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: 0351)**

## ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

**RESULTS**

The board (the "Board") of directors (the "Directors") of Asia Energy Logistics Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2015, together with the comparative figures for the previous corresponding year, as follows:

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
*For the year ended 31 December 2015*

| | *Notes* | **2015** *HK$'000* | 2014 *HK$'000* |
|---|---|---|---|
| Revenue | *4* | **21,922** | 36,680 |
| Cost of sales | | **(20,282)** | (32,620) |
| Gross profit | | **1,640** | 4,060 |
| Other income, gains and (losses) | | **945** | (10,815) |
| Depreciation and amortisation | | **(2,281)** | (5,883) |
| Staff costs | | **(19,118)** | (19,814) |
| Impairment loss on property, plant and equipment | | **(25,000)** | – |
| Impairment loss on intangible assets | | **(18,499)** | (55,062) |
| Change in fair value of contingent consideration payable | | **17,836** | 10,833 |
| Change in fair value of derivative component of convertible notes | *13* | **11,760** | – |
| Change in fair value of options/commitment to issue convertible notes | *13* | **(94,847)** | – |
| Share of results of jointly controlled entity | *7* | **(93,427)** | (15,732) |
| Other operating expenses | | **(22,307)** | (36,201) |
| Finance costs | *6* | **(100,892)** | (113,730) |
| Loss before income tax | *7* | **(344,190)** | (242,344) |
| Income tax | *8* | **–** | 6,579 |
| Loss for the year | | **(344,190)** | (235,765) |

| | Notes | **2015** *HK$'000* | 2014 *HK$'000* |
|---|---|---|---|
| **Other comprehensive income** | | | |
| Exchange difference arising on translation of financial statements of foreign operations which maybe reclassified subsequently to profit or loss | | **(26,215)** | (3,769) |
| **Total comprehensive income for the year** | | **(370,405)** | (239,534) |
| **Loss for the year attributable to:** | | | |
| Owners of the Company | | **(297,864)** | (184,812) |
| Non-controlling interests | | **(46,326)** | (50,953) |
| | | **(344,190)** | (235,765) |
| **Total comprehensive income for the year attributable to:** | | | |
| Owners of the Company | | **(314,665)** | (187,439) |
| Non-controlling interests | | **(55,740)** | (52,095) |
| | | **(370,405)** | (239,534) |
| Loss per share – basic and diluted (HK cents per share) | *10* | **(2.15)** | (1.38) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2015*

| | Notes | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **40,579** | 73,087 |
| Intangible assets | | **1,000** | 19,956 |
| Construction in progress | | **2,002,985** | 2,127,323 |
| Railway construction prepayment | | **10,468** | 11,117 |
| Interest in a jointly control entity | | **–** | – |
| | | **2,055,032** | 2,231,483 |
| **Current assets** | | | |
| Other receivables and prepayments | *11* | **51,522** | 49,987 |
| Cash and cash equivalents | | **30,512** | 15,653 |
| | | **82,034** | 65,640 |
| **Current liabilities** | | | |
| Trade and other payables | *12* | **154,512** | 166,246 |
| Bank loans and other borrowings | | **617,662** | 452,406 |
| Convertible notes | *13* | **364** | – |
| Amount due to a jointly controlled entity | | **137,060** | 43,734 |
| Amounts due to minority equity owners of subsidiaries | | **8,731** | 9,272 |
| | | **918,329** | 671,658 |
| **Net current liabilities** | | **(836,295)** | (606,018) |
| **Total assets less current liabilities** | | **1,218,737** | 1,625,465 |
| **Non-current liabilities** | | | |
| Bank loans | | **889,846** | 1,055,928 |
| Contingent consideration payable | | **–** | 17,836 |
| | | **889,846** | 1,073,764 |
| **NET ASSETS** | | **328,891** | 551,701 |
| **Capital and reserves attributable to owners of the Company** | | | |
| Share capital | *14* | **1,586,379** | 1,435,649 |
| Other reserves | | **(1,363,220)** | (1,045,420) |
| Equity attributable to owners of the Company | | **223,159** | 390,229 |
| Non-controlling interests | | **105,732** | 161,472 |
| **TOTAL EQUITY** | | **328,891** | 551,701 |

## NOTES

### 1. GENERAL INFORMATION

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

The Group, comprising the Company and its subsidiaries, together with its jointly controlled entity, is engaged in (i) railway construction and operations and (ii) shipping and logistics.

The financial information relating to the years ended 31 December 2014 and 2015 included in this preliminary announcement of annual results for the year ended 31 December 2015 do not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) ("Hong Kong Companies Ordinance") is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 December 2014 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the consolidated financial statements for the year ended 31 December 2015 in due course. The Company's auditor has reported on the consolidated financial statements of the Company for both years. The auditor's report for the year ended 31 December 2014 included a reference to going concern basis to which the auditor drew attention by way of emphasis without qualifying its report. The auditor's report for the year ended 31 December 2015 with a disclaimer of opinion was given by the independent auditor, the details of basis of disclaimer opinion are set out in this announcement under "Extract of the Independent Auditor's Report" and contains a statement under section 407(3) of the Hong Kong Companies Ordinance.

