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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

RESULTS

The board (the "Board") of directors (the "Directors") of Asia Energy Logistics Group Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2016, together with the comparative figures for the previous corresponding period, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2016

		For the six months ended 30 June	
		2016	2015
		HK$'000	*HK$'000*
	Notes	**(Unaudited)**	(Unaudited)
Revenue	*3*	**3,755**	13,153
Cost of sales		**(8,092)**	(10,047)
Gross (loss)/profit		**(4,337)**	3,106
Other income, gains and (losses)	*4*	**(1,640)**	42
Depreciation and amortisation		**(799)**	(1,416)
Staff costs		**(8,899)**	(9,544)
Change in fair value of contingent consideration payable		**–**	(17,985)
Change in fair value of derivative component of convertible notes	*13*	**356**	8,794
Change in fair value of options/commitment to issue convertible notes	*13*	**(1,544)**	(94,847)
Impairment loss on property, plant and equipment	*11*	**(420)**	–
Impairment loss on construction in progress	*11*	**(187,076)**	–
Impairment loss on railway construction prepayment	*11*	**(978)**	–
Share of results of jointly controlled entity		**(6,950)**	(3,744)
Other operating expenses		**(8,148)**	(11,722)
Finance costs	*6*	**(40,872)**	(54,117)

	Notes	For the six months ended 30 June 2016 HK$'000 (Unaudited)	2015 HK$'000 (Unaudited)
Loss before income tax	*7*	**(261,307)**	(181,433)
Income tax	*8*	**–**	–
Loss for the period		**(261,307)**	(181,433)
Other comprehensive income			
Exchange difference arising on translation of financial statements of foreign operations which may be reclassified subsequently to profit or loss		**(3,494)**	36
Total comprehensive income for the period		**(264,801)**	(181,397)
Loss for the period attributable to:			
Owners of the Company		**(164,750)**	(157,414)
Non-controlling interests		**(96,557)**	(24,019)
		(261,307)	(181,433)
Total comprehensive income for the period attributable to:			
Owners of the Company		**(166,800)**	(157,431)
Non-controlling interests		**(98,001)**	(23,966)
		(264,801)	(181,397)
Loss per share			
– basic and diluted (HK cent per share)	*9*	**(1.16)**	(1.16)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Notes	At 30 June 2016 HK$'000 (Unaudited)	At 31 December 2015 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**41,159**	40,579
Intangible assets		**1,000**	1,000
Construction in progress	*11*	**1,779,321**	2,002,985
Railway construction prepayment	*11*	**9,299**	10,468
Interest in a jointly controlled entity		**–**	–
		1,830,779	2,055,032
Current assets			
Other receivables and prepayments		**51,923**	51,522
Cash and cash equivalents		**12,140**	30,512
		64,063	82,034
Current liabilities			
Trade and other payables	*12*	**170,335**	154,512
Bank loans and other borrowings		**629,080**	617,662
Convertible notes	*13*	**4,925**	364
Amount due to a jointly controlled entity		**143,961**	137,060
Amounts due to minority equity owners of subsidiaries		**8,558**	8,731
		956,859	918,329
Net current liabilities		**(892,796)**	(836,295)
Total assets less current liabilities		**937,983**	1,218,737
Non-current liabilities			
Bank loans		**872,261**	889,846
Contingent consideration payable		**–**	–
		872,261	889,846
Net assets		**65,722**	328,891
Capital and reserves attributable to owners of the Company			
Share capital	*14*	**1,588,011**	1,586,379
Other reserves		**(1,530,020)**	(1,363,220)
Equity attributable to owners of the Company		**57,991**	223,159
Non-controlling interests		**7,731**	105,732
TOTAL EQUITY		**65,722**	328,891

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND GOING CONCERN ASSUMPTION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), including compliance with the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The financial information relating to the year ended 31 December 2015 that is included in these interim financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements for the year ended 31 December 2015 which had been delivered to the Registrar of Companies in Hong Kong. The auditor had reported on those financial statements, which the auditor had expressed a disclaimer of opinion and had included a statement under section 407(3) of the Hong Kong Companies Ordinance.

