

亞洲能源物流  
**ASIA ENERGY**  
Logistics



**Carrying**   
the World's Future

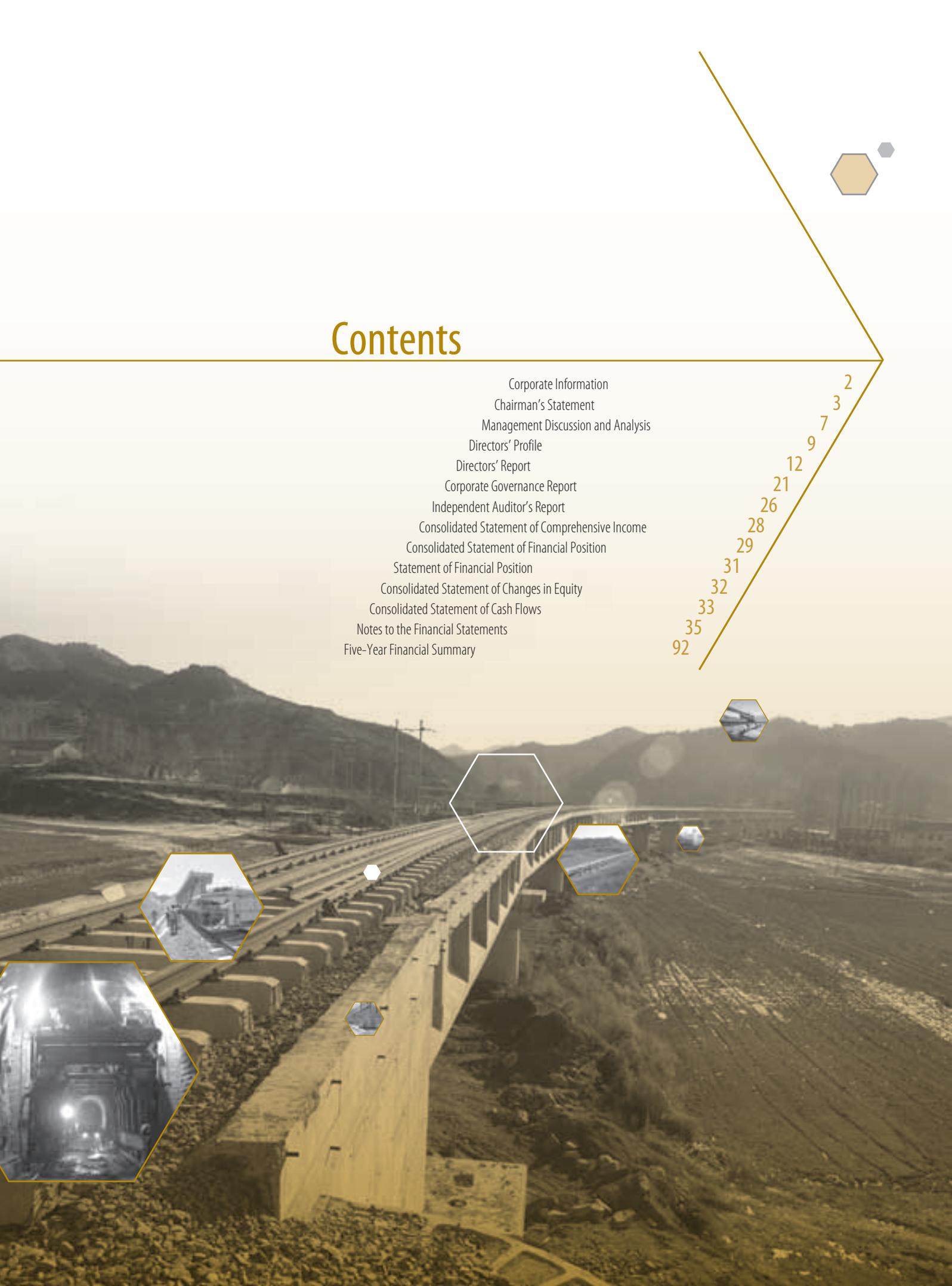
**2011** ANNUAL  
REPORT

**亞洲能源物流集團有限公司**  
**Asia Energy Logistics Group Limited**

(Incorporated in Hong Kong with limited liability)  
Stock Code: 0351

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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

Mr. Liang Jun  
Mr. Fung Ka Keung, David  
Ms. Yu Sau Lai

#### Non-Executive Directors

Mr. Yu Baodong (*Chairman*)  
Ms. Sun Wei  
Mr. Tse On Kin

#### Independent Non-Executive Directors

Mr. Chan Chi Yuen  
Mr. Zhang Xi  
Professor Sit Fung Shuen, Victor

### COMPANY SECRETARY

Ms. Ho Pui Man

### AUDIT COMMITTEE

Mr. Chan Chi Yuen (*Chairman*)  
Mr. Zhang Xi  
Professor Sit Fung Shuen, Victor

### REMUNERATION COMMITTEE

Mr. Liang Jun (*Chairman*)  
Mr. Chan Chi Yuen  
Mr. Zhang Xi

### PRINCIPAL BANKER

Wing Hang Bank Ltd.