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

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group, but do not have material impact on the consolidated financial statements.

The HKICPA has issued a number of amendments, new standards and new interpretations which are not yet effective for the year ended 31 December 2015 and which have not been early adopted in the consolidated financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application and the directors of the Company are not yet in a position to quantify the effects on the Group's financial statements.

## 3. BASIS OF MEASUREMENT AND GOING CONCERN BASIS

### (a) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain financial instruments which have been measured at fair value.

### (b) Going concern basis

As at 31 December 2015, the Group had net current liabilities of HK$836,295,000 and incurred a loss of HK$344,190,000 for the year ended 31 December 2015. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The Group's net current liabilities as at 31 December 2015 are mainly attributable to its three non-wholly owned subsidiaries, 承德寬平鐵路有限公司 (Chengde Kuanping Railway Limited*) ("Kuanping Company"), 承德遵小鐵路有限公司 (Chengde Zunxiao Railway Limited*) ("Zunxiao Company") and 唐山唐承鐵路運輸有限責任公司 (Tangshan Tangcheng Railway Transportation Company Limited*) ("Tangcheng Company") (collectively the "Railway Companies") which are principally engaged in the construction and operations of a railway connecting Tangshan City (唐山市) and Chengde City (承德市), Hebei Province (河北省), the People's Republic of China (the "PRC"), (the "Zunxiao Railway").

As described in the Company's announcement dated 28 February 2014, the Company, through its wholly-owned subsidiary, entered into three disposal agreements dated 14 February 2014 as amended subsequently by three supplemental agreements (collectively the "Disposal Agreements") with 河北建投交通投資有限責任公司 (Hebei Construction, Transportation and Investment Co., Ltd.*) ("the "Purchaser") for the disposal of its majority equity interests in Kuanping Company and Zunxiao Company (with 9.48% equity interest to be retained by the Group) and the entire equity interest in Tangcheng Company ("the Disposal") at an aggregate cash consideration of RMB433,270,000 (the "Consideration"). The Consideration will be payable by the Purchaser to the Group by four instalments, of which the first instalment, being 30% of the Consideration shall be paid within five business days after the effective date of the Disposal.

In accordance with the Disposal Agreements, if the competent authority in charge of commerce (the "Competent Authority") has not approved the Disposal Agreements within the specified time limit, the Group or the Purchaser can terminate the Disposal Agreements by giving written notice to the other party.

* *English name for identification only*

Despite of the prolonged delay in obtaining the requisite approval of the Disposal Agreements from the Competent Authority, in the opinion of the directors of the Company (the "Directors"), the Disposal could be completed with the first instalment of the Consideration received by 31 March 2017 on the basis that:

(i) Although during the year and up to the date of approval of the consolidated financial statements, the approval of the Disposal Agreements by the Competent Authority has not been obtained within the time limit, the Group, up to the date of approval of the consolidated financial statements, has not received written or verbal notice from the Purchaser to terminate the Disposal Agreements. After taking into account a legal opinion, the Directors consider that the Disposal Agreements remain valid and given the Purchaser has not given written or verbal notice to the Group to terminate the Disposal Agreements, the Directors consider that the Purchaser will continue to execute the Disposal Agreements in accordance with their terms and conditions; and

(ii) Although, there is a prolonged delay in obtaining the requisite approval from the Competent Authority due to the outstanding issues, mainly relating to the assessment and negotiation of the scope of compensation payable to the overlaid mine owner (the "Mine Owner") around the Tangcheng section of the Zunxiao Railway which are yet to be resolved by the parties involved, the Group has been actively requesting further information from the Mine Owner to assess and negotiate the scope of compensation payable in order to expedite the process of resolving the above issues.

Once the Purchaser, which is a state-owned enterprise established in the PRC and currently owns 12.5% equity interest in each of Zunxiao Company and Kuanping Company, has obtained the results of the aforementioned outstanding issues, the Group will discuss and coordinate with the Purchaser to obtain necessary approvals from the Competent Authority. The Company will then seek shareholders' approval for the Disposal.

At present, the Directors do not foresee any material obstacles in obtaining the necessary approvals in due course once the above issues are resolved.

The Directors consider that after completion of the Disposal, the Group's financial obligations and liabilities in relation to the Railway Companies will be significantly reduced with significant net cash proceeds to be received.

Prior to completion of the Disposal, the Directors expect that the Railway Companies will continue to rely on the financial support from certain companies (the "Lenders"), one of which is a guarantor (the "Guarantor") of their entire bank loans of HK$1,173,000,000 as at 31 December 2015 and all of them are beneficially owned by a director of certain subsidiaries of the Company including the Railway Companies who is a beneficiary of a discretionary trust which in turn is a substantial shareholder of the Company, in order to meet their financial obligations including payment of interests on bank loans, construction cost payables and other operating expenses.