During the period, the Group incurred a loss of approximately HK$261,307,000 and as at 30 June 2016, it had net current liabilities of approximately HK$892,796,000 which principally included bank loans and related interest, and construction costs payable incurred for the development of the Zunxiao railway as discussed below. 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, and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Group's net current liabilities as at 30 June 2016 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 Group, 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.*) ("Hebei CTICL" or 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.

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.

* *for identification purposes only*

Although the requisite approval has not yet been obtained within the time limit during the year ended 31 December 2015 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, the Group considered the Purchaser would continue to proceed with the acquisition of the Railway Companies until recently as described in the Company's announcement dated 4 August 2016, the Group had been informed by a letter from the Purchaser stating that the Purchaser no longer has any further intention to proceed with the acquisition of the relevant interests in the Railway Companies due to the level of complexity of the Zunxiao Railway and the difficulties involved.

In the circumstances, the Company has sought an advice from its legal advisers as to PRC law (the "PRC Legal Advisers") who, on the basis that the Purchaser has stated that the Purchaser no longer has any further intention to proceed with the acquisition of the relevant interests, opined that the Group may exercise its rights to dissolve the Disposal Agreements by serving notice on the Purchaser. As the Purchaser did not respond nor contest the notice within the prescribed time limit, the Disposal Agreements were considered dissolved with effect from 4 August 2016.

Despite that the Disposal will not go ahead with the Purchaser, the Company would endeavor to look for interested buyers of the Railway Companies and 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$1,150,140,000 as at 30 June 2016 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 addition, 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.

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$342,249,000 as at 30 June 2016, and related interests before completion of the disposal of the Railway Companies.

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.

As described in the Company's announcement dated 3 May 2016, all the conditions precedent to the closing of the second tranche of convertible notes (the "Tranche 2 Notes") up to maximum principal amount of HK$40,000,000 had been fulfilled and the closing of the first sub-tranche took place on 3 May 2016 with a principal amount of HK$5,000,000 of the Tranche 2 Notes subscribed by the subscriber up to 30 June 2016.

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. Accordingly, the Directors consider that it is appropriate to prepare the unaudited condensed consolidated interim 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 unaudited condensed consolidated financial statements on the going concern basis depends on whether (i) the Company will be able to solicit new buyer for the Railway Companies (ii) the outstanding issues related to the railway, mainly completion of assessment and negotiation of the scope of compensation payable to the Mine Owner will be resolved; (iii) the Lenders will have sufficient financial ability to continue to provide the financial support to the Railway Companies before completion of disposal of the Railway Companies; (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; and (v) the other receivable of HK$19,850,000 will be received no later than 31 December 2016.

Should the use of the going concern basis in preparation of the unaudited condensed consolidated interim 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 unaudited condensed interim consolidated financial statements.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the year ended 31 December 2015, which have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA (hereinafter collectively referred to as the "HKFRSs"), the provisions of the Hong Kong Companies Ordinance which concern the preparation of financial statements, and included applicable disclosures required by the Listing Rules.

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

The accounting policies and methods of computation adopted in the 2015 annual consolidated financial statements have been applied consistently to the unaudited condensed consolidated interim financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual consolidated financial statements.

In the current period, the Group has adopted all the new/revised HKFRSs and amendments to HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2016. The adoption of these new/revised HKFRSs and amendments to HKFRSs did not result in significant changes to the Group's financial statements for the current period and prior periods.

The Group has not applied the new/revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these pronouncements but is not yet in a position to state whether these pronouncements would have a material impact on its results of operations and financial position.

