2013 up to the Latest Practicable Date (the “**BDI Period**”):



Source: the website of Bloomberg (www.bloomberg.com/asia)

It is noted that the BDI has recovered significantly from the lowest in the BDI Period of 290 points on 10 and 11 February 2016 to 1,230 points as at the Latest Practicable Date, representing an increase of 324.1%. It demonstrated that the dry bulk vessel industry is in the upward recovering trend.

2. Background information of the Subscriber

The Subscriber is a limited company incorporated in British Virgin Islands and is a wholly owned subsidiary of GCL-Poly Energy Holdings Limited, a public limited liability company incorporated in the Cayman Islands and whose shares are listed on the Stock Exchange (Stock Code: 3800). The principal activity of the Subscriber is investment holding.

3. Reasons for and benefits of the Subscription

As stated in the Letter from the Board, the general commodities price has rebounded, and the BDI, an important economic indicator reflecting the supply and demand trends of global shipping market, has also recovered significantly since 2016, therefore, the Group intends to seize the opportunity to expand the dry bulk vessel business after taking into account the improving performance of its shipping and logistics segment and the potential recovery of the international shipping market.

It is further disclosed that given the loss-making situation for the six months ended 30 June 2017, the Directors consider that the Group's net liabilities position may persist in the future if there is no additional fund to enhance the Group's asset base and develop its shipping and logistics business to improve the Group's financial performance. Having taken into account the capital expenditure of the abovementioned proposed acquisition of vessels and the need to retain

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sufficient funds for the working capital of the Group, the Directors consider that (i) there is an imminent need for the Group to raise additional fund since the existing cash level of the Group is not sufficient to fulfill the above expenditure of the Group to expand its shipping and logistics segment; and (ii) by applying net proceeds from the Subscription on the proposed acquisition of vessel will enable the Company to achieve economies of scale by fully utilising and exploiting the existing manpower of the Group and bring synergy to the Group's existing shipping and logistic businesses.

In view of the abundant second-hand dry bulk vessels available for sale in the market and the vast network and experience in the shipping industry of the Directors and the senior management of the Company, the Directors are confident that that the Company will be able to take delivery of the Vessel within two months of the completion date of the Subscription. The Company's shipping department has been closely monitoring and updating the bulker candidates list on a daily basis for evaluation purposes. As at the Latest Practicable Date, the Company had shortlisted several dry bulk vessels of 32,000 DWT of US\$10 million to US\$12 million each. The Company will commence negotiations with the potential sellers as soon as practicable and arrange for technical inspection of the target vessels accordingly with a view to speeding the vessels acquisition process. As disclosed in the Letter from the Board, the Company will comply with the Listing Rules when entering into any agreements related to the acquisition of the target vessels.

In arriving at our opinion on the reasons for and benefits of the Subscription, we have considered the following factors in relation to (i) intended use of the net proceeds from the Subscription; and (ii) financing alternatives of the Group, which are detailed below:

3.1. Intended use of net proceeds from the Subscription

As set out in the Letter from the Board, gross proceeds from the Subscription will be approximately HK\$100.0 million, and the estimated net proceeds from the Subscription will be approximately HK\$98.7 million after deducting expenses including professional fees. The Company intends to apply the net proceeds from the Subscription (i) as to approximately HK\$93.8 million for full amount of the acquisition of a dry bulk vessel with carrying capacity of 32,000 DWT; and the (ii) remaining balance of approximately HK\$4.9 million for the general working capital of the Group.

It is further disclosed that the Group has no intention to dispose of or downsize the existing business of the Group in the near future.

We have discussed with the management of the Company and noted that the benefits for building up the Group's own fleet of dry bulk vessels are as follow:

- (i) the average operating costs per vessel is expected to decrease as a benefit of the economies of scale;
- (ii) with the flexibility of a fleet of dry bulk vessels (including the existing MV Asia Energy of the Group), the Company can manage risk exposure of its shipping business operation to the shipping market fluctuation more effectively by way of operating certain dry bulk vessels under long-term chartering contracts with the remaining dry bulk vessels being operated under relative short-term chartering contracts; and

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- (iii) by acquiring the dry bulk vessels without or with minimal debt financing, the cash flow of the Company will be less affected by the finance cost. It will also enable the Group's shipping business to ride through any unexpected adverse market fluctuation whilst providing a healthy cash flow.

We consider that it is reasonable for the management of the Company to expect the above benefits.

The Directors are of the view that, with a larger fleet size and more effective fleet management, the Group's shipping business will become more profitable in the future.

3.2. Financing alternatives of the Group

Upon enquiry with the management of the Group, we were given to understand that, other than the Subscription, the Company has also considered the feasibility of other fund-raising methods such as (i) debt financing; (ii) placement of new Shares to independent investors; and (iii) other form of equity financing as detailed below.

(a) Debt financing

The Group has recorded a loss of approximately HK\$433.4 million for the year ended 31 December 2016 and a loss of approximately HK\$40.8 million for the six months ended 30 June 2017. In addition, the Group has also recorded a high level of indebtedness, with net current liabilities and net liabilities of approximately HK\$760.7 million and HK\$138.6 million, respectively, as at 30 June 2017.

The Directors considered that debt financing may incur interest burden on the Group and may be subject to lengthy due diligence and negotiations with banks or financial institutions taking into account the Group's financial position as discussed above and the then financial market condition. As the Group has recorded consecutive losses in 2016 and the first half of 2017, the Company does not have sufficient collateral that can be offered to banks for obtaining financing on terms and conditions acceptable to the Company.