In this connection, the Guarantor which is also the holding company of the other companies comprising the Lenders has confirmed that it will continue to provide such financial support to the Railway Companies and will not demand them for repayment of the Lenders' loans, which amounted to HK$321,648,000 as at 31 December 2015, and related interests before completion of the Disposal.

In addition, the Group will discuss with its joint venture partner in order to reach an agreement to withhold enforcement of or otherwise discharge the Group's financial obligations under a shareholders' agreement.

The Directors also expect that the other receivable of HK$19,850,000 will be received no later than 31 December 2016.

Furthermore, in order to meet the expected repayment of other loans of the Group other than the Railway Companies which amounted to HK$8,952,000 as at 31 December 2015 if the date of their repayment is not extended and to increase general working capital of the Group for its existing operations, the Company will seek approval from the Company's shareholders to issue the second tranche of convertible notes ("Tranche 2 Notes") up to maximum principal amount of HK$40,000,000 pursuant to a subscription agreement and a supplemental agreement entered into between the Company and a subscriber in February 2015, which were further amended on 1 March 2016. The Directors expect that the issue of Tranche 2 Notes will be approved by shareholders of the Company. Alternatively, the Group may pledge its vessel to banks for additional funds as necessary.

In view of the above circumstances, the Directors have prepared a cash flow forecast of the Group covering a period up to 31 March 2017 on the basis that the Group will successfully implement the aforementioned plans and measures and are satisfied that the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the twelve months from 31 December 2015. Accordingly, the Directors consider that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether the Group will be able to successfully implement its plans and measures as mentioned above. The appropriateness of preparation of the consolidated financial statements on the going concern basis depends on whether (i) the Purchaser will execute the Disposal Agreements in accordance with their terms and conditions (ii) the outstanding issues causing the delay in obtaining the necessary approvals of the Disposal Agreements, mainly completion of assessment and negotiation of the scope of compensation payable to the Mine Owner will be resolved soon so that necessary approvals will be obtained in due course to enable the Disposal to be completed with the first instalment of the Consideration received by 31 March 2017; (iii) the Lenders will have sufficient financial ability to continue to provide the financial support to the Railway Companies before completion of the Disposal; (iv) the Group will be able to reach an agreement with the joint venture partner to withhold enforcement of or otherwise discharge the Group's obligations under a shareholders' agreement; (v) the other receivable of HK$19,850,000 will be received no later than 31 December 2016, and (vi) the Company can obtain additional funds either from issue of the Tranche 2 Notes which are subject to the approval by shareholders of the Company and subscription by the subscriber or pledge of vessel to banks.

Should the use of the going concern basis in preparation of the consolidated financial statements be determined to be not appropriate, adjustments would have to be made to write down the carrying amounts of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

**(c) Functional and presentation currency**

The functional currency of the Company is Renminbi ("RMB") while the consolidated financial statements are presented in Hong Kong dollars ("HK$"). As the shares of the Company are listed on the Main Board of the Stock Exchange, the Directors consider that it will be more appropriate to adopt HK$ as the Group's presentation currency.

## 4. REVENUE

Revenue represents the amount received and receivable from time charters:

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Charter-hire income | **21,922** | 36,680 |

## 5. SEGMENT INFORMATION

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

The Group has two reportable segments which are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

– Railway construction and operations

– Shipping and logistics

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

| **Year ended 31 December 2015** | **Railway construction and operations** *HK$'000* | **Shipping and logistics** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|
| Segment revenue from external customers | **–** | **21,922** | **21,922** |
| Segment loss | **(113,050)** | **(135,832)** | **(248,882)** |
| **Other segment information:** | | | |
| Interest revenue | **91** | **–** | **91** |
| Interest expenses | **(100,129)** | **–** | **(100,129)** |
| Depreciation of property, plant and equipment | **(1,120)** | **(5,329)** | **(6,449)** |
| Amortisation of intangible assets | **–** | **(457)** | **(457)** |
| Impairment loss on property, plant and equipment | **–** | **(25,000)** | **(25,000)** |
| Impairment loss on intangible assets | **–** | **(18,499)** | **(18,499)** |
| Share of results of jointly controlled entity | **–** | **(93,427)** | **(93,427)** |
| Operating lease payments | **(494)** | **–** | **(494)** |

| Year ended 31 December 2014 | Railway construction and operations *HK$'000* | Shipping and logistics *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| Segment revenue from external customers | – | 36,680 | 36,680 |
| Segment loss | (128,621) | (70,611) | (199,232) |
| **Other segment information:** | | | |
| Interest revenue | 8 | – | 8 |
| Interest expenses | (113,148) | – | (113,148) |
| Depreciation of property, plant and equipment | (1,414) | (4,541) | (5,955) |
| Amortisation of intangible assets | – | (3,567) | (3,567) |
| Impairment loss on intangible assets | – | (55,062) | (55,062) |
| Share of results of jointly controlled entity | – | (15,732) | (15,732) |
| Operating lease payments | (484) | (9,860) | (10,344) |
| Additions to non-current segment assets during the year | (101,514) | (6,213) | (107,727) |