3. REVENUE

Revenue represents the amounts received and receivable for time charters:

	For the six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Charter-hire income	**3,755**	13,153

4. OTHER INCOME, GAINS AND (LOSSES)

	For the six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(Loss)/gain on disposal of property, plant and equipment	**(44)**	22
Sundry income	**139**	20
Written off of property, plant and equipment	**(1,735)**	–
	(1,640)	42

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 presented the following two 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:

Six months ended 30 June 2016 (Unaudited)	**Railway construction and operations** *HK'000*	**Shipping and logistics** *HK'000*	**Total** *HK'000*
Segment revenue from external customers	**–**	**3,755**	**3,755**
Segment loss	**(233,445)**	**(13,201)**	**(246,646)**
Other segment information:			
Interest expenses	**(40,510)**	**–**	**(40,510)**
Impairment loss on property, plant and equipment	**(420)**	**–**	**(420)**
Impairment loss on construction in progress	**(187,076)**	**–**	**(187,076)**
Impairment loss on railway construction prepayment	**(978)**	**–**	**(978)**
Depreciation of property, plant, and equipment	**(479)**	**(2,330)**	**(2,809)**
Written off of property, plant and equipment	**–**	**(1,735)**	**(1,735)**
Operating lease payments	**(203)**	**–**	**(203)**
Share of results of jointly controlled entity	**–**	**(6,950)**	**(6,950)**
Additions to non-current segment assets during the period	**–**	**4,194**	**4,194**

Six months ended 30 June 2015 (Unaudited)	Railway construction and operations *HK'000*	Shipping and logistics *HK'000*	Total *HK'000*
Segment revenue from external customers	–	13,153	13,153
Segment loss	(60,435)	(1,135)	(61,570)
Other segment information:			
Interest expenses	(53,737)	–	(53,737)
Depreciation of property, plant, and equipment	(585)	(2,666)	(3,251)
Amortisation of intangible assets	–	(457)	(457)
Operating lease payments	(155)	–	(155)
Share of results of jointly controlled entity	–	(3,744)	(3,744)
Additions to non-current segment assets during the period	–	19	19

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

	For the six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss		
Segment loss	**(246,646)**	(61,570)
Other income	**–**	28
Change in fair value of contingent consideration payable	**–**	(17,985)
Change in fair value of derivative component of convertible notes	**356**	8,794
Change in fair value of options/commitment to subscribe for convertible notes	**(1,544)**	(94,847)
Other unallocated corporate expenses	**(13,473)**	(15,853)
Condensed consolidated loss before income tax	**(261,307)**	(181,433)

	As at	As at
	30 June	31 December
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Assets		
Railway construction and operations	**1,820,960**	2,047,743
Shipping and logistics	**40,396**	46,994
Segment assets	**1,861,356**	2,094,737
Intangible assets	**1,000**	1,000
Other unallocated corporate assets	**32,486**	41,329
Condensed consolidated total assets	**1,894,842**	2,137,066
Liabilities		
Railway construction and operations	**1,666,376**	1,656,857
Shipping and logistics	**145,740**	139,310
Segment liabilities	**1,812,116**	1,796,167
Convertible notes	**4,925**	364
Other unallocated corporate liabilities	**12,079**	11,644
Condensed consolidated total liabilities	**1,829,120**	1,808,175

Geographical information

The Group's non-current assets are principally located in the People's Republic of China ("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:

	For the six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Customer A	**–**	13,153
Customer B	**1,520**	–
Customer C	**851**	–
Customer D	**584**	–
Customer E	**441**	–
	3,396	13,153

6. FINANCE COSTS

	For the six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on bank loans and other borrowings	**40,867**	54,110
Interest on convertible notes	**5**	7
	40,872	54,117

7. LOSS BEFORE INCOME TAX

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

	For the six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment		
– Recognised in cost of sales	**2,330**	2,666
– Recognised in administrative expenses	**799**	959
Amortisation of intangible assets	**–**	457
	3,129	4,082
Staff cost		
– Salaries, wages and other benefits	**8,732**	9,394
– Contributions to defined contribution retirement scheme	**167**	150
	8,899	9,544
Auditor's remuneration	**120**	120
Operating lease rentals in respect of		
– Land and buildings	**1,376**	1,781
Net exchange loss	**–**	2

8. INCOME TAX

No provision for Hong Kong profits tax has been made in the condensed consolidated interim financial statements as the Group's operations in Hong Kong had no estimated assessable profit for the six months ended 30 June 2016 and 2015.