### AUDITOR

BDO Limited

### SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited  
26/F  
Tesbury Centre  
28 Queen's Road East  
Hong Kong

### REGISTERED OFFICE

Rooms 1208-1210, 12/F  
Dah Sing Financial Centre  
108 Gloucester Road  
Wan Chai  
Hong Kong

### PRINCIPAL PLACE OF BUSINESS

Unit 1708, Level 17  
International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

### HONG KONG STOCK EXCHANGE STOCK CODE

0351

### WEBSITE

[www.aelg.com.hk](http://www.aelg.com.hk)

## Chairman's Statement

### FINANCIAL REVIEW

For the year ended 31 December 2011, the turnover of the Company and its subsidiaries (together, the "Group") from continuing operations amounted to HK\$ Nil (2010: HK\$ Nil), and the turnover of the Group from discontinued operations amounted to approximately HK\$49,472,000 (2010: approximately HK\$130,101,000). The loss for the year ended 31 December 2011 amounted to approximately HK\$144,219,000 (2010: loss approximately HK\$106,831,000) included a loss of approximately HK\$142,928,000 (2010: loss approximately HK\$46,651,000) from continuing operations and a loss of approximately HK\$1,291,000 (2010: loss approximately HK\$60,180,000) from discontinued operations. The basic and diluted loss per share from continuing operations for the year was HK1.06 cents (2010: loss per share HK0.33 cents). The basic and diluted loss per share from continuing and discontinued operations for the year was HK1.07 cents (2010: loss per share HK0.81 cents).

### BUSINESS REVIEW

During the year under review, the Group was principally engaged in (i) railway construction and operations; (ii) shipping and logistics; and (iii) waste incineration power generation business which was discontinued and disposed of in July 2011.

#### Railway Construction and Operations

The Group's investment in railway construction and operations started in July 2009 when the Group acquired a 70% equity interest in Gofar Holdings Limited ("Gofar"). In February 2010, the Group acquired the remaining 30% interest in Gofar. Gofar indirectly holds a 62.5% equity interest in each of 承德寬平鐵路有限公司 (Chengde Kuanping Railway Limited\*) ("Kuanping Company") and 承德遵小鐵路有限公司 (Chengde Zunxiao Railway Limited\*) ("Zunxiao 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 called the "Gofar Group"). The business scope of the Gofar Group is the construction and operation of a 121.7 kilometre single-track 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, due to a delay in the processing of a major loan facility of RMB1.033 billion granted by 中國民生銀行股份有限公司 (China Minsheng Banking Corp., Limited) in November 2010, completion of the construction has been delayed to 2012.

Relevant approvals for the construction of the Zunxiao Railway were obtained in 2008 and construction work for the first 25 kilometres of the Zunxiao Railway has been completed. Tangcheng Company obtained the "Temporary Operation License of the Hebei Railway Administration Bureau"\* ("河北省鐵路臨時運輸營業許可證") for the first 25 kilometres of the Zunxiao Railway, which is valid for one year, on 29 June 2011. The operating range covers Zunhua South Station (遵化南站), which is also the transfer station of the national railway, to Santunying Station (三屯營站).

In a bid to test the train traction capacity of the first 25 kilometres to ensure a high standard and efficient operation of the Zunxiao Railway when put into operation, the Zunxiao Railway, in cooperation with the Beijing Railway Bureau, launched a three-day trial test of train traction (from 30 June 2011 to

\* for identification purposes only

2 July 2011). The test involved three train journeys pulling 13,410 tonnes in total, with the largest train pulling up to 4,976 tonnes, to Santunying Station. The above trial was carried out on the condition that the trains were subject to multiple s-shaped bends and gradients of up to 1.5% (15 in 1,000).

The Group was satisfied with the fact that the three-day trial test was able to meet the safety standard of the Beijing Railway Bureau and was completed smoothly. This signified a major milestone for the Group, bringing it a step closer to the commercial operation of the Zunxiao Railway.

On 13 January 2011, Gofar Group entered into a non-legally binding memorandum of understanding (the "Memorandum") with China Railway Leasing Corporation Limited ("CRLC"), an independent third party, in relation to, among other things, the establishment of a business cooperation partnership between the parties in four major areas of strategic cooperation (the "Cooperation Project") with respect to (i) the purchasing, financing and leasing services for various facilities, equipment and accessories for railway construction and operations in the PRC; (ii) the further cooperation on the project development and operation of the self-owned rail wagon chartering services; (iii) the cooperation in respect of rail-transport logistics, storage and trading in the PRC; and (iv) introduction of prospective rail transport business partners by CRLC to Gofar Group.

The Memorandum is non-legally binding and may or may not lead to the entering into any formal agreement with respect to the Cooperation Project. The Cooperation Project, if materialised, would provide Gofar Group with, among others, a stable supply of railway facilities and equipment, reliable services in leasing and project financing, secured supply of railway facilities and rail-transport, and possible new railway related business, all of which are vital for the further development of the Group's business in the railway construction and operations in the PRC.

### **Shipping and Logistics**

Following the completion of the acquisition of the entire equity interest in Ocean Jade Investments Limited ("Ocean Jade") on 19 May 2010, the Group further diversified its business into the dry bulk shipping industry. Ocean Jade holds 50% interest in a joint venture company (the "JV Company", and together with its subsidiaries, the "JV Group") which is engaged in the investment in ship assets and provision of coal shipment services and accounted for as a jointly controlled entity of the Group. The other shareholder of the JV Company is Waibert Navigation Company Limited ("Waibert") which is a wholly-owned subsidiary of Guangdong Province Navigation Holdings Company Limited (one of the key provincial government-owned enterprises) and is principally engaged in ship management, dry bulk carrier chartering and operation.