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

| | **2015** *HK$'000* | 2014 *HK$'000* |
|---|---|---|
| **Loss** | | |
| Segment loss | **(248,882)** | (199,232) |
| Other income | **821** | 274 |
| Change in fair value of contingent consideration payable | **17,836** | 10,833 |
| Change in fair value of derivative component of convertible notes | **11,760** | – |
| Change in fair value of options/commitment to issue convertible notes | **(94,847)** | – |
| Net loss on trading securities | **–** | (12,036) |
| Gain on disposal of a subsidiary | **–** | 939 |
| Other unallocated corporate expenses | **(30,878)** | (43,122) |
| **Consolidated loss before income tax** | **(344,190)** | (242,344) |

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Assets** | | |
| Railway construction and operations | **2,047,743** | 2,173,067 |
| Shipping and logistics | **46,994** | 91,160 |
| Segment assets | **2,094,737** | 2,264,227 |
| Intangible assets | **1,000** | 1,000 |
| Other unallocated corporate assets | **41,329** | 31,896 |
| **Consolidated total assets** | **2,137,066** | 2,297,123 |
| **Liabilities** | | |
| Railway construction and operations | **1,656,857** | 1,667,592 |
| Shipping and logistics | **139,310** | 46,181 |
| Segment liabilities | **1,796,167** | 1,713,773 |
| Contingent consideration payable | **–** | 17,836 |
| Convertible notes | **364** | – |
| Other unallocated corporate liabilities | **11,644** | 13,813 |
| **Consolidated total liabilities** | **1,808,175** | 1,745,422 |

**Geographical information**

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

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

**Major customers**

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

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Customer A | **–** | 7,428 |
| Customer B | **18,251** | 17,124 |
| Customer C | **–** | 9,909 |
| | **18,251** | 34,461 |

## 6. FINANCE COSTS

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest on bank loans | **85,406** | 97,964 |
| Interest on other borrowings | **15,470** | 15,766 |
| Interest on convertible notes | **16** | – |
| | **100,892** | 113,730 |

## 7. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging/(crediting):

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Depreciation of property, plant and equipment | | |
| – Recognised in cost of sales | **5,329** | 4,540 |
| – Recognised in administrative expenses | **1,824** | 2,316 |
| Amortisation of intangible assets | **457** | 3,567 |
| | **7,610** | 10,423 |
| Staff costs (included directors' remuneration) | | |
| – Salaries, wages and other benefits | **18,803** | 19,521 |
| – Contributions to defined contribution retirement scheme | **315** | 293 |
| | **19,118** | 19,814 |
| Share of results of jointly controlled entity (included share of impairment loss on property, plant and equipment HK$82,000,000 (2014: HK$nil)) | **93,427** | 15,732 |
| Auditor's remuneration | **1,160** | 940 |
| Impairment loss on intangible assets | **18,499** | 55,062 |
| Gain on disposal of property, plant and equipment | **(13)** | – |
| Gain on disposal of a subsidiary | **–** | (939) |
| Operating lease rentals in respect of | | |
| – land and buildings | **3,779** | 3,736 |
| – vessel | **–** | 9,860 |
| Net exchange loss | **–** | 19 |

## 8. INCOME TAX

The income tax expense/(credit)for the year can be reconciled to the accounting loss as follows:

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss before income tax | **(344,190)** | (242,344) |
| Taxation calculated at PRC Enterprise Income Tax rate of 25% (2014: 25%) | **(86,047)** | (60,586) |
| Tax effect of differential tax rate | **19,949** | 20,306 |
| Tax effect of expenses not deductible for taxation purpose | **64,283** | 36,718 |
| Tax effect of non-taxable items | **(1,989)** | (1,815) |
| Tax effect of unrecognised tax losses and temporary differences | **3,804** | 5,377 |
| Hong Kong profits tax refund in respect of prior years | **–** | (6,579) |
| Income tax expense/(credit) for the year | **–** | (6,579) |

Hong Kong profits tax, if any, is calculated at 16.5% (2014: 16.5%) on the estimated assessable profits for the year. PRC subsidiaries are subjected to PRC Enterprise Income Tax at 25% (2014: 25%).

## 9. DIVIDENDS

No dividend was paid or declared by the Company during the year ended 31 December 2015 (2014: Nil).

The directors do not recommend the payment of any dividend for 2015 (2014: Nil).

## 10. LOSS PER SHARE

(a) The calculation of basic loss per share attributable to owners of the Company is based on the following data:

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (i) Loss for the year attributable to owners of the Company | **297,864** | 184,812 |

(ii) Weighted average number of ordinary shares

The weighted average number of ordinary shares in issue during the year ended 31 December 2015 was approximately 13,833,162,000 (2014: 13,410,027,000).

| | **2015** | 2014 |
|---|---|---|
| | ***HK cents*** | *HK cents* |
| Basic loss per share | **2.15** | 1.38 |

(b) Diluted loss per share is the same as basic loss per share for both years as the potential ordinary shares on exercise of share options, contingent consideration shares and convertible notes are anti-dilutive.