No provision for the PRC enterprise income tax has been made in the condensed consolidated interim financial statements as the Group's operations in the PRC had no estimated assessable profit for the six months ended 30 June 2016 and 2015.

9. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the period attributable to owners of the Company of approximately HK$164,750,000 (six months ended 30 June 2015: approximately HK$157,414,000) and the weighted average number of 14,165,270,099 ordinary shares in issue during the six months ended 30 June 2016 (six months ended 30 June 2015: 13,520,107,017 ordinary shares).

Diluted loss per share was not presented for the six months ended 30 June 2016 and 2015 as the potential ordinary shares on exercise of share options, contingent consideration payable and convertible notes are anti-dilutive.

10. DIVIDEND

No dividend was paid or declared by the Company during the six months ended 30 June 2016 and 2015.

The directors do not recommend the payment of any dividend in respect of the six months ended 30 June 2016 and 2015.

11. CONSTRUCTION IN PROGRESS AND RAILWAY CONSTRUCTION PREPAYMENT

	Construction in progress *HK$'000*	Railway construction prepayment *HK$'000*
Cost:		
As at 1 January 2016 (Audited)	**2,002,985**	10,468
Impairment loss	**(187,076)**	(978)
Exchange adjustment	**(36,588)**	(191)
As at 30 June 2016 (Unaudited)	**1,779,321**	9,299

As at 30 June 2016, management considered that impairment indication of the carrying amounts of the property, plant and equipment, construction in progress and the railway construction prepayment in relation to the Zunxiao Railway existed as at the end of the reporting period. An 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. Accordingly, impairment losses of HK$420,000, HK$187,076,000 and HK$978,000 on the property, plant and equipment, construction in progress and the railway construction prepayment respectively were recognised during the six months ended 30 June 2016 (2015: HK$Nil).

The recoverable amounts of the aforesaid assets as at 30 June 2016 have been determined from value in use calculations based on cash flow projections from formally approved budgets covering a five-year period. Cash flow beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3%, which does not exceed the long-term growth rate for the railway industry. The cash flows are discounted using a discount rate of 17.37%. The discount rate used is pre-tax and reflect specific risks relating to the construction in progress. Although the carrying amounts of the property, plant and equipment, construction in progress and the railway construction prepayment have been reduced to their estimated recoverable amounts of HK$41,159,000, HK$1,779,321,000 and HK$9,299,000 respectively, any adverse change in the key assumptions used to calculate the recoverable amount would result in further impairment losses.

12. TRADE AND OTHER PAYABLES

	At 30 June 2016 ***HK$'000*** **(Unaudited)**	At 31 December 2015 *HK$'000* (Audited)
Trade payables		
– current and up to 30 days	**792**	536
Construction cost payables	**141,442**	144,295
Other payables and accruals	**28,101**	9,681
	170,335	154,512

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 (the “Tranche 1 Notes”) and HK$40 million (the “Tranche 2 Notes”) comprising 8 equal sub-tranches of HK$5 million each, respectively.

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.

The Tranche 1 Notes

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 Tranche 1 Notes were interest bearing at 2% per annum, with a maturity date falling 36 months from the Closing Date (that is, 2 April 2018) and entitled 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 movements of the liability component and derivative component of the Tranche 1 Notes during the period are set out below:

	Liability component	**Derivative component**	**Total**
	HK’000	*HK’000*	*HK’000*
At 1 January 2016 (Audited)	12	352	364
Fair value gain	–	(32)	(32)
Transfer to share capital on conversion of convertible notes *(Note 14)*	(12)	(320)	(332)
At 30 June 2016 (Unaudited)	–	–	–

On 1 March 2016, the Company entered into a second supplemental agreement with the Subscriber to further amend certain terms and condition of the Subscription Agreement and the Company has notified the Subscriber of its intention to exercise the option granted by the Subscriber to the Company to require the Subscriber to subscribe for the Tranche 2 Notes from the Company. The Tranche 1 Notes were wholly converted into ordinary shares of the Company during the six months ended 30 June 2016.