Under the shareholders' agreement among Ocean Jade, Waibert and the JV Company (collectively, the "Parties") dated 1 December 2009 (as amended by a supplemental agreement also dated 1 December 2009) (collectively, the "JV Agreement"), the JV Group intended to acquire two Handy-size Vessels and two Panamax or Supramax Vessels. The two Handy-size Vessels of about 35,000 metric tonnes deadweight each (the "First Vessel" and the "Second Vessel", respectively) were acquired at the consideration of RMB175 million and RMB178.8 million on 30 April 2010 and 10 August 2010, respectively, which were subsequently delivered in August 2010 and January 2011, respectively.

Due to the prevailing marketing conditions, the Parties agreed to further extend the deadline for the acquisition of the other two vessels (either Panamax or Supramax type) to 31 December 2012.

Further to the above, on 31 December 2011, the Parties entered into the third supplemental agreement to the JV Agreement pursuant to which the Parties agreed to amend the JV Agreement such that the shareholders' loan contributed by the shareholders of the JV Company shall, instead of being non-interest bearing, become interest-bearing. Details of the third memorandum of mutual understanding and supplemental agreement have been disclosed in the Company's announcement dated 4 January 2012.

On 30 March 2010, a contract of affreightment (運輸合同) (the "Contract of Affreightment") was entered into between the JV Company and a power plant in the Jiangsu Province, the PRC, for the provision of coal shipment services by the JV Company to the said power plant. Under the Contract of Affreightment, the power plant in the Jiangsu Province shall provide full employment with its own coal cargo throughout the life span of the First Vessel and the Second Vessel.

The JV Group recorded a revenue of approximately HK\$115.60 million (2010: approximately HK\$17.74 million) for the year under review, the contribution from this business segment was approximately HK\$3.061 million (2010: loss of approximately HK\$0.242 million).

#### **Waste Incineration Power Generation (discontinued business)**

During the year under review, the turnover of the waste incineration power plant in the PRC then owned by the Group was approximately HK\$49.47 million (2010: approximately HK\$130.10 million), representing a decrease of approximately 62% as compared to that of the previous corresponding year. This was mainly due to the fact that the subsidiaries operating the said business were discontinued and disposed by the Group in July 2011 because of the continuing disappointing performance. As disclosed in the Company's circular dated 10 June 2011, Palace View International Limited ("Palace View"), a direct wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Wise Track Group Limited ("Wise Track") for the disposal of the entire equity interest in China Green Power Holdings Limited and its subsidiaries (collectively referred to as the "China Green Power Group") and the shareholder's loan due from the China Green Power Group to the Group. The disposal constituted a very substantial disposal for the Company under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and was completed on 13 July 2011.

#### **PROSPECTS**

Following the disposal of the waste incineration power generation business, the Group continues to engage in railway construction and operations and the shipping and logistics businesses.

#### **Railway Construction and Operations**

The acquisition of Gofar diversified and intensified the Company's involvement in the development of infrastructure projects in the PRC. Upon completion of the construction of the Zunxiao Railway and the obtaining of all necessary permits from the PRC government authorities, which is expected to be at the end of 2012, the railway will commence commercial operation. Should there be heavy demand on the Zunxiao Railway, the Company may consider expanding the Zunxiao Railway from a single-track railway to a double-track railway to further increase its transportation capacity.

The major revenue of the Zunxiao Railway will arise from the carriage of natural resources (coal, iron ore powder, etc.). The other revenue of the Zunxiao Railway will include charges for cargo loading and/or unloading services, charges for storage services of goods.

### **Shipping and Logistics**

As the dry bulk shipping market has begun its major correction due to excessive supply of new ships ordered at the peak of the market a few years ago, the directors of the JV Company consider that it is better to monitor the situation and wait until the market condition improves before proceeding to acquire the remaining two vessels. It is contemplated that the JV Company will seek to acquire further vessels if market conditions are favourable to increase its transportation volume and expand its customer base to steel mills and traders, importers, exporters and/or end users of bulk cargo of any types.

The board (the "Board") of directors (the "Directors") of the Company will actively seek other investment opportunities and to explore the feasibility of expanding into other business sectors to diversify the Group's business portfolio and to enhance the Group's profitability and its shareholders' value.

### **APPRECIATION**

As we continue to pursue strategy to achieve sustainable growth with prudence, I, on behalf of the Board, would like to thank our staffs and management for their dedication, effort and contribution towards the Company. I would also like to express my gratitude to our shareholders and business associates for their valuable support during the year.

#### **Yu Baodong**

*Chairman and  
Non-Executive Director*

Hong Kong  
26 March 2012

# Management Discussion and Analysis

## LIQUIDITY AND FINANCIAL RESOURCES

The Group is mainly financed by various borrowings, shareholders' equity and internally generated cash flows.

As at 31 December 2011, the Group had bank and cash balances of approximately HK\$211 million (2010: approximately HK\$565 million).

As at 31 December 2011, the Company had secured bank loans of approximately HK\$62 million (2010: Nil) repayable within one to two years, approximately HK\$555 million (2010: approximately HK\$603 million) repayable within two to five years and approximately HK\$393 million (2010: approximately HK\$499 million) repayable after five years. The effective interest rate for the year ranged between 6.59% to 8.09% (2010: 6.11% to 7.368%) per annum.

The gearing ratio of the Group as at 31 December 2011, which is calculated as net debt divided by total capital, was approximately 50% (2010: approximately 41%).

## CAPITAL STRUCTURE

As at 31 December 2011, the share capital of the Company was HK\$128,570,271 divided into 12,857,027,100 shares of HK\$0.01 each (the "Shares") (2010: 12,857,027,100 Shares).