## 11. OTHER RECEIVABLES AND PREPAYMENTS

| | 2015 | 2014 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Other receivables and prepayments | | |
| Third parties | **26,753** | 23,816 |
| Related party | **24,769** | 26,171 |
| | **51,522** | 49,987 |

## 12. TRADE AND OTHER PAYABLES

| | 2015 | 2014 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Trade payables | | |
| – current and up to 30 days | **536** | 1,366 |
| Construction cost payables | **144,295** | 153,240 |
| Other payables | **9,681** | 11,640 |
| | **154,512** | 166,246 |

## 13. CONVERTIBLE NOTES

On 16 January 2015, the Group entered into a subscription agreement (the"Subscription Agreement") with two independent third parties, namely, Advance Opportunities Fund ("the Subscriber") and Advance Capital Partners Pte. Ltd (being the authorized representative of the Subscriber), pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, the convertible notes in the aggregate principal amount of up to HK$100 million at the issue price, being 100% of the principal amount of the convertible notes (the "Convertible Notes"). On 12 February 2015, the Company entered into a supplemental agreement (the "Supplemental Agreement") with the Subscriber and Advance Capital Partners Pte. Ltd to amend certain terms and conditions of the Subscription Agreement. The Convertible Notes comprise two tranches with principal amounts of HK$60 million comprising 24 equal sub-tranches of HK$2.5 million each ("Tranche 1 Notes") and HK$40 million ("Tranche 2 Notes") comprising 8 equal sub-tranches of HK$5 million each respectively.

On 2 April 2015, all the conditions precedent to the closing of the first sub-tranche of the Tranche 1 Notes were fulfilled and closing of the first sub-tranche of the Tranche 1 Notes took place on 2 April 2015 (the "Closing Date"). On the Closing Date, the Company issued Convertible Notes in an aggregate principal amount of HK$5 million to the Subscriber.

The Convertible Notes are interest bearing at 2% per annum, with a maturity date falling 36 months from the Closing Date (that is, 2 April 2018) and entitle the holder to convert them, in tranches into ordinary shares of the Company at either a fixed conversion price or floating conversion price at any time before the maturity date. The principal terms and conditions of the Subscription Agreement (as amended by the Supplemental Agreement) are set out in the Company's circular dated 13 March 2015.

The Convertible Notes issued or to be issued by the Company contain liability component and derivative components (comprising the conversion option held by the note holder and the early redemption option held by the Company), which are classified separately on initial recognition. As the conversion option and the early redemption option will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instrument, both the options are derivatives. At the date of issue of each tranche of the Convertible Notes, the Convertible Notes are recognised at fair value, with liability portion of the Convertible Notes measured at the present value of the future coupon payments discounted at market rate for equivalent non-convertible notes that do not have conversion option and early redemption option.

During the year ended 31 December 2015, the Tranche 1 Notes with principal amount of HK$60,000,000 were wholly subscribed and issued to the Subscriber, of which HK$ 59,750,000 had been converted into ordinary shares of the Company, with remaining principal amount of the Tranche 1 Notes of HK$250,000 outstanding as at 31 December 2015.

In this connection, the Group incurred a loss amounting to HK$94,847,000 (2014:Nil) arising from change in fair value of options/commitment to issue for the Tranche 1 Notes from the date of the Subscription Agreement to the date of issuance of respective sub-tranches of the Tranche 1 Notes, being the difference between the aggregate fair values of the 24 sub-tranches of the Tranche 1 Notes of HK$154,847,000 as at the respective dates of their issuance and the principal amount of the Tranche 1 Notes of HK$60,000,000.

The movements of the liability component and derivative component of the Convertible Notes for the year since issuance are set out below:

| | **Liability component** | **Derivative component** | **Total** |
|---|---|---|---|
| | *HK'000* | *HK'000* | *HK'000* |
| Issuance of the convertible notes | 2,659 | 152,188 | 154,847 |
| Interest expense | 16 | – | 16 |
| Fair value gain | – | (11,760) | (11,760) |
| Transfer to share capital on conversion of convertible notes | (2,663) | (140,076) | (142,739) |
| At 31 December 2015 | 12 | 352 | 364 |

Interest expense on the convertible bonds is calculated using the effective interest method by applying the effective interest rate of 2% to the liability component.