The Tranche 2 Notes

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

The Tranche 2 Notes with principal amount of HK$40,000,000 which comprise the first sub-tranche of HK$5,000,000 and 14 equal subsequent sub-tranches of HK$2,500,000 each. During the six months ended 30 June 2016, the first sub-tranche of the Tranche 2 Notes with principal amount of HK$5,000,000 were subscribed and issued to the Subscriber, of which HK$ 1,000,000 had been converted into ordinary shares of the Company, with remaining principal amount of the issued Tranche 2 Notes of HK$4,000,000 outstanding as at 30 June 2016.

In this connection, the Group incurred a loss amounting to HK$1,544,000 (30 June 2015: loss of HK$94,847,000 for the Tranche 1 Notes) arising from change in fair value of options/commitment to issue the Tranche 2 Notes from the date of the 2nd subscription agreement to the date of issuance of respective sub-tranches of the Tranche 2 Notes, being the difference between the aggregate fair values of the first sub-tranches of the Tranche 2 Notes of HK$6,544,000 as at the date of its issuance and their principal amount of HK$5,000,000.

The movements of the liability component and derivative component of the Tranche 2 Notes during the period since their issuance are set out below:

	Liability component	**Derivative component**	**Total**
	HK'000	*HK'000*	*HK'000*
	(Unaudited)	(Unaudited)	(Unaudited)
Issuance of the convertible notes	150	6,394	6,544
Interest expense	5	–	5
Fair value gain	–	(324)	(324)
Transfer to share capital on conversion of convertible notes *(Note 14)*	(30)	(1,270)	(1,300)
At 30 June 2016	125	4,800	4,925

The fair value of the derivative component of convertibles notes is categorised as a Level 3 measurement, in which inputs are not based on observable market data as defined under HKFRS 7's measurement hierarchy. During the six months ended 30 June 2015 and 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

14. SHARE CAPITAL

	At 30 June 2016		At 31 December 2015	
	Number of shares	**HK$'000**	Number of shares	HK$'000
	(Unaudited)	**(Unaudited)**	(Audited)	(Audited)
Issued and fully paid ordinary shares:				
At 1 January 2016/1 January 2015	**14,159,265,469**	**1,586,379**	13,410,027,100	1,435,649
Shares issued on the conversion of convertible notes *(Note 13)*	**24,950,115**	**1,632**	720,338,369	142,739
Shares issued upon exercise of share options	**–**	**–**	28,900,000	7,991
At 30 June 2016/31 December 2015	**14,184,215,584**	**1,588,011**	14,159,265,469	1,586,379

15. CAPITAL COMMITMENTS

	At 30 June 2016	At 31 December 2015
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Authorised and contracted for in respect of construction of railway:		
– Zunxiao Company	**159,476**	162,686
– Tangcheng Company	**114,261**	116,561
	273,737	279,247

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 30 June 2016 and 31 December 2015.

16. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

The Group had entered into the following significant related party transactions during the six months ended 30 June 2016:

a) Compensation of key management personnel of the Group comprised the directors only whose remuneration is set out below.

	For the six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Salaries and other benefits	**2,784**	2,226
Contributions to defined contribution retirement scheme	**45**	36
	2,829	2,262

b) Interest expenses on other borrowings of approximately HK$1,168,000 (2015: approximately HK$6,848,000) for the six months ended 30 June 2016 were charged by Golden Concord Holdings Limited ("Golden Concord") and its subsidiaries. They are beneficially owned by Mr. Zhu Gongshan, a director of certain subsidiaries of the Company. Mr. Zhu is a beneficiary of a discretionary trust which in turns owns Golden Concord and a substantial shareholder of the Company. Mr. Zhu also indirectly controls a company which is a shareholder of the Company.