On 21 April 2011, 313,200,000 share options carrying the rights to subscribe for a total of 313,200,000 ordinary Shares of HK\$0.01 each were granted, of which 312,200,000 share options were accepted and 1,000,000 share options were lapsed due to non-acceptance by the grantee within the prescribed time limit. Subsequently, a further 18,000,000 share options have lapsed following the cessation of employment of the relevant grantees. The exercise price of the share option is HK\$0.168 per Share. The expected aggregate proceeds from the exercise of all the outstanding 294,200,000 share options are approximately HK\$49,426,000. The fair value of the shares options granted during the year under review is approximately HK\$34,984,000. The Company recognized a share option expense (a non-cash expense item) of approximately HK\$22,810,000 including approximately HK\$1,056,000 attributable to discontinued operations (2010: Nil) during the year under review.

## SEGMENT INFORMATION

During the year under review, the Group was principally engaged in railway construction and operations and shipping and logistics businesses. The Group ceased and disposed of its waste incineration power generation business in July 2011.

Details of the business segments of the Group are set out in Notes 7 and 19 to the financial statements.

## Material Disposal of Subsidiaries

As disclosed in the Company's circular dated 10 June 2011, Palace View entered into a conditional sale and purchase agreement with Wise Track for the disposal of the entire equity interest in China Green Power Group and the shareholder's loan due from the China Green Power Group to the Group. The disposal constituted a very substantial disposal for the Company under the Listing Rules and was completed on 13 July 2011.

The principal business activity of the China Green Power Group was waste incineration power generation business which did not generate satisfactory performance in the past few years. In order to improve the performance of the incineration business, it was vital to reduce the use of coal as its main sources of fuel by carrying out major upgrading work to the existing power plant and substantial capital expenditures would be required if the upgrading work was to be implemented. In light of these circumstances, the Directors considered it beneficial to the Company to dispose of this loss making business in order to reallocate its resources to the other business segments of the Group which may have better prospects in generating a greater return for the Company.

The consideration for and the gain on the disposal was HK\$50,000,000 and HK\$7,905,000 respectively. The proceeds from the disposal, after deducting expenses incidental to the disposal have been used as general working capital of the Group.

### **PLEDGE OF ASSETS AND CONTINGENT LIABILITIES**

Golden Concord Holdings Limited ("GCL") had provided a guarantee to a financial institution in respect of the bank loan facilities, in aggregate, up to RMB1,033 million (equivalent to approximately HK\$1,274 million), granted to certain non-wholly owned subsidiaries of the Company in the PRC. In return for GCL's guarantee, the Group provided a counter-indemnity to indemnify GCL to the extent of the percentage of equity interest held by the Group in each of the subsidiaries of up to approximately RMB602 million (equivalent to approximately HK\$743 million) and a share mortgage of its shares in China Railway Logistic Holdings Limited ("CRL"), an indirect wholly-owned subsidiary of the Company, and equity and asset pledges of CRL's subsidiaries in favour of GCL. As at 31 December 2011, the outstanding bank loans amounted to approximately RMB819 million (equivalent to approximately HK\$1,010 million). Therefore, according to the Group's percentage equity interest holdings in the subsidiaries, there was a contingent liability of approximately RMB468 million (equivalent to approximately HK\$578 million).

### **LITIGATIONS AND CAPITAL COMMITMENTS**

Details of litigations and capital commitments are set out in Note 43 and Note 36, respectively to the financial statements.

### **EXPOSURE TO FLUCTUATION IN EXCHANGE RATES**

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

### **EMPLOYEE AND REMUNERATION POLICY**

As at 31 December 2011, the Group had 140 (2010: 267) full-time employees, 121 of whom were based in the PRC. Staff costs, including directors' remuneration and share option expense, of the Group for the year ended 31 December 2011 were approximately HK\$73,480,000 which included approximately HK\$42,000,000 on its continuing operations and approximately HK\$31,480,000 on its discontinued operations. The Group decides the remunerations and compensation payable to its staff based on their duties, working experience and the prevailing market practices. Apart from basic remuneration, share options may be granted to eligible employees by reference to the performance of the Group and individual employees. The Group also participated in an approved Mandatory Provident Fund scheme for its Hong Kong employees and made contributions to the various social insurance funds for its PRC employees.

### **SUBSEQUENT EVENT**

Regarding the shipping and logistics business, due to the prevailing market conditions, the JV Company and shareholders of the JV Company entered into a third memorandum of mutual understanding on 4 January 2012 to further extend the acquisition of the remaining two vessels by the JV Group to 31 December 2012.

## Directors' Profile

### EXECUTIVE DIRECTORS

#### **Mr. Liang Jun**

Mr. Liang, aged 45, has been an Executive Director of the Company since 12 June 2006. He is also the Chairman of the remuneration committee of the Company (the "Remuneration Committee"). Previously, he was the Chairman of the Company until he resigned from such position on 26 January 2010. Mr. Liang has over 20 years of experience in business development in China. He graduated from Tong Ji University (previously known as Tie Dao University of Shanghai) with a bachelor's degree in telecommunications engineering.

#### **Mr. Fung Ka Keung, David**

Mr. Fung, aged 48, has been an Executive Director of the Company since 26 January 2010. He holds a master's degree in Business Administration from the University of Leicester. Mr. Fung possesses more than 20 years of experience in accounting and finance, and is currently the director of finance in Golden Concord Holdings Limited as well as an independent non-executive director of Vongroup Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Fung is a fellow member of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

#### **Ms. Yu Sau Lai**

Ms. Yu, aged 49, has been an Executive Director of the Company since 31 March 2009. She has 28 years of experience in administrating different kinds of companies and also has extensive exposure in information technology and business management in trading, wholesale and retail businesses.