(b) Placement of new Shares to independent investors

Given (i) the thin trading volume of the Shares during the Review Period as discussed under the sub-section headed "5.2 Review on trading liquidity of the Shares"; and (ii) the Company had discussed with the Placing Agent on the amount of fund can be raised through Placing and was given the understanding that it is hard to raise additional fund other than the current Placing structure, the Directors consider that it is difficult for a placing agent to seek independent third parties to subscribe new Shares without an even larger discount as compared with the Placing Price and the Conversion Price.

(c) Other form of equity financing

Despite that both open offer and rights issue would allow the Shareholders to participate in the subscription on new Shares to be issued by the Company and maintain their respective pro-rata shareholdings in the Company, the Directors are of

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the view that it will involve existing Shareholders increasing their amount of investment in the Company, which may not be their original intention since the Company has been loss-making and its existing businesses are not expected to achieve significant growth in the short term to be able to improve its financial condition. Furthermore, rights issue or an open offer may involve additional cost and works such as (i) identifying underwriter(s) with favorable terms; and (ii) extended timetable for extra administrative work for preparation and issue of related documents such as prospectus and application forms for acceptance as well as unaudited pro forma financial information to be included in the prospectus.

We are given to understand that the above alternatives, in particular, (i) the additional interest burden under debt financing; (ii) the difficulty in finding placing agent with acceptable terms in view of the thin trading volume of the Shares in general; and (iii) the additional costs and works under a rights issue or open offer, we concur with the view of the Directors that the Subscription offers one of the most efficient and cost-effective ways of raising funds based on the circumstances of the Company and serves as a vote of confidence in the Company by the Subscriber.

Having considered (i) the low trading volume of the Shares as set forth under the sub-section headed “5.2 Review on trading liquidity of the Shares” below; (ii) the development opportunity of the dry bulk vessel business; (iii) the pros and cons of alternative financing means; and (iv) the historical financial performance and position of the Group, we concur with the view of the Directors that the Subscription is a more preferred method of fund raising for the Group based on the circumstances of the Company and the Subscription is in the interests of the Company and the Shareholders as a whole.

Having considered the above, we consider that the reasons for the Subscription is justifiable and the Subscription is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

4. Principal terms of the Subscription Agreement

The principal terms of the Convertible Bonds to be subscribed by the Subscriber pursuant to the Subscription Agreement are summarised below. Further details of the terms of the Convertible Bonds are set out under the section headed “Principal Terms of the Convertible Bonds” in the Letter from the Board.

Aggregate principal amount:	an aggregate principal amount of up to HK\$100,000,000.
Maturity date:	the date falling on the third anniversary of the Issue Date, or if such date is not a Business Day, the Business Day immediately following such date.
Interest rate:	5.5% per annum, payable in arrears on semi-annual basis.
Conversion price:	the initial price at which each Conversion Share shall be issued upon conversion shall be HK\$0.1701, subject to adjustments as set out and in accordance with the terms and conditions of the Convertible Bonds.

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Adjusting events:

The Conversion Price is subject to adjustments in accordance with the terms and conditions set out in the Convertible Bonds if any of the following specific events occurs:

- (a) if and whenever the Company shall distribute any distribution (other than by way of a bonus issue) to the Shareholders, the Conversion Price shall be subject to adjustment;
- (b) if and whenever the Company shall make any bonus issue, the Conversion Price shall be subject to adjustment;
- (c) if and whenever there shall be a consolidation or subdivision of the Shares, the Conversion Price shall be subject to adjustment;
- (d) if and whenever the Company shall issue, grant or offer Shares, securities related to the Shares, rights in respect of Shares or rights in respect of securities related to the Shares to all or substantially all of the Shareholders as a class by way of rights as a result of which, in each case, Shareholders have the right to acquire Shares at a consideration per Share which is less than 90% of the share price of the Shares on the relevant effective date, the Conversion Price shall be subject to adjustment;
- (e) if and whenever the Company shall issue or grant any securities (other than Shares, securities related to the Shares, rights in respect of Shares, rights in respect of securities related to the Shares or Shares after spin-off) to all or substantially all of the Shareholders as a class by way of rights or the Company shall issue or grant any rights in respect of any securities (other than Shares, securities related to the Shares, rights in respect of Shares, rights in respect of securities related to the Shares or Shares after spin-off) or assets to all or substantially all of the Shareholders as a class, in each case at a price which is less than 90% of the market value of such rights on the relevant effective date, the Conversion Price shall be subject to adjustment;

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- (f) if and whenever the Company shall issue, wholly for cash, any Shares or the Company shall issue or grant, wholly for cash or for no consideration, rights in respect of Shares or rights in respect of securities related to the Shares as a result of which, in each case, persons to whom the Shares or rights are issued or granted have the right to acquire Shares at a consideration per Share which is less than 90% of the closing price of the Share on the date of the Subscription Agreement, the Conversion Price shall be subject to adjustment. However, if any such issue or grant also falls within event (d) above or constitutes an issue of Shares consequent upon the exercise of rights of the Convertible Bonds or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares, the Conversion Price shall not be subject to adjustment;
- (g) if and whenever the Group or (pursuant to arrangements with the Group) any other person or entity shall issue, wholly for cash or for no consideration, any securities related to the Shares or shall grant to any existing securities so issued such rights as to make such securities related to the Shares as a result of which, in each case, persons to whom the securities related to the Shares or such rights are issued or granted have the right to acquire Shares at a consideration per Share which is less than 90% of the closing price of the Share on the date of the Subscription Agreement. However, if any such issue or grant also falls within event (d), (e) or (f) above, the Conversion Price shall not be subject to adjustment;
- (h) if and whenever the rights to subscribe for, purchase or otherwise acquire Shares pursuant to the terms of any rights or securities related to the Shares are amended (other than in accordance with their terms of issue (including terms as to adjustment of such rights)) so that following such amendment the consideration per Share is (i) reduced and (ii) less than 90% of the closing price of the Share on the date of the Subscription Agreement;