17. SUBSEQUENT EVENTS

As described in the Company's announcement dated 4 August 2016 and mentioned in Note 1 to the condensed consolidated interim financial statements, the Group had been informed by a letter from the Purchaser stating that the Purchaser no longer has any further intention to proceed with the acquisition of the relevant interests in the Railway Companies due to the level of complexity of the Zunxiao Railway and the difficulties involved.

In the circumstances, the Company has sought an advice from its legal advisers as to PRC law who, on the basis that the Purchaser has stated that the Purchaser no longer has any further intention to proceed with the acquisition of the relevant interests, opined that the Group may exercise its rights to dissolve the Disposal Agreements by serving notice on the Purchaser. As the Purchaser did not respond nor contest the notice within the prescribed time limit, the Disposal Agreements were considered dissolved with effect from 4 August 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

During the period under review, the Company and its subsidiaries (together, the "Group") were principally engaged in the (i) railway construction and operations, and (ii) shipping and logistics businesses.

Railway Construction and Operations

The Group started its investment in railway construction and operations in July 2009 through the acquisition of 100% equity interest in Gofar Holdings Limited ("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 circumstances. Despite continuous efforts having been made to expedite the construction progress, based on the latest assessment of the construction progress, the completion date is still uncertain and no revenue would be generated until the construction of the Zunxiao Railway has been completed and the commencement of full operation.

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 (the "Relevant Interests"). 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. However, as disclosed by the Company previously, the outstanding issues related mainly to the assessment of the scope of compensation payable to the overlaid mine owner have yet to be resolved by the parties involved.

* *for identification purposes only*

As announced by the Company on 4 August 2016, the Vendor had been informed by a letter from the Purchaser stating that the Purchaser no longer has any further intention to proceed with the acquisition of the Relevant Interests due to the level of complexity of the Zunxiao Railway and the difficulties involved. In the circumstances, the Vendor has sought an advice from its legal advisers as to PRC law who, on the basis that the Purchaser has stated that the Purchaser no longer has any further intention to proceed with the acquisition of the Relevant Interests, opined that the Vendor may exercise its rights to dissolve the Disposal Agreements by serving notice on the Purchaser. As the Purchaser did not respond nor contest the notice within the prescribed time limit, the Disposal Agreements were considered dissolved with effect from 4 August 2016. Notwithstanding the prolonged delay of the Disposal mainly related to the assessment of the scope of compensation payable to the overlaid mine owner which are yet to be resolved by the parties involved as disclosed in the Company's pervious announcements, the Company would endeavour to look for interested buyers of the Relevant Interests.

Shipping and Logistics

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

For the first half of 2016, the Baltic Dry Index (BDI) fell to new record lows in February and period rates dropped well below operating costs across all vessels sizes. Although the BDI has since then recovered from below 300 in February to the level of 660 at the end of June 2016, the outlook for the shipping industry remains uncertain without clear sign of significant improvement. It is expected that the Company's shipping operation will continue to facing a challenging shipping market environment for the second half of 2016. 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 the parties to the JV Agreement, 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. The acquisition of the remaining two vessels would depend, among other factors, the prevailing global shipping market condition and the Company will make further announcement as and when appropriate.

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

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

Financial Review

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

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

Fundraising Activities

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

On 30 March 2015, shareholders' approval was obtained for, among other things, the issue of the Convertible Notes and the issue of the conversion shares upon exercise of the conversion rights attached to the Convertible Notes in an aggregate principal amount of up to HK$60 million (the "Tranche 1 Notes"). As at 26 February 2016, the Tranche 1 Notes were fully issued, subscribed and converted and approximately HK$55 million (net of arrangement fee) was raised. Pursuant to the Subscription Agreement, the Company was granted an option (the "Option") to require the Subscriber to subscribe for the rest of the Convertible Notes in an aggregate principal amount of up to HK$40 million (the "Tranche 2 Notes") during the option period (being the period commencing from and including the conversion date of the last of the Convertible Notes in Tranche 1 Notes to and including the tenth business day thereafter) subject to further shareholders' approval having been obtained.