## 14. SHARE CAPITAL

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | *Number of shares* | *HK$'000* | *Number of shares* | *HK$'000* |
| **Issued and fully paid:** | | | | |
| At 1 January | **13,410,027,100** | **1,435,649** | 13,410,027,100 | 134,100 |
| Shares issued upon exercise of share options | **28,900,000** | **7,991** | – | – |
| Shares issued on the conversion of the convertible notes (Note 13) | **720,338,369** | **142,739** | – | – |
| Transfer from share premium account on 3 March 2014 | **–** | **–** | – | 1,301,549 |
| At 31 December | **14,159,265,469** | **1,586,379** | 13,410,027,100 | 1,435,649 |

## 15. CAPITAL COMMITMENTS

| | 2015 | 2014 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Authorised and contracted for in respect of construction of railway: | | |
| – Zunxiao Company | **162,686** | 172,778 |
| – Tangcheng Company | **116,561** | 123,792 |
| | **279,247** | 296,570 |

These commitments were entered into by two PRC non-wholly owned subsidiaries. The Group's effective interests in Zunxiao Company and Tangcheng Company are 62.50% and 51.00% respectively as at 31 December 2014 and 2015.

## EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

The auditor expressed a disclaimer opinion in the independent auditor's report on the consolidated financial statements of the Group for the year ended 31 December 2015. The basis of disclaimer of opinion is extracted as follows:

## BASIS FOR DISCLAIMER OF OPINION

### Impairment losses of construction in progress and railway construction prepayment

As set out in Note 3(b)(ii) to the consolidated financial statements, the Company, through its wholly-owned subsidiary, entered into three disposal agreements dated 14 February 2014 as amended subsequently by three supplemental agreements (collectively the "Disposal Agreements") with a purchaser (the "Purchaser") for the disposal ("Disposal") of its majority or entire equity interests in three non wholly-owned subsidiaries engaged in railway construction and operations (collectively the "Railway Companies") at an aggregate cash consideration of RMB433,270,000 (the "Consideration"). In accordance with the Disposal Agreements, if the relevant competent authority has not approved the Disposal Agreements within the specified time limit, the Group or the Purchaser can terminate the Disposal Agreements by giving written notice to the other party.

During the year and up to the date of this report, the approval of the Disposal Agreements by the relevant competent authority has not yet been obtained within the time limit and therefore the Purchaser has the discretion to terminate the Disposal Agreements. Nevertheless, the Group, up to the date of this report, has not received written or verbal notice from the Purchaser to terminate the Disposal Agreements. After taking into account a legal opinion, the directors consider that the Disposal Agreements remain valid and given the Purchaser has not given written or verbal notice to the Group to terminate the Disposal Agreements, the directors consider the Purchaser will continue to execute the Disposal Agreements in accordance with their terms and conditions.

As such, the directors made reference to the Consideration in determining the recoverable amounts of the construction in progress with carrying amount of HK$2,002,985,000 as at 31 December 2015 and the railway construction prepayment with carrying amount of HK$10,468,000 as at 31 December 2015 attributable to the Railway Companies. As the recoverable amounts are higher than their carrying amounts of the aforesaid assets, the directors consider that there was no impairment of the construction in progress and the railway construction prepayment as at 31 December 2015.

However, given the Purchaser or the Group has the discretion to terminate the Disposal Agreements, no further supplemental agreement regarding the Disposal is entered into between the Purchaser and the Group, and in the absence of a valuation performed as at 31 December 2015, we were unable to obtain sufficient appropriate evidence we consider necessary to assess whether there was any impairment loss on the construction in progress and the railway construction prepayment. There were no other alternative audit procedures that we could perform to satisfy ourselves as to whether any impairment loss on the construction in progress and the railway construction prepayment should be recognised for the year ended 31 December 2015. Any adjustment to the carrying amounts of the construction in progress and the railway construction prepayment determined to be necessary would affect the Group's net assets as at 31 December 2015, the Group's net loss for the year ended 31 December 2015 and the related note disclosures to the consolidated financial statements. This limitation in audit evidence available also results in limitation on our assessment of the Group's ability to continue as a going concern as detailed below.

**Appropriateness of using going concern basis in preparation of the consolidated financial statements**

As shown in the consolidated financial statements, as at 31 December 2015, the Group had net current liabilities of HK$836,295,000 and incurred a loss of HK$344,190,000 for the year ended 31 December 2015. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

As detailed in Note 3(b)(ii) to the consolidated financial statements, in view of the above circumstances, the directors have prepared a cash flow forecast of the Group covering a period up to 31 March 2017 after taking into account (i) the Purchaser will continue to execute the Disposal Agreements in accordance with their terms and conditions; (ii) the outstanding issues, mainly completion of assessment and negotiation of the scope of compensation payable to the overlaid mine owner (as mentioned in Note 41 to the consolidated financial statements), will be resolved soon so that necessary approvals will be obtained in due course to enable the Disposal to be completed with the first instalment of the Consideration received by 31 March 2017; (iii) the lenders which have been providing financial support to the Railway Companies to meet their financial obligations (the "Lender") have agreed to continue and able to do so and will not demand for repayment of their loans made to the Railway Companies and related interests before completion of the Disposal; (iv) the Group will be able to reach an agreement with the joint venture partner to withhold enforcement of or otherwise discharge the Group's financial obligations under a shareholders' agreement (as mentioned in Note 18 to the consolidated financial statements); (v) the other receivable of HK$19,850,000 (as mentioned in Note 19 to the consolidated financial statements) will be received no later than 31 December 2016; and (vi) additional funds can be obtained either from issue of the second tranche convertible notes up to the maximum principal amount of HK$40,000,000 (as mentioned in Note 42 to the consolidated financial statements) which is subject to approval by shareholders of the Company and subscription by a subscriber, or pledge of vessel to banks. The directors consider the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the twelve months from 31 December 2015. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The appropriateness of preparation of the consolidated financial statements on the going concern basis depends on whether the assumptions taken into account by the directors in the going concern assessment (see the paragraph immediate above) are reasonable and the above plans and measures can be implemented successfully.