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- (i) if and whenever the Group or (pursuant to arrangements with the Group) any other person or entity shall offer any securities in connection with which the Shareholders as a class are entitled to participate in arrangements whereby such securities may be acquired by them. However, if any such offer also causes the Conversion Price to be adjusted under event (d) or (e) (or would cause the Conversion Price to be so adjusted if the relevant consideration per Share is less than the share price of the Share on the relevant day), the Conversion Price shall not be subject to adjustment. This adjusting event mainly caters for demerger and re-domicile of the Company, pursuant to which securities (shares or otherwise) will be offered to the Shareholders as a class; and
- (j) if either the Company or the Bondholder(s) reasonably determines that:
 - (i) an adjustment should be made to the Conversion Price as a result of one or more events or circumstances not referred to in the condition (a) to (i) above (even if the relevant event or circumstance is specifically excluded from the operation of condition (a) to (i) above); or
 - (ii) more than one event which gives rise or may give rise to an adjustment to the Conversion Price has occurred or will occur within such a short period of time that a modification to the operation of the adjustment provisions is required in order to give the intended result; or
 - (iii) one event which gives rise or may give rise to more than one adjustment to the Conversion Price has occurred or will occur such that a modification to the operation of the adjustment provisions is required in order to give the intended result,

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(where such determination is made by the Bondholder(s) acting reasonably) the Bondholder(s) shall notify the Company, or (where such determination is made by the Company acting reasonably) the Company shall notify the Bondholder(s), and in each case, the Company shall, at its own expense, use all reasonable endeavours to procure that such adjustment (if any) to the Conversion Price as is fair and reasonable to take account thereof and the date on which such adjustment should take effect shall be determined by an expert, a qualified professional valuer independent from the Group, the Subscriber, the Bondholder and their respective connected person, provided that the Conversion Price may not be increased pursuant to this event. The fairness and reasonableness of such adjustment on the Conversion Price are to be determined by an expert. The Directors expect that the abovementioned adjusting event(s) is/are unlikely to happen. In case where such adjusting event(s) do happen, the Company shall comply with the requirements of the Listing Rules from time to time.

Conversion period: the period beginning on, and including, the date of expiry of the period of 18 months after the Issue Date and ending on, and including, the earlier to occur of:

- (a) 5:00 p.m. on the day which is five (5) Business Days before the Maturity Date; and
- (b) if such Convertible Bond has been called for redemption before the Maturity Date, 5:00 p.m. on the day which is five Business Days before the proposed date of redemption.

Conversion Shares: 1. Based on the initial Conversion Price of HK\$0.1701, a maximum number of 587,889,476 Conversion Shares will be allotted and issued upon exercise in full of the conversion rights attaching to the Convertible Bonds, representing approximately 38.53% of the issued Shares as at the Latest Practicable Date and approximately 19.36% of the issued Shares as enlarged by the allotment and issue of the Placing Shares and full exercise of the conversion rights attaching to the Convertible Bonds.

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However, should the exercise by a Bondholder of the conversion right attaching to its Convertible Bonds exceed the Conversion Cap, the Company shall issue such number of Conversion Shares to the extent not exceeding the Conversion Cap as advised by the Bondholder in its notice of conversion delivered to the Company, and shall pay to such Bondholder an amount in cash calculated by multiplying the remaining number of Conversion Shares which would otherwise be issued by the Current Market Price per Share.

2. The Conversion Shares to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds will be allotted and issued under the Conversion Specific Mandate to be granted to the Directors by the Shareholders at the General Meeting.

Redemption:

- (a) At any time on or after two (2) years from the Issue Date, provided that no event of default under the conditions of the Convertible Bonds has occurred as at such time, the Company has the right to redeem the Convertible Bonds (in full but not in part) held by a Bondholder; or (b) at any time on or after 2 years from the Issue Date, a Bondholder has the right to require the Issuer to redeem the Convertible Bonds at an amount equal to the aggregate of:
 - (i) 105.5% of the aggregate principal amount of the outstanding Convertible Bonds held by the Bondholder(s);
 - (ii) any accrued but unpaid interest on the Convertible Bonds; and
 - (iii) any outstanding amounts due under the Transaction Documents (including, without limitation, default interest).

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In the event that (a) the Vessel Purchase Agreement is terminated for whatever reason; (b) the Vessel is not delivered to the Company or the Nominee within two (2) months of the Issue Date or such longer period as the Subscriber may agree; or (c) there is a total loss of the Vessel (collectively, the “**Vessel Redemption**”), a Bondholder has the right to redeem the Convertible Bonds held by a Bondholder at an amount equal to the aggregate of:

- (i) 116.5% of the aggregate principal amount of the outstanding Convertible Bonds held by the Bondholder(s);
- (ii) any accrued but unpaid interest on the Convertible Bonds; and
- (iii) any outstanding amounts due under the Transaction Documents (including, without limitation, default interest).

Default Redemption:

If the Bondholder elects to require the Company to redeem the Convertible Bonds upon the occurrence of an event of default under the conditions of the Convertible Bonds, the Company will redeem such number of outstanding Convertible Bonds held by the Bondholder at an amount equal to the aggregate of:

- (i) 133% of the aggregate principal amount of the outstanding Convertible Bonds held by such Bondholder;
- (ii) any accrued but unpaid interest on the Convertible Bonds; and
- (iii) any outstanding amounts due under the Transaction Documents (including, without limitation, default interest).