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

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

During the period under review, Convertible Notes of the Tranche 2 Notes in the principal amount of HK$5 million was subscribed and issued and approximately HK$4.65 million (net of arrangement fee) was raised which had been applied towards the general working capital. As at 30 June 2016, Convertible Notes of the Tranche 2 Notes in the principal amount of HK$4 million remained unconverted.

SUBSEQUENT EVENTS

In addition to the dissolution of the Disposal Agreements, details of which have been set out in the section headed "Business Review and Prospects – Railway Construction and Operations" above, events subsequent to the period under review are as follows:

On 5 July 2016, Mr. Zhang Xi resigned as an Independent Non-Executive Director, the Chairman of the Remuneration Committee, a member of the Audit Committee and the Nomination Committee. Mr. Chan Chi Yuen, an Independent Non-Executive Director, the Chairman of the Audit Committee and a member of the Nomination Committee and the Remuneration Committee, was appointed as the Chairman of the Remuneration Committee in place of Mr. Zhang Xi with effect from the same day.

Mr. Fu Yong Yuan and Mr. Lin Wenqing have been appointed as the Executive Directors with effect from 6 July 2016 and 12 July 2016, respectively. Mr. Siu Miu Man has been appointed as an Independent Non-Executive Director, a member of the Audit Committee, the Nomination Committee and the Remuneration Committee with effect from 15 August 2016.

On 19 July 2016, 25 July 2016 and 8 August 2016, the Subscriber converted the Convertible Notes in an aggregate principal amount of HK$2.5 million into conversion shares. On 8 August 2016, the Second Sub-Tranche of the Tranche 2 Notes in the principal amount of HK$2.5 million was subscribed and issued. As at the date of this Announcement. Convertible Notes of the Tranch 2 Notes in the principal amount of HK$4 million remained unconverted.

CORPORATE GOVERNANCE

Compliance with Corporate Governance Code

It is one of the continuing commitments of the Board and the management of the Company to maintain high standards of corporate governance. The Company has adopted and applied the principles as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers that effective corporate governance makes significant contribution to corporate success and enhancement of shareholder value. Throughout the period of six months ended 30 June 2016, the Company has complied with the CG Code save as 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 stipulates, among other things, that the independent non-executive directors and other non-executive directors should attend general meetings. Mr. Yu Baodong, a Non-Executive Director and the Chairman, was absent from the general meeting of the Company held on 26 April 2016 due to pre-arranged business engagement. Ms. Sun Wei, a Non-Executive Director, was absent from both the general meetings of the Company held on 26 April 2016 and 9 May 2016 due to her other business engagements.

Non-Compliance with Rule 3.10A of the Listing Rules

As at the date of this Announcement, the Board comprises 6 Executive Directors, 2 Non-Executive Directors and 3 Independent Non-Executive Directors. The number of Independent Non-Executive Directors represents less than one-third of the Board as required under Rule 3.10A of the Listing Rules. The Company will take all necessary measures to comply with Rule 3.10A of the Listing Rules on or before 5 October 2016.

REVIEW OF INTERIM RESULTS

The unaudited consolidated interim results of the Group for the six months ended 30 June 2016 have been reviewed by the Audit Committee, which expressed no disagreement with the accounting treatments adopted in preparation of the interim financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This interim 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 interim report of the Company for the six months ended 30 June 2016 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

19 August 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, Mr. Fu Yong Yuan and Mr. Lin Wenqing; 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, Professor. Sit Fung Shuen, Victor and Mr. Siu Miu Man.