However, as detailed in the paragraphs above under the heading "Impairment losses of construction in progress and railway construction prepayment" there is limited audit evidence available to us in assessing the reasonableness of the assumption that the Purchaser will continue to execute the Disposal Agreements in accordance with their terms and conditions. In respect of the other assumptions that the directors have relied on, there are significant uncertainties as to the outcomes of the plans and measures.

Accordingly, we are unable to determine whether the underlying assumptions used in preparation of the cash flow forecast are valid and therefore whether it is appropriate to prepare the consolidated financial statements on the going concern basis. There were no other alternative audit procedures that we could perform in this regard. Should the going concern basis determined to be not appropriate, adjustments would have to be made to write down the carrying amounts of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

**DISCLAIMER OF OPINION**

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

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

In accordance with the Hong Kong Companies Ordinance, we have the following matters to report. In our opinion:

In respect alone of the inability to obtain sufficient appropriate audit evidence in respect of the carrying amounts of the construction in progress and railway construction prepayment, and appropriateness of using going concern basis in preparation of the consolidated financial statements as described in the Basis of Disclaimer Opinion paragraphs above, we have not obtained all the information and explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of the audit.

## BUSINESS REVIEW AND PROSPECT

### Segment information

During the year under review, the Group was principally engaged in railway construction and operations and shipping and logistics businesses.

### Railway construction and operations

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

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

* *English name for identification only*

The Company has been evaluating the potential adverse effects that the prolonged delay in the completion of Zunxiao Railway brought about on the Group's cash flow positions and the pressure of additional funding requirements on the Group's financial resources. The Company has also been exploring various options such as reorganization or disposing part of its investment holdings in the Zunxiao Railway with a view to minimize the potential adverse impacts and to reallocate such resources to existing or new businesses that are value-added to the Company and its shareholders as a whole.

As announced by the Company on 28 February 2014, the Company's indirectly wholly-owned subsidiary, China Railway Logistic Holdings Limited (the "Vendor"), and 河北建投交通投資有限責任公司 (Hebei Construction, Transportation and Investment Co., Ltd*) (the "Purchaser") entered into three disposal agreements (the "Disposal Agreements") for the disposal (the "Disposal") of the Group's majority equity interests in Zunxiao Company and Kuanping Company and the entire equity interest in Tangcheng Company. On 23 September 2014, three supplemental agreements were entered into among the parties to the Disposal Agreements to extend the time for obtaining the approvals from the relevant authorities.

Since the signing of the Disposal Agreements, the Company, the Vendor and the Purchaser have been striving to address the outstanding issues in order to fulfill the conditions precedent to the completion of the Disposal collaboratively. As announced in the Company's previous announcements, the outstanding issues related mainly to the assessment of the scope of compensation payable to the overlaid mine owner are yet to be resolved by the parties involved. The Company anticipates that all outstanding issues would be fully addressed in the near future.

The Board reckons that there have been a prolonged delay in obtaining the requisite approvals and in the despatch of the circular which in turn causing a delay in the completion of the Disposal (the "Completion"). In view that the financial position and operations of the Group will be significantly improved after the Completion and the prolonged delay would not incur material additional resources by the Company to carry out its daily operations, the Board is of the view that notwithstanding the prolonged delay, the Disposal is in the interests of the Company and its shareholders as a whole.

* *English name for identification only*

**Shipping and logistics**

The Group has been conducting its shipping business through the joint venture company which is engaged in shipping business (the "JV Company" and together with its subsidiaries the "JV Group").

Pursuant to the JV agreement entered into on 1 December 2009 (as amended by a supplemental agreement dated 1 December 2009) (collectively, the "JV Agreement") among Ocean Jade Investments Limited, Waibert Navigation Company Limited and the JV Company, a total of four vessels are to be acquired. However, due to the continuing poor performance of the shipping market for the past few years, the JV Group has not made further acquisition of the remaining two vessels as planned since its acquisition of the first two vessels in 2010.