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5. Conversion Price

The Conversion Price represents:

- (i) a premium of approximately 14.93% over the closing price of HK\$0.148 per Share as quoted on the Stock Exchange on 30 November 2017, being the date of the Subscription Agreement (the “**Last Trading Day**”);
- (ii) a premium of approximately 10.03% over the average closing price of approximately HK\$0.1546 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days immediately prior to the date of the Subscription Agreement;
- (iii) a premium of approximately 7.86% over the average closing price of approximately HK\$0.1577 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days immediately prior to the date of the Subscription Agreement;
- (iv) a discount of approximately 5.03% over the average closing price of approximately HK\$0.1791 per Share as quoted on the Stock Exchange for the last thirty (30) consecutive trading days immediately prior to the date of the Subscription Agreement;
- (v) a premium of approximately 4.39% over the average closing price of approximately HK\$0.1629 per Share as quoted on the Stock Exchange for the last 90 consecutive trading days immediately prior to the date of the Subscription Agreement;
- (vi) a premium of approximately 9.04% over the closing price of HK\$0.156 per Share as quoted on the Stock Exchange as at the Latest Practicable Date; and
- (vii) a premium of approximately 89.00% over the consolidated net liabilities of the Group of approximately HK\$0.09 per Share, calculated based on the unaudited consolidated net liabilities attributable to owners of the Company of approximately HK\$138,615,000 as at 30 June 2017 and the total number of issued Shares of 1,458,617,753 as at 30 June 2017.

As set out in the Letter from the Board, the Conversion Price was arrived at after arm’s length negotiations between the Company and the Subscriber having considered that (i) the Subscriber could enjoy the potential upside of the share price of the Shares since the beginning of the conversion period as a result of the potential improvement of the financial performance of the Group in future mainly attributable to the expected increase in revenue generated from the target vessels to be acquired by using the proceeds from the Subscription; and (ii) the Subscriber will receive fixed coupon payment during the term of the Convertible Bonds. Further, the adjusting events represent normal corporate events which will have impact on the proportionate interest of the Bondholders and are in line with normal market practice as a mean of anti-dilution measure, and that the Conversion Cap prevents the triggering of mandatory general offer obligation.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Further, the mechanism in determining the Conversion Shares, in which the Company shall issue number of Conversion Shares not exceeding the Conversion Cap and settle the remaining amount in cash calculated by multiplying the remaining number of Conversion Shares by the Current Market Price per Share, was determined after arm's length negotiation between the Company and the Subscriber taking into account that (i) the potential upside gain from the exercise of the conversion rights entitled by the Subscriber shall not be limited by the Conversion Cap; and (ii) there is an imminent need for the Group to acquire revenue generating assets to turnaround its existing unfavourable financial performance and position.

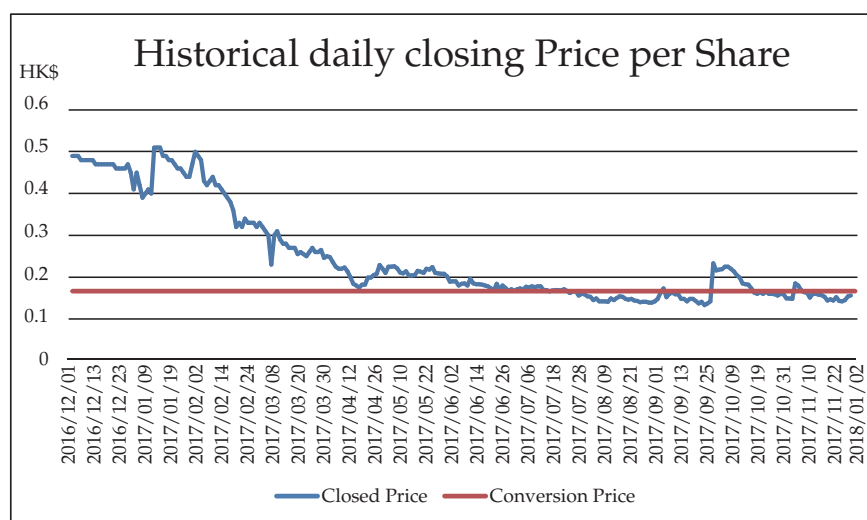
Given the above, the general terms of the Subscription Agreement and the imminent need for the Group to raise additional fund for its proposed acquisition of vessels and working capital, the Directors are of the view, and we concur that the terms of the Subscription Agreement including the conversion mechanism, are the best possible terms and conditions available to the Company, and therefore consider that the Subscription is in the interests of the Company and Shareholders as a whole.

Concerning the Vessel Redemption, having considered (i) the discussion in paragraph headed "3.2 Financing alternatives of the Group" that Subscription is a more preferred method of fund raising for the Group based on the circumstances of the Company; (ii) over 90% of the intended use of proceed is to acquire a dry bulk vessel with carrying capacity of 32,000 DWT; (iii) the terms of the Vessel Redemption represented the best terms the Subscriber may offer in view of the Company's financial condition; (iv) in view of the abundant second-hand dry bulk vessels available for sale in the market and the vast network and experience in the shipping industry of the Directors and the senior management of the Company, the Directors are confident that the Company will be able to take delivery of the Vessel within two months of the completion date of the Subscription and are of the view that the chance for the Vessel Redemption is remote; and (v) the 116.5% of the aggregate principal amount of the outstanding Convertible Bonds represented the yield of the Convertible Bond should the Bondholders hold the Convertible Bond until maturity, and given the Company's financial condition, the Directors consider, and we concur that the terms of Vessel Redemption are acceptable and fair and reasonable so as to obtain the proceed for the development of the Company for future economic benefit which is in the interest of the Company and its Shareholders as a whole.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