Ms. Yu is currently also the executive director, the compliance officer, the process agent and the authorized representative of Chinese Food and Beverage Group Limited, a company listed on the Growth Enterprise Market of the Stock Exchange.

Ms. Yu was as an executive director of New Environmental Energy Holdings Limited, a company listed on the Main Board of the Stock Exchange, until 27 May 2011, an executive director of China Bio-Med Regeneration Technology Limited, a company listed on the Growth Enterprise Market of the Stock Exchange, until 4 December 2009 and an executive director of Heng Xin China Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange, until 1 April 2009.

### NON-EXECUTIVE DIRECTORS

#### **Mr. Yu Baodong (Chairman)**

Mr. Yu, aged 48, has been a Non-Executive Director of the Company since 31 March 2009 and the Chairman of the Company since 26 January 2010. He has over 10 years of experience in project investment and corporate management. He holds a master's degree in Economics from the People's University of China and a doctorate degree in Economics from the Wuhan University.

Mr. Yu is also an executive director and the vice president of GCL-Poly Energy Holdings Limited, a company listed on the main board of the Stock Exchange.

#### **Ms. Sun Wei**

Ms. Sun, aged 40, has been a Non-Executive Director of the Company since 26 January 2010. Ms. Sun holds a doctorate degree in Business Administration and possesses over 10 years of experience in power plant investment and management. Ms. Sun is currently an executive director of GCL-Poly Energy Holdings Limited, a company listed on the main board of the Stock Exchange.

### **Mr. Tse On Kin**

Mr. Tse On Kin, aged 50, was appointed as the Chairman and an Executive Director of the Company on 10 March 2006. He was re-designated as a Non-Executive Director of the Company and ceased to be the Chairman of the Company, both with effect from 1 April 2007. Mr. Tse has over 21 years of management experience covering corporate planning, restructure, business development, project injection, merger and acquisition. Mr. Tse has a bachelor's degree in Public Policy and Administration from York University in Canada.

Mr. Tse was the chairman and an executive director of Kong Sun Holdings Limited from April 2007 to December 2011, Climax International Company Limited from March 2010 to November 2011, China Grand Forestry Green Resources Group Limited from September 2009 to December 2010, New Times Energy Corporation Limited from May 2007 to April 2009, all of which are listed on the main board of the Stock Exchange. Mr. Tse was also an independent non-executive director of Value Convergence Holdings Limited from January 2010 to January 2012 and a non-executive director of New Times Energy Corporation Limited from May 2009 to November 2009, all of which are listed on the main board of the Stock Exchange.

Ms. Ho Pui Man, the Company Secretary and the Financial Controller of the Company, is the niece of Mr. Tse.

## **INDEPENDENT NON-EXECUTIVE DIRECTORS**

### **Mr. Chan Chi Yuen**

Mr. Chan, aged 45, has been an Independent Non-Executive Director of the Company since 30 September 2004. He is the chairman of the audit committee of the Company (the "Audit Committee") and a member of the Remuneration Committee.

Mr. Chan is currently an executive director of Sam Woo Holdings Limited and Kong Sun Holdings Limited, a non-executive director of New Times Energy Corporation Limited and an independent non-executive director of China Gamma Group Limited, China Gogreen Assets Investment Limited, China Grand Forestry Green Resources Group Limited, Media Asia Group Holdings Limited and U-RIGHT International Holdings Limited, all of which are listed on the main board of the Stock Exchange.

Mr. Chan was an executive director of Kong Sun Holdings Limited from February 2007 to November 2009, Amax Holdings Limited from August 2005 to January 2009 and China E-Learning Group Limited from July 2007 to September 2008 and an independent non-executive director of The Hong Kong Building and Loan Agency Limited from October 2009 to February 2011, Richly Field China Development Limited from February 2009 to August 2010 and Superb Summit International Timber Company Limited from April 2007 to June 2010, all of which are listed on the main board of the Stock Exchange.

Mr. Chan holds a bachelor's degree in Business Administration and a master of science degree in Corporate Governance and Directorship. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and an associate member of the Institute of Chartered Accountants in England and Wales. Mr. Chan is a practising certified public accountant and has extensive experience in financial management, corporate finance and corporate governance.

### **Mr. Zhang Xi**

Mr. Zhang, aged 42, has been an Independent Non-Executive Director of the Company since 10 March 2006. He is a member of both the Audit Committee and Remuneration Committee. He has over 10 years of experience in the financial sector. He is currently a CFA charterholder. Mr. Zhang graduated with a bachelor's degree in science (electrical engineering) from Shanghai Jiao Tong University in July 1991. Mr. Zhang obtained an international master of business administration (finance) from York University in Canada in September 1998.

**Professor Sit Fung Shuen, Victor**

Prof. Sit, aged 63, was appointed as an Independent Non-Executive Director of the Company on 7 June 2010. He is a founding director of the Advanced Institute for Contemporary China Studies of Hong Kong Baptist University. He has also been invited to be the Honorary Professor of a number of renowned universities including Peking University, Zhongshan University, Jinan University and Xian Jiaotong University in the People's Republic of China (the "PRC"). He had been a Professor of the Department of Geography of The University of Hong Kong from 1977 to 2007 and was the Head of Department of Geography and Geology of The University of Hong Kong from 1993 to 1998.

Prof. Sit is currently a member of both the City Planning Commission of Shenzhen Municipal Government of the PRC and Sanmin Municipal Government of Fujian Province of the PRC. Prof. Sit had also assumed the posts of Deputy to the National People's Congress of the PRC from 1993 to 2008 and Advisor to the Governor of Guangdong Province of the PRC from 2000 to 2005. He was formerly a member of the Preparatory Committee of the Hong Kong Special Administrative Region ("HKSAR") of the National People's Congress of the PRC, Port and Marine Board of the HKSAR Government, Committee on Port and Harbour Development and the Port Development Board of the HKSAR Government.

