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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)

**ADDITIONAL INFORMATION RELATING TO THE ANNUAL
REPORT FOR THE YEAR ENDED 31 DECEMBER 2017**

Reference is made to the annual report of Asia Energy Logistics Group Limited (the “**Company**”) for the year ended 31 December 2017 (the “**Annual Report**”). Unless the context requires otherwise, terms used in this announcement shall have the same meanings as they are used in the consolidated financial statements included in the Annual Report.

The board of directors of the Company (the “**Board**”) wishes to provide the following additional information in relation to the Annual Report:

Reasons for changes in the value of the inputs (i.e. the cash flow discount rate) for the Impairment Review

As set out in note 16 to the consolidated financial statements included in the Annual Report, during the year ended 31 December 2017, an independent expert (the “**Independent Expert**”) was engaged to assess the recoverable amounts of the aforesaid assets which were determined based on value in use calculations and were determined to be less than their carrying amounts (the “**Impairment Review**”). Accordingly, impairment losses of HK\$20,000, HK\$13,898,000 and HK\$72,000 (2016: HK\$645,000, HK\$314,015,000 and HK\$1,641,000 respectively) on the property, plant and equipment, construction in progress and the railway construction prepayment in relation to Zunxiao Railway respectively were recognised as at 31 December 2017. In addition, the recoverable amounts of the aforesaid assets as at 31 December 2017 and 2016 involved value in use calculations based on cash flow projections which were discounted using a discount rate of 17.33% and 17.80% respectively.

The reasons for the change in the value of the inputs for the Impairment Review are as follows:

- Cash flow discount rate: As advised by the Independent Expert, the discount rate was arrived by referencing the weighted average cost of capital (the “WACC”), in which the methodology and the assumption was consistently adopted in the Impairment Review and previous assessments. The input adopted to arrive the WACC was based on the market data such as the risk-free rate, market risk premium, beta, etc. The changes in the market condition will lead to the changes in the value of these inputs and thus the arrived discount rate.
- Timing of payment of compensation to the Mine Owner: As the mine issue had not been resolved, the timing of payment of compensation to the Mine Owner was assumed to be delayed for another year.
- Timing of resumption of operation: As the mine issue had not been resolved, the timing of the operation resumption was assumed to be delayed for another year.

Other than the above, the rest of the assumptions were consistently applied in the Impairment Review and previous assessments.

The basis of the Board, the view of the audit committee of the Company (the “Audit Committee”) on the Board’s basis for the assumptions and methodologies adopted in the Impairment Review and the going concern basis adopted in preparing the Annual Report

The Directors are aware that it is not uncommon for infrastructure projects to experience cost overruns and/or delay. The construction work of the Zunxiao Railway has been suspended since July 2013 due to the fact that the compensation payable to the Mine Owner has not yet been resolved. Due to unforeseen circumstances, the Company had not been able to meet the expected timetable. Despite the fact that the Company had been making continuous effort in negotiation with the Mine Owner and actively seeking help and support from relevant authorities in coordinating the discussion and negotiation in respect of the compensation payable to the Mine Owner with a view to resuming the construction of the Zunxiao Railway, no agreement has been reached by the parties involved in respect of the terms of the compensation payable as at the date of this announcement.

The Impairment Review was based on various assumptions, mainly included the expected amount of the compensation payable to the Mine Owner, the expected payment terms of the compensation, the expected time of resumption of the construction of the Zunxiao Railway and the expected commencement date of the operation of the Zunxiao Railway. The methodology adopted in the Impairment Review, in particular, the calculation of the cash generating unit of the Railway Assets belonging to the Company was conducted through the discounted cash flow method which in the opinion of the Independent Expert, who conducted the Impairment Review, to be appropriate for the risks of the business. The Board considered and discussed with reference to Independent Expert’s opinion as the basis for the methodology adopted in the Impairment Review.

The Board was of the view that although the compensation amount demanded by the Mine Owner to be unacceptably high and the negotiation process between the Company and the Mine Owner had been slow with no significant progress, payment of compensation is almost inevitable in order to resume construction work at the time of the Impairment Review. Accordingly, the Board considered it is prudent to make the assumption based on the total amount of compensation demanded by Mine Owner in order to resume the construction of the Zunxiao Railway and such assumption was also considered to be reasonable and achievable.

In addition, taking into account both the maximum compensation amount and the cashflow forecast of the Group, the assumption in respect of the expected timing and the payment amounts by instalments was adopted and the Board considered such assumption to be fair and reasonable.

Due to the high turnover of the officials in the local government authorities responsible for coordinating the negotiations with the Mine Owner and the reluctance and non-cooperation of the counterparties to the negotiations, the Company had not been able to meet the previously expected timetable. Based on the progress of the construction of Zunxiao Railway, the Board considered that the railway subsidiaries of the Company would be able to complete the construction in around one year after its resumption followed by the commencement of the operation.

The Board, having taking into account the actions taken by the Company and Gofar Group as described in the section headed “Details of works taken by the Company in resolving the mine issue since the publication of the 2016 annual results and reasons for the prolonged negotiation process” in this announcement below and the positive feedbacks and supports in coordinating the negotiation from the representatives of the local government authorities in resolving the mine issue, considered the assumption in respect of the timing of resumption of operation to be reasonable and achievable.