5.1. Review on Share price performance

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the daily closing price of the Shares as quoted on the Stock Exchange from 1 December 2016 up to and including the Last Trading Day (the “**Review Period**”), being approximately one year prior to the date of the Subscription Agreement. We consider that the Review Period is adequate to illustrate the recent price movement of the Shares for conducting a reasonable comparison among the historical closing prices of the Shares and the Subscription Price. The comparison of daily closing prices of the Shares and the Subscription Price is illustrated as follows:



Source: the website of the Stock Exchange (www.hkex.com.hk)

During the Review Period, the closing price of the Share maintained a decreasing trend in general with the lowest daily closing price per Share at HK\$0.133 on 19 October 2017 and the highest closing price per Share at HK\$0.51 on 13, 16 and 17 January 2017 and the average daily closing price per Share of approximately HK\$0.255. It is noted that the Conversion Price is within the range of the lowest and highest closing price of the Shares as quoted on the Stock Exchange during the Review Period and represents (i) a premium of approximately 27.89% over the lowest daily closing price during the Review Period; (ii) a premium of approximately 10.03% over the average Share price of the last five trading days prior to the Subscription Agreement; (iii) a discount of approximately 66.65% to the highest daily closing price during the Review Period; and (iv) a discount of approximately 33.23% over the average daily closing price per Share of HK\$0.255 during the Review Period.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

5.2. *Review on trading liquidity of the Shares*

We have further reviewed the trading liquidity of the Shares. The table below sets out (i) the average daily trading volume of the Shares; and (ii) the percentage of the average daily trading volume of the Shares to total number of issued Shares as at the end of the month/period:

	Total trading volume of the Shares	Number of trading days	Average daily trading volume of the Shares	Percentage of the average daily trading volume to total number of issued Shares as at the end of the month/period
2017				
January	34,489,000	19	1,815,211	0.013%
February	78,369,530	20	3,918,477	0.027%
March	57,973,820	23	2,520,601	0.174%
April	19,298,630	17	1,135,214	0.079%
May	25,744,240	20	1,287,212	0.089%
June	15,874,900	22	721,586	0.049%
July	14,781,600	21	703,886	0.048%
August	11,739,100	22	533,595	0.036%
September	32,528,400	21	1,548,971	0.104%
October	174,295,240	20	8,714,762	0.580%
November	44,631,700	22	2,028,714	0.134%
December	61,332,346	19	3,228,018	0.212%
Maximum	174,295,240	23	8,714,762	0.580%
Minimum	11,739,100	17	533,595	0.013%
Average	47,588,209	21	2,346,354	0.129%

Source: the website of the Stock Exchange (www.hkex.com.hk)

LETTER FROM INDEPENDENT FINANCIAL ADVISER

As illustrated in the above table, the average daily trading volume was low during the Review Period, with a range of approximately 533,595 Shares to approximately 8,714,762 Shares, representing approximately 0.013% to 0.580% of the number of Shares in issue as at the end of relevant month/period. It illustrates that the trading volume of the Shares is thin.

5.3. Market comparable analysis

In order to assess the fairness and reasonableness of the major principal terms of the Convertible Bonds, we have reviewed the transactions announced by companies listed on the Stock Exchange, in which the transactions involved issue of convertible bonds/notes under the specific mandate (excluding the issuance for consideration/acquisition) during the period from 16 May 2017 to the date of the Subscription Agreement (the “**CB Comparables**”), being 6-month period prior to the date of the Subscription Agreement and has not been terminated as at the date of the Subscription Agreement. Based on the aforesaid criteria and to the best of our knowledge, we have identified 13 CB Comparables which we consider to be exhaustive and complete. Shareholders should note that the businesses, operations and prospects of the Company may not be the same as, or even substantially vary from, that of the CB Comparables; and we have not conducted any detailed investigation into the respective businesses and operations of the CB Comparables.

We consider that the CB Comparables (i) adequately covered the prevailing market conditions and sentiments of the capital market in Hong Kong; (ii) such period represented recent structure of the convertible bonds/notes issues in Hong Kong; and (iii) the number of the CB Comparables identified demonstrate the market practice during the period and allow the Independent Shareholders to have a general understanding of recent issues of convertible bonds/notes being conducted in the capital market of Hong Kong. Our analysis on the CB Comparables is set out below.

Date of announcement	Company name	Stock code	Connected transaction (Yes/No)	Maturity (Year)	Annual interest rate (%)	Number of conversion shares to the respective enlarged issued share capital upon completion (%)	Premium/ (discount) of the conversion price over/ (to) closing price per share on the last trading day prior to/on the date of announcements (%)	Premium/ (discount) of the conversion price over/ (to) closing price per share on the last five trading days prior to/on the date of announcements (%)
16 May 2017	Larry Jewelry International Company Limited	8351	No	2	6.5	10.61	72.41	81.69
16 May 2017	Larry Jewelry International Company Limited	8351	No	2	7.5	17.20	106.90	118.02
25 May 2017	Code Agriculture (Holdings) Limited	8153	No	3	6	2.0	-40.20	-25.25