Prof. Sit is currently a non-executive director of CIAM Group Limited, a company listed on the main board of the Stock Exchange. He had been an independent non-executive director of Sinopoly Battery Limited, a company listed on the main board of the Stock Exchange, until May 2007.

## Directors' Report

The board (the "Board") of directors (the "Directors") of Asia Energy Logistics Group Limited (the "Company") is pleased to present this annual report together with the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011.

### CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

The Company is a public company incorporated in Hong Kong with limited liability. The Company acts as an investment holding company. The principal activities and other particulars of its principal subsidiaries are set out in Note 18 to the financial statements.

The analysis of segment information of the Group during the financial year is set out in Note 7 to the financial statements.

### RESULTS

The results of the Group for the year ended 31 December 2011 are set out in the section headed "Consolidated Statement of Comprehensive Income" on page 28 of this report.

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2011.

### RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the section headed "Consolidated Statement of Changes In Equity" on page 32 of this report and Note 34 to the financial statements respectively.

### DISTRIBUTABLE RESERVES

As at 31 December 2011, the Company did not have any reserves available for distribution to shareholders as calculated in accordance with the provisions of section 79B of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). In addition, the Company's share premium account, in the amount of approximately HK\$1,268,576,000 may be distributed in the form of fully paid bonus shares.

### FINANCIAL SUMMARY

A summary of the published results, assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements and reclassified as appropriate, is set out on page 92 of this report. This summary does not form part of the audited consolidated financial statements.

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 14 to the financial statements.

### SHARE CAPITAL

Details of movements in the share capital of the Company are set out in Note 32 to the financial statements.

### 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.

### BANK BORROWINGS

Particulars of the Group's bank borrowings are set out in Note 27 to the financial statements.

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The composition of the Board during the year ended 31 December 2011 and up to the date of this report is as follows:

### Executive Directors

Mr. Liang Jun  
Ms. Yu Sau Lai  
Mr. Fung Ka Keung, David

### Non-executive Directors

Mr. Yu Baodong (*Chairman*)  
Ms. Sun Wei  
Mr. Tse On Kin

### Independent Non-executive Directors

Mr. Chan Chi Yuen  
Mr. Zhang Xi  
Professor Sit Fung Shuen, Victor

The Company has received annual confirmations from each of the Independent Non-Executive Directors with regard to his independence to the Company and considers that each of the Independent Non-Executive Directors to be independent.

Pursuant to Articles 101A and 101B of the Articles of Association (the "Articles") of the Company, Mr. Liang Jun, Mr. Fung Ka Keung, David and Ms. Sun Wei shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

During the year under review, each Director has a service agreement with the Company for a term of three years and is subject to retirement by rotation and re-election in accordance with the Articles.

Save as disclosed above, none of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on pages 9 to 11 of this report.

## EMOLUMENT POLICY

The emolument policy of the employees and senior management of the Group is set up by the remuneration committee of the Company (the "Remuneration Committee") on the basis of their merit, qualification and competence. The emoluments of the Directors are decided by the Remuneration Committee, having regard to market competitiveness, individual performance and achievement.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of which are set out in the section headed "Share Options" below.

Details of the emoluments of the Directors and the five highest paid individuals are set out in Note 11 to the financial statements.

## RETIREMENT BENEFITS SCHEMES

The Group strictly complies with the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) in making mandatory provident fund contributions for its Hong Kong employees. The Group has also complied with the relevant PRC laws and regulations in making contributions to the various social insurance funds for its PRC employees.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31 December 2011, the following person(s) is/are Directors or the chief executive of the Company who had or was deemed to have an interest or short position in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) (the "SFO") which (i) were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short position which they had or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

### Long Position in the Shares and underlying Shares

| Name of Director         | Capacity         | Number of Shares held | Number of underlying Shares held under equity derivatives<br>(Note 1) | Total      | Approximate percentage of shareholding<br>(Note 2) |
|--------------------------|------------------|-----------------------|---|------------|--|
| Mr. Liang Jun            | Beneficial Owner | 2,000,000             | 50,000,000  | 52,000,000 | 0.40%  |
| Mr. Fung Ka Keung, David | Beneficial Owner | —                     | 10,000,000  | 10,000,000 | 0.08%  |
| Ms. Yu Sau Lai           | Beneficial Owner | —                     | 10,000,000  | 10,000,000 | 0.08%  |
| Mr. Yu Baodong           | Beneficial Owner | —                     | 50,000,000  | 50,000,000 | 0.39%  |
| Ms. Sun Wei              | Beneficial Owner | —                     | 50,000,000  | 50,000,000 | 0.39%  |
| Mr. Tse On Kin           | Beneficial Owner | —                     | 5,000,000   | 5,000,000  | 0.04%  |

Notes:

- (1) These are share options granted by the Company to the Directors under the share option scheme adopted by the shareholders of the Company on 20 August 2008 and refreshed on 3 June 2010. Such share options can be exercised by the Directors at various intervals during the period from 21 April 2011 to 20 April 2021 at an exercise price of HK\$0.168 per Share.
- (2) The approximate percentage of shareholding was calculated based on the number of shares in issue of 12,857,027,100 Shares as at 31 December 2011.