The Audit Committee has reviewed and agreed with the Board’s basis for the assumptions and methodology adopted in the Impairment Review and the going concern basis adopted in preparing the Annual Report on the basis of the outcome of the works done as described below:

- at the audit planning meeting held on 8 January 2018, members of the Audit Committee were afforded a chance to meet with the Company’s auditors (the “**Auditors**”) to discuss the audit plan and the issues faced by the Company in the preparation of the Annual Results in advance and during the meeting, the Audit Committee was informed by the auditors about the potential qualifications on the impairment losses on property, plant and equipment, construction in progress and railway construction prepayment and discussed with the management to understand the actual plans to deal with these issues;

- at the meeting of the Audit Committee held on 23 March 2018, the Audit Committee has considered the Annual Results with reference to the “Report to the Audit Committee” (the “**AC Report**”) prepared by the Auditors which sets out the findings of the Auditors on the major judgmental areas and the basis for disclaimer of opinion included in the Annual Results and during the meeting, the Audit Committee also enquired extensively about the issues relating to the disclaimer of opinion by the auditor, in particular, the assumptions and methodology adopted in the Impairment Review as well as issues relating to going concern basis in preparation of the consolidated financial statements;
- at the Board meeting held immediately after the meeting of the Audit Committee held on 23 March 2018, the Audit Committee reported to and discussed with the Board on the issues raised in the AC Report in respect of the Annual Results with focuses being placed on each of the assumptions adopted in the Impairment Review and the Cash Flow Forecast of the Group covering the period up to 30 June 2019 and the Board had provided response to these issues; and
- based on the information provided by the management of the Company (the “**Management**”) and the steps which the management had taken to deal with the situation, the Audit Committee concurred with the Management on the basis and assumptions adopted in the Impairment Review.

The Audit Committee had critically reviewed the Board’s basis for the assumptions and methodology adopted in the Impairment Review. On the basis of the work done as mentioned above, the Audit Committee agreed with the Board’s basis for assumptions and methodology adopted in the Impairment Review and the going concern basis adopted in preparing the financial statements. The Audit Committee had also reviewed and agreed about the Auditor’s disclaimer of opinion in relation to the valuation of the Railway Assets.

Details of works taken by the Company in resolving the mine issue since the publication of the 2016 annual results and reasons for the prolonged negotiation process

Under the section headed “Management Discussion and Analysis – Business Review – Railway Construction and Operation” in the Annual Report, it is disclosed that, among other things, with a view to resume construction of the Zunxiao Railway, the Group is seeking for professionals with expertise in infrastructure construction management to assess the construction cost of the outstanding railway sections and to put forward any possible solutions to the Company and the relevant authorities to expedite the construction progress.

The Company and Gofar Group have taken the following actions in resolving the mine issue since the publication of the 2016 annual results:

- on-site visits made by the Management to the local government authorities to assess the local economy and demands for transportation and to spearhead the negotiation process;
- visits made by the Management to the railway expert in Beijing and Shenzhen and formulating policies and arranging for the railway expert to conduct and complete the on-site construction investigation and research works of the Tangcheng section of the Zunxiao Railway;
- participating in the on-site consultation works and resuming the due diligence review of the Zunxiao Railway;
- following up with the local government authorities to assess the extent of compensation payable and to co-ordinate the negotiations with the Mine Owner; and
- working with officials from the local government authorities and collating information in respect of the funding for resuming the construction works and operating the Zunxiao Railway.

In addition, the Company may explore other possibilities to implement an alternative plan regarding the construction of the Zunxiao Railway. As at the date of this announcement, no such alternative plan has been substantiated and there is no assurance that any such alternative plan will materialize.

The Company will make further announcement(s) in respect of any updates as and when appropriate.

Company's plans to address the disclaimer of opinion

The Company believes that once the mine issue is resolved, it would be able to address the disclaimer of opinion relating to the impairment losses.

In addition to the works done relating to the mine issue as mentioned above, as a measure to improve the financial position of the Group, it is intended that the Railway Companies will negotiate with the bank for extension of the repayment date of the entire or partial amount of the bank loans which are due for repayment on 31 December 2018 and such intention has already been disclosed in note 3(b)(ii) to the consolidated financial statements included in the Annual Report. Once the aforesaid extension is materialized, and coupled with fact that the placing of new shares and subscription of convertible bonds issued by the Company completed in early 2018 raising an aggregate gross proceeds of HK\$200 million, the Company believes that it would be able to address the disclaimer of opinion relating to the Company's going concern by the end of the year ending 31 December 2018.

The Company will make further announcement(s) in respect of any updates as and when appropriate.

The above additional information does not affect the contents of the Annual Report.

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

26 June 2018

As at the date of this announcement, the executive directors of the Company are Mr. Liang Jun, Mr. Fu Yongyuan, Mr. Lin Wenqing and Mr. Siu Miu Man; 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. Wong Cheuk Bun and Mr. Wong Yin Shun.