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Date of announcement	Company name	Stock code	Connected transaction (Yes/No)	Maturity (Year)	Annual interest rate (%)	Number of conversion shares to the respective enlarged issued share capital upon completion (%)	Premium/ (discount) of the conversion price over/ (to) closing price per share on the last trading day prior to/on the date of announcements (%)	Premium/ (discount) of the conversion price over/ (to) closing price per share on the last five trading days prior to/on the date of announcements (%)
26 May 2017	CASH Financial Services Group Limited	510	No	3	4	32.60	-3.13	-2.82
29 May 2017	China Ocean Fishing Holdings Limited	8047	No	2	13	14.70	-38.50	-44.30
2 June 2017	E-Commodities Holdings Limited	1733	No	5	5	9.87	-	1.35
14 June 2017	Kiu Hung International Holdings Limited	381	No	2	9	21.48	14.29	17.19
15 June 2017	PPS International (Holdings) Limited	8201	Yes	1	-	23.58	3.45	-0.66
7 August 2017	Eminence Enterprise Limited	616	Yes	1	3	13.68	1.69	-
15 August 2017	China Hongqiao Group Limited	1378	No	Approximately 5	5	4.05	15.74	14.80
21 August 2017	China Huarong Energy Company Limited	1101	No	2	7	48.66	63.93	63.40
12 October 2017	Sinco Pharmaceuticals Holdings Limited	6833	No	3	4	68.7	-32.7	-33.7
20 October 2017	U-RIGHT International Holdings Limited	627	No	3	9	40.75	-82.11	-81.45
	Maximum			5	13	68.7	106.9	118.02
	Minimum			1	3	2	-82.11	-81.45
	Average			2.62	6.58	23.68	6.81	9.02
30 November 2017	The Company		Yes	3	5.5	38.84	14.93	10.03

LETTER FROM INDEPENDENT FINANCIAL ADVISER

As demonstrated on the above table, it is noted that (i) the conversion price of the CB Comparables ranged from (a) a discount of approximately 82.11% to a premium of approximately 106.9% over their respective closing price of their shares on their respective last trading days prior to/on the date of their respective announcements with an average of a premium of approximately 6.81%; and (b) a discount of approximately 81.45% to a premium of approximately 118.02% over their respective closing price of their shares on their respective last five trading days prior to/on the date of their respective announcements with an average of a premium of approximately 9.02%; (ii) the maturity of the CB Comparables ranged from 1 year to 5 years with an average of approximately 2.62 year; and (iii) the annual interest rate of the CB Comparables ranged from 3% to 13% with an average of approximately 6.58% (collectively, the “**Market Ranges**”). We also noted that the percentage of number of conversion shares of the CB Comparables to their respective enlarged issued share capital upon completion (the “**Market Implied Dilution**”) ranged from approximately 2% to 68.7% with an average of approximately 23.68%.

Although the Conversion Price represented a discount of approximately 33.23% over the average daily closing price per Share during the Review Period, it is noted that (i) the closing price of the Company started to drop since February 2017 during which the Company had announced a share consolidation on 8 February 2017 and a profit warning on 22 February 2017, and the closing price became relatively stable and close to the Conversion Price by May 2017 which resulted in relatively high average daily closing price, and (ii) such discount was still within the Market Ranges which compared the relevant conversion price of the CB Comparables against the respective closing price of the last trading day or the average of last five trading days. After May 2017, the closing price was close to the Conversion Price, and the Conversion Price represented a premium of approximately 10.03% over the average Share price of the last five trading days prior to the Subscription Agreement, and given the fact that the Conversion Price, annual interest and maturity of the Convertible Bonds and the percentage of number of Conversion Shares to the Company’s enlarged issued share capital upon completion of the Subscription were within the Market Range and Market Implied Dilution, and having considered that (i) the low liquidity of the Shares during the Review Period; (ii) the Conversion Price was at premium to the average Share price on the last 5 trading days prior to the Subscription Agreement; (iii) the Subscription is a preferred means to raise funds given the Company’s circumstance comparing to other fundraising methods; (iv) the deteriorating financial performance of the Group as discussed in section headed “1.2. Historical financial information”; and (v) the raised funds will be used to acquire a dry bulk vessel for expanding the Group’s dry bulk vessel business which the Directors expected to be beneficial to the Group’s financial performance and position as discussed in the above section headed “3. Reasons for and benefits of the Subscription”, we consider that the Subscription is fair and reasonable so far as the Independent Shareholders are concerned.

Taking into account the principal terms of the Subscription Agreement as highlighted above, we are of the view that the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

6. Possible dilution effect on the shareholding interests of Shareholders

As shown in the table under the section headed “Effect on the shareholding structure of the Company” of the Letter from the Board, upon completion of the Subscription, the shareholding interests of the existing public Shareholders would be diluted by approximately 23.64%, representing a decrease in the public Shareholders interests in the Company from approximately 62.48% to approximately 38.84%, assuming no other change in the issued share capital of the Company other than the issuance of the Conversion Shares. Nonetheless, in view of (i) the reasons for and the possible benefits of the Subscription to the Group, details of which are set out under the section headed “Reasons for and benefits of the Subscription” of this letter; and (ii) the terms of the Subscription Agreement being fair and reasonable so far as the Independent Shareholders are concerned, we consider that such dilution effect on the shareholding interests of the existing public Shareholders resulting from the issue of the Conversion Shares is acceptable.

7. Financial effects of the Subscription to the Group

7.1. Liquidity

According to the 2017 Interim Report, the Group had cash and cash equivalents of approximately HK\$9.9 million as at 30 June 2017. Given the Company intends to apply the net proceeds from the Subscription (i) as to approximately HK\$93.8 million for full amount of the acquisition of a dry bulk vessel with carrying capacity of 32,000 DWT; and the (ii) remaining balance of approximately HK\$4.9 million for the general working capital of the Group, upon completion of the Subscription, the liquidity and cash position of the Group will be improved by the portion applied for general working capital.

7.2. Gearing

As at 30 June 2017, the Group’s interest-free loans amounted to approximately HK\$429.9 million and interest-bearing loans was approximately HK\$1.1 billion and was at a net liabilities position. Upon completion of the Subscription, the gearing will also be improved with the portion applied for general working capital.