Save as disclosed above, as at 31 December 2011, as far as the Board was aware, none of the Directors or the chief executive of the Company had or was deemed to have any interest or short position in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short position which they had or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules.

## SHARE OPTIONS

### 2002 Option Scheme

On 27 May 2002, a share option scheme (the "2002 Option Scheme") was adopted by the Company. The purpose of the 2002 Option Scheme was to enable the Group to grant options to selected participants as incentives or reward for their contributions to the Group. The participants included (i) any eligible employee; (ii) any supplier of goods or services to any member of the Group or any entity in which any member of the Group held any interest ("Invested Entity"); (iii) any customer of the Group or any Invested Entity; (iv) any person or entity that provided research, development or other technological support to the Group or any Invested Entity; (v) any shareholder or any member of the Group or any Invested Entity; and (vi) any company wholly owned by any participant. The 2002 Option Scheme would remain in force for a period commencing on 27 May 2002 and expiring at the close of business on the business day preceding the tenth anniversary.

The total number of shares which may be issued upon exercise of all options to be granted under the 2002 Option Scheme and any other scheme of the Company shall not in aggregate exceed 10% of the issued share capital of the Company as at the date on which the 2002 Option Scheme was adopted, without prior approval from the Company's shareholders. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant in any 12-month period up to and including the date of grant of options shall not exceed 1% of the shares in issue.

The subscription price will be determined by the Directors, which shall not be less than the higher of the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant of options or the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five days immediately preceding the date of grant of the options. Options may generally be exercised in whole or part at any time during the period commencing on the first business day from the date of grant of the options and expiring on the close of business on the last day of such period as determined by the Directors and notified to the grantee (in any event such period must not be more than 10 years from the date of grant of the options).

The following table sets out the movements in the Company's share options under the 2002 Option Scheme during the year:

| Date of grant of share options  | Exercise period of share options | Exercise price of share options (HK\$) | As at 1.1.2011 | Granted during the year | Exercise during the year | Lapsed during the year | As at 31.12.2011 | Market value per Share                                       |   |
|---------------------------------|----------------------------------|--|----------------|-------------------------|--------------------------|------------------------|------------------|--|---|
|                                 |                                  |  |                |                         |                          |                        |                  | Immediately preceding the grant date of share options (HK\$) | Immediately preceding the exercise date of share options (HK\$) |
| <b>Employees — In aggregate</b> |                                  |  |                |                         |                          |                        |                  |  |   |
| 26.05.2005                      | 26.05.2005 to 25.05.2015         | 0.69                                   | 700,000        | —                       | —                        | —                      | 700,000          | 0.68   | —   |
| 03.08.2005                      | 03.08.2005 to 02.08.2015         | 0.688                                  | 500,000        | —                       | —                        | —                      | 500,000          | 0.66   | —   |

Note: The share price of the Company disclosed as at the date of the grant of the share options was the closing price as quoted on the Stock Exchange on the trading day immediately prior to the date of the grant of the share options. The share price of the Company disclosed as the date of the exercise of the share options was the weighted average closing price of the shares immediately before the date on which the share options within the disclosure category were exercised.

No option under the 2002 Option Scheme was cancelled or lapsed during the year.

As at the date of this report, the 2002 Option Scheme was terminated with the passing of an ordinary resolution at the extraordinary general meeting of the Company held on 20 August 2008. The outstanding options were exercisable in accordance with the terms of the 2002 Option Scheme.

## 2008 OPTION SCHEME

On 20 August 2008, a new share option scheme (the "2008 Option Scheme") was adopted by the Company. The purpose of the 2008 Option Scheme was to attract, retain and motivate talented participants to strive for future developments and expansion of the Group. The participants are as follows:

- (i) any full-time employee and Director (including Non-Executive Director and Independent Non-Executive Director) of the Group; and any part time employee with weekly working hours of ten hours and above of the Group (collectively, "Employee");
- (ii) any advisor or consultant to the Group; any provider of goods and/or services to the Group; or any other person who, at the sole determination of the Board, has contributed to the Group (the assessment criterion of which are (a) such person's contribution to the development and performance of the Group; (b) the quality of work performed by such person for the Group; (c) the initiative and commitment of such person in performing his or her duties; and (d) the length of service or contribution of such person to the Group) (collectively, "Business Associate"); and
- (iii) the trustee of any trust (whether family, discretionary or otherwise) whose beneficiaries or objects include any Employee or Business Associate of the Group.

The 2008 Option Scheme is valid and effective for a period of ten years commencing on the date of adoption.

The total number of Shares which may be issued upon exercise of all options to be granted under the 2008 Option Scheme and any other scheme of the Company shall not in aggregate exceed 10% of the issued share capital of the Company as at the date on which the 2008 Option Scheme was adopted, without prior approval from the Company's shareholders. The total number of Shares issued and to be issued upon exercise of the option granted and to be granted to each participant in any 12-month period shall not exceed 1% of the Shares in issue.

Since there was a substantial increase in the issued share capital of the Company after the adoption of the 2008 Option Scheme, the Directors had gained shareholders' approval at the last annual general meeting to increase the total number of Shares which may be issued upon exercise of all options to 1,285,702,710 Shares, representing 10% of the issued share capital of the Company as at 26 April 2010. The subscription price will be determined by the Directors, which shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant of options; or (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five days immediately preceding the date of grant of option; or (iii) the nominal value of a share.

Options may generally be exercised in whole or part at any time during the period commencing on the first business day from the date of grant of the options and expiring on the close of business on the last day of such period as determined by the Directors and notified to the grantee (in any event such period must not be more than 10 years from the date of grant of the options) subject to any restrictions as may be imposed on the exercise of an option during the period in which an option may be exercised.