During the year under review, the anticipated improvement in the global shipping market has not materialized. The Baltic Dry Bulk Freight Rate Index averaged at 718 points for the year 2015, down 35% as compared to an average 1105 points for the year 2014. The poor conditions of the shipping market also lead to a big drop in the asset value of vessels. Looking forward to the year ahead, although the decrease in oil price will help to improve the operating conditions, the shipping market is expected to continuously facing severe pressure of depressed freight rate due to the slowed down in global economic growth.

As a result of the unfavourable shipping market conditions, the planned acquisition of the third vessel before 31 December 2015, pursuant to the seventh memorandum of mutual understanding, was further delayed. In addition, due to the lacking of clear sign of recovery in the global shipping market and the uncertainty as to when the global shipping market will recover to a level which justify the further investment, it is anticipated that there might be a longer delay in the eventual acquisition of the remaining two vessels.

Furthermore, the management of the Company has been closely monitoring the operation of the JV Group with a view to rectifying its poor performance and loss-making position.

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

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

During the year under review, the performance of MV Asia Energy has been satisfactory despite the poor shipping market condition and it has made a positive contribution to the Group.

During the year under review, the contribution of this segment was the main source of income of the Group.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

## SUBSEQUENT EVENTS

Reference is made to the circular of the Company dated 13 March 2015 in relation to the subscription agreement dated 16 January 2015 (the "Subscription Agreement") entered into among the Company, Advance Opportunities Fund (the "Subscriber") and Advance Capital Partners Pte. Ltd. ("ACP") for the subscription of the convertible notes with an principal amount of HK$100 million (the "Convertible Notes"), and the supplemental agreement dated 12 February 2015 amending certain terms of the Subscription Agreement.

On 26 February 2016, the Subscriber converted the last sub-tranche of Tranche 1 Notes (being the first tranche of the Convertible Notes with a principal amount of HK$60 million which comprises 24 equal sub-tranches of HK$2.5 million each) in the principal amount of HK$250,000.

On 1 March 2016, the Company announced that it has entered into the second supplemental agreement (the "Second Supplemental Agreement") with the Subscriber and ACP to further amend certain terms and conditions of the Subscription Agreement.

In addition, subsequent to the conversion of the last sub-tranche of Tranche 1 Notes, the Company had on 1 March 2016 notified the Subscriber of its intention to exercise the option to require the Subscriber to subscribe for the Tranche 2 Notes (being the second tranche of the Convertible Notes with a principal amount of HK$40 million which comprises 15 sub-tranches) from the Company (the "Option").

The exercise of the Option, the subsequent issue and subscription of the Tranche 2 Notes and the allotment and issue of the conversion shares upon exercise of the conversion rights attaching to the Tranche 2 Notes is subject to the fulfillment of certain conditions precedent, including the approval of shareholders of the Company (or, if the Subscriber becomes a connected person of the Company, independent Shareholders other than the Subscriber) having been obtained at a general meeting of the Company.

Save for the above amendments, the terms and conditions of the Subscription Agreement remain unchanged.

Details of the Second Supplemental Agreement and the exercise of the Option are set out in the announcement of the Company dated 1 March 2016.

## CORPORATE GOVERNANCE PRACTICES

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

Throughout the year ended 31 December 2015, the Company has complied with the CG Code, save for the deviations specified and explained below.

### Code Provision A.2.1

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

**Code Provision A.6.7**

Code provision A.6.7 of the CG Code stipulates, among other things, that the independent non-executive directors and other non-executive directors should attend general meetings. Ms. Sun Wei, a non-executive director, did not attend the general meeting of the Company held on 30 March 2015 and the annual general meeting of the Company held on 12 June 2015 due to her other business engagements. Professor Sit Fung Shuen, Victor, an independent non-executive director, did not attend the general meeting of the Company held on 30 March 2015 due to his other business engagements.

## SCOPE OF WORK OF BDO LIMITED

The figures in respect of the announcement of the Group's consolidated statements of comprehensive income and financial position and the related notes thereto for the year ended 31 December 2015 have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by BDO Limited on the announcement.

## AUDIT COMMITTEE

The Company has an audit committee (the "Audit Committee") which was established with written terms of reference in compliance with the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee currently comprises three independent non-executive directors, namely, Mr. Chan Chi Yuen (Chairman), Mr. Zhang Xi and Professor Sit Fung Shuen, Victor.

The audited financial results of the Group for the year ended 31 December 2015 have been reviewed by the Audit Committee.

## PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (http://www.hkex.com.hk) and the Company (http://www.aelg.com.hk). The annual report of the Company for the year ended 31 December 2015 will be despatched to shareholders of the Company and made available for review on the same websites in due course.

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

Hong Kong, 24 March 2016

*As at the date of this announcement, the executive directors of the Company are Mr. Liang Jun, Mr. Fung Ka Keung, David, Ms. Yu Sau Lai and Mr. Tse On Kin; the non-executive directors of the Company are Mr. Yu Baodong (Chairman) and Ms. Sun Wei; and the independent non-executive directors of the Company are Mr. Chan Chi Yuen, Mr. Zhang Xi and Professor Sit Fung Shuen, Victor.*