Given the above, and the majority of the proceed will be used to acquire a dry bulk vessel to expand the Group’s business which the Directors expected to have positive effect to the Group’s business and financial performance, the Subscription may have an overall positive effect on the Group’s financial position. We consider that the Subscription is in the interests of the Company and the Shareholders as a whole. It should be noted that the aforementioned financial effects are for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon completion of the Subscription.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having considered the principal factors and reasons described above, we are of the opinion that (i) the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Subscription, though is not in the ordinary and usual course of business of the Company, is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution(s) to be proposed at the General Meeting to approve the Subscription Agreement, the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited
Joshua Liu
Managing Director

Mr. Joshua Liu is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). He has over 19 years of experience in the investment banking and securities industry.

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. DISCLOSURE OF INTERESTS

Interest of Directors of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of 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 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 Shares and underlying Shares

Name of Director	Capacity	Number of Shares held	Number of underlying Shares held under equity derivatives <i>(Note 1)</i>	Total	Approximate percentage of Shareholding <i>(Note 2)</i>
Mr. Liang Jun	Beneficial Owner	200,000	5,000,000	5,200,000	0.34%
Mr. Yu Baodong	Beneficial Owner	–	5,000,000	5,000,000	0.33%

Notes:

- (1) These are share options granted by the Company to the Directors under the 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\$1.680 per Share.
- (2) The approximate percentage of shareholding was calculated based on the number of shares in issue of 1,525,780,526 Shares as at the Latest Practicable Date.

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.

Interest of Substantial Shareholders of the Company

As at the Latest Practicable Date, so far as it was known to the Directors, the following person(s), other than a director or chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long Position in the Shares and underlying Shares

Name of Shareholder	Nature of interest/capacity	Number of Shares (long position)	Approximate percentage of Shareholding (Note 4)
Mr. Wong Kin Ting ("Mr. Wong")	Interest of controlled corporations	455,297,032 (Note 1)	29.84%
Mr. Zhu Gongshan ("Mr. Zhu")	Beneficiary of a discretionary trust & interest of controlled corporations	213,745,000 (Note 2)	14.01%
Credit Suisse Trust Limited ("CST")	Trustee	200,000,000 (Note 3)	13.11%

Notes:

- (1) According to the individual substantial shareholder notice filed by Mr. Wong, Mr. Wong was deemed to be interested in 455,297,032 Shares through his interests in the following corporations which are 100% owned by him:
 - (i) 29,500,000 Shares held by Delight Assets Management Limited, and
 - (ii) 425,797,032 Shares held by King Castle Enterprises Limited.
- (2) According to the individual substantial shareholder notice filed by Mr. Zhu, Mr. Zhu was deemed to be interested in 213,745,000 Shares that comprised:
 - (i) 200,000,000 Shares indirectly held by Asia Pacific Energy Fund, a trust fund to which Mr. Zhu is both a founder and a beneficiary, details of which are described in Note 3 below, and
 - (ii) 13,745,000 Shares directly held by Profit Act Limited, which is indirectly controlled by Mr. Zhu.

- (3) According to the corporate substantial shareholder notice filed by CST on 1 November 2013, CST was deemed to be interested in 200,000,000 Shares in its capacity as the trustee of these Shares. These 200,000,000 Shares were beneficially owned by Fast Sky Holdings Limited which in turn is 100% directly controlled by Golden Concord Group Limited (“**Golden Concord**”). Golden Concord is 100% controlled by Asia Pacific Energy Holdings Limited which in turn is 100% controlled by Asia Pacific Energy Fund Limited (“**APEFL**”). APEFL is 50% controlled by Serangoon Limited and 50% controlled by Seletar Limited and both Serangoon Limited and Seletar Limited are 100% controlled by CST. Out of these 200,000,000 Shares, 100,000,000 Shares are consideration Shares which may be issued (in whole or in part as appropriate) to Golden Concord or its nominee pursuant to an agreement dated 18 December 2009 (as amended by supplemental agreements on 24 December 2009 and 28 April 2010, respectively) in relation to the acquisition of the entire equity interests in Ocean Jade Investments Limited (collectively, the “**Agreements**”). Details of the Agreements are set out in the Company’s circular dated 30 April 2010, whereby it was disclosed that the allotment and issue of these 100,000,000 Shares is subject to the achievement of the profit guarantee as contained in the Agreements.
- (4) The approximate percentage of shareholding was calculated based on the number of shares in issue of 1,525,780,526 Shares as at the Latest Practicable Date.

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 2016, 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 of the Stock Exchange, 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 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 Director has confirmed that so far as he is aware, he and his associates do not have any interests in a business which competes or likely to compete with the Group.

3. LITIGATION

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

4. EXPERT AND CONSENT

The qualification of the expert who has given opinions and advice in this circular is as follows:

Name	Qualification
Lego Corporate Finance Limited	a licensed corporation to carry out Type 6 regulated activity under the SFO

As at the Latest Practicable Date, Lego Corporate Finance Limited had 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 which have been acquired or disposed of by or leased to any member of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Company were made up or are proposed to be acquired or disposed of by or leased to any member of the Group.

Lego Corporate Finance Limited has given its written consent and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or references to its name in the form and context in which they respectively appear.

5. 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 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up.

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) A placing agreement dated 8 February 2017 entered into between the Company and Eternal Pearl Securities Limited in respect of placing, on a best effort, a total of 4,000,000,000 shares at the price of HK\$0.1 per share;
- (iii) The memorandum of agreement dated 8 February 2017 entered into between an indirect wholly-owned subsidiary of the Company and the vendor in respect of the acquisition of a heavy lift vessel at a consideration of US\$103.3 million;
- (iv) A side letter dated 31 March 2017 entered into between the Company and Eternal Pearl Securities Limited to extend the placing period and the long stop date of the placing of 4,000,000,000 new shares at the price of HK\$0.1 per share;
- (v) A deed of termination dated 26 May 2017 entered into between the Company and Eternal Pearl Securities Limited for the termination of the placing of 4,000,000,000 new shares at the price of HK\$0.1 per share;
- (vi) the Placing Agreement; and
- (vii) the Subscription Agreement.

7. GENERAL

- (a) The secretary of the Company is Ms. Wong Man Kei, Maggie. She is also the authorised representative of the Company.
- (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, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The English texts of this circular shall prevail over the Chinese texts.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at Room 2404, 24/F., Wing On Centre, 111 Connaught Road Central, Hong Kong from the date of this circular up to and including the date of the General Meeting:

- (a) the articles of association of the Company;
- (b) the letter from the Board, the text of which is set out on pages 7 to 28 of this circular;
- (c) the annual reports of the Company for each of the two years ended 31 December 2015 and 2016 respectively;
- (d) the interim report of the Company for the six months ended 30 June 2017;
- (e) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;
- (f) the written consent referred to in the paragraph headed "Expert and Consent" in this appendix; and
- (g) this circular.

NOTICE OF GENERAL MEETING

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 an extraordinary general meeting (the “**General Meeting**”) of Asia Energy Logistics Group Limited (the “**Company**”) will be held at Holiday Inn Express Hong Kong Soho, 38/F., No. 83 Jervois Street, Sheung Wan, Hong Kong on Friday, 26 January 2018 at 11:30 a.m. for the purpose of considering and, if thought fit, passing with or without amendments the following resolutions:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the placing agreement (the “**Placing Agreement**”, a copy of which has been produced to the General Meeting marked “A” and signed by the chairman of the General Meeting for the purpose of identification) dated 30 November 2017 and entered into between the Company as issuer and Taiping Securities (HK) Co., Limited as placing agent in relation to the placing of up to 923,361,034 new ordinary shares of the Company (each a “**Placing Share**”) at the placing price of HK\$0.1083 per Placing Share and the transactions contemplated thereunder be and are hereby approved;
- (b) conditional upon the Placing Agreement proceeding to closing in accordance with the terms and conditions set out therein, the directors (the “**Directors**”) of the Company be and are hereby granted a specific mandate (the “**Placing Specific Mandate**”) to allot and issue the Placing Shares on the terms and conditions of the Placing Agreement; and the Placing Specific Mandate is in addition to and shall not prejudice or revoke any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors by the shareholders of the Company; and
- (c) the Directors be and are hereby authorised to do all such acts and things, to sign and execute all such further documents and to take such steps as the Directors may in their absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Placing Agreement or any of the transactions contemplated thereunder and to make such amendments to the Placing Agreement as the Directors may in their absolute discretion consider not material and necessary, appropriate, desirable or expedient in connection therewith.”

2. “**THAT:**

- (a) the subscription agreement (the “**Subscription Agreement**”, a copy of which has been produced to the General Meeting marked “B” and signed by the chairman of the General Meeting for the purpose of identification) dated 30 November 2017 and entered into between GIC Investment Limited (the “**Subscriber**”) as Subscriber and the Company as issuer in relation to the subscription by the Subscriber of the Convertible Bonds (as defined below) and the transactions contemplated thereunder be and are hereby approved;

NOTICE OF GENERAL MEETING

- (b) conditional upon the Subscription Agreement proceeding to closing in accordance with the terms and conditions set out therein, the creation and issue of the convertible bonds (the “**Convertible Bonds**”) in the aggregate principal amount of HK\$100 million, which are convertible into ordinary shares of the Company (the “**Conversion Shares**”) at the conversion price of HK\$0.1701 per Conversion Share (subject to adjustment), to the Subscriber pursuant to the Subscription Agreement, on and subject to the terms and conditions of the instrument (the “**Convertible Bonds Instrument**”, a copy of which has been produced to the General Meeting marked “C” and signed by the chairman of the General Meeting for the purpose of identification) to be executed by the Company be and are hereby approved;
- (c) conditional upon the Subscription Agreement proceeding to closing in accordance with the terms and conditions set out therein, the directors (the “**Directors**”) of the Company be and are hereby authorised to issue the Convertible Bonds on and subject to the terms and conditions of the Convertible Bonds Instrument;
- (d) conditional upon the Subscription Agreement proceeding to closing in accordance with the terms and conditions set out therein, the Directors be and are hereby granted a specific mandate (the “**Conversion Specific Mandate**”) to allot and issue the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds or any of them on the terms and conditions of the Convertible Bonds Instrument; and the Conversion Specific Mandate is in addition to and shall not prejudice or revoke any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors by the shareholders of the Company; and
- (e) the Directors be and are hereby authorised to do all such acts and things, to sign and execute all such further documents and to take such steps as the Directors may in their absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Subscription Agreement or any of the transactions contemplated thereunder and to make such amendments to the Subscription Agreement and the Convertible Bonds Instrument as the Directors may in their absolute discretion consider not material and necessary, appropriate, desirable or expedient in connection therewith.”

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

5 January 2018

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

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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.
4. The register of members of the Company will be closed from Tuesday, 23 January 2018 to Friday, 26 January 2018, both days inclusive, during which no transfer of shares will be registered. In order to be entitled to attend and vote at the General Meeting, all transfers of shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the Company's share registrar at the address stated in note 2 above no later than 4:30 p.m. on Monday, 22 January 2018.

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