On 21 April 2011, 313,200,000 share options were granted at an exercise price of HK\$0.168 per Share under the 2008 Option Scheme, of which 312,200,000 share options were accepted and 1,000,000 share options were lapsed due to non-acceptance by the grantee within the prescribed time limit. For the year under review, a further 18,000,000 share options have lapsed following the cessation of employment of the relevant grantees.

The following table sets out the movements in the Company's share options under the 2008 Option Scheme during the year:

| Directors or Category of participant | Date of grant of share option | Exercise period of the share options | Exercise price of share options<br>HK\$ | As at date of grant<br>21.4.2011 | Granted during the year after<br>21.4.2011 | Exercised during the year | Not accepted or lapsed during the year | As at<br>31.12.2011 |
|--------------------------------------|-------------------------------|--------------------------------------|---|----------------------------------|--|---------------------------|--|---------------------|
| <b>Directors</b>                     |                               |                                      |   |                                  |  |                           |  |                     |
| Mr. Liang Jun                        | 21.4.2011                     | 21.4.2011 to 20.4.2021               | 0.168                                   | 20,000,000                       | —  | —                         | —                                      | 20,000,000          |
|                                      |                               | 21.4.2012 to 20.4.2021               | 0.168                                   | 15,000,000                       | —  | —                         | —                                      | 15,000,000          |
|                                      |                               | 21.4.2013 to 20.4.2021               | 0.168                                   | 15,000,000                       | —  | —                         | —                                      | 15,000,000          |
| Mr. Fung Ka Keung, David             | 21.4.2011                     | 21.4.2011 to 20.4.2021               | 0.168                                   | 4,000,000                        | —  | —                         | —                                      | 4,000,000           |
|                                      |                               | 21.4.2012 to 20.4.2021               | 0.168                                   | 3,000,000                        | —  | —                         | —                                      | 3,000,000           |
|                                      |                               | 21.4.2013 to 20.4.2021               | 0.168                                   | 3,000,000                        | —  | —                         | —                                      | 3,000,000           |
| Ms. Yu Sau Lai                       | 21.4.2011                     | 21.4.2011 to 20.4.2021               | 0.168                                   | 4,000,000                        | —  | —                         | —                                      | 4,000,000           |
|                                      |                               | 21.4.2012 to 20.4.2021               | 0.168                                   | 3,000,000                        | —  | —                         | —                                      | 3,000,000           |
|                                      |                               | 21.4.2013 to 20.4.2021               | 0.168                                   | 3,000,000                        | —  | —                         | —                                      | 3,000,000           |
| Mr. Yu Baodong                       | 21.4.2011                     | 21.4.2011 to 20.4.2021               | 0.168                                   | 20,000,000                       | —  | —                         | —                                      | 20,000,000          |
|                                      |                               | 21.4.2012 to 20.4.2021               | 0.168                                   | 15,000,000                       | —  | —                         | —                                      | 15,000,000          |
|                                      |                               | 21.4.2013 to 20.4.2021               | 0.168                                   | 15,000,000                       | —  | —                         | —                                      | 15,000,000          |
| Ms. Sun Wei                          | 21.4.2011                     | 21.4.2011 to 20.4.2021               | 0.168                                   | 20,000,000                       | —  | —                         | —                                      | 20,000,000          |
|                                      |                               | 21.4.2012 to 20.4.2021               | 0.168                                   | 15,000,000                       | —  | —                         | —                                      | 15,000,000          |
|                                      |                               | 21.4.2013 to 20.4.2021               | 0.168                                   | 15,000,000                       | —  | —                         | —                                      | 15,000,000          |
| Mr. Tse On Kin                       | 21.4.2011                     | 21.4.2011 to 20.4.2021               | 0.168                                   | 2,000,000                        | —  | —                         | —                                      | 2,000,000           |
|                                      |                               | 21.4.2012 to 20.4.2021               | 0.168                                   | 1,500,000                        | —  | —                         | —                                      | 1,500,000           |
|                                      |                               | 21.4.2013 to 20.4.2021               | 0.168                                   | 1,500,000                        | —  | —                         | —                                      | 1,500,000           |
| <b>Employees (in aggregate)</b>      | 21.4.2011                     | 21.4.2011 to 20.4.2021               | 0.168                                   | 55,880,000                       | —  | —                         | 1,000,000                              | 54,880,000          |
|                                      |                               | 21.4.2012 to 20.4.2021               | 0.168                                   | 41,160,000                       | —  | —                         | 9,000,000                              | 32,160,000          |
|                                      |                               | 21.4.2013 to 20.4.2021               | 0.168                                   | 41,160,000                       | —  | —                         | 9,000,000                              | 32,160,000          |
| <b>Total</b>                         |                               |                                      |   | <b>313,200,000</b>               |  |                           | <b>19,000,000</b>                      | <b>294,200,000</b>  |

As at the date of this report, no options under the 2008 Option Scheme were exercised.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under sections headed "Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures" and "Share options" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, chief executive, or any of their respective spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the section headed "Directors and Directors' Service Contracts" above and in Note 11 to the financial statements, no contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## INTERESTS OF CONTROLLING SHAREHOLDERS IN CONTRACTS

Save as disclosed under the section headed "Connected Transactions" below and in Note 39 to the financial statements, there was no contract of significance between the Company or any of its subsidiaries, and a controlling shareholder of the Company or any of its subsidiaries, where "controlling shareholder" is defined in paragraph 16 of Appendix 16 to the Listing Rules at any time during the year under review.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as is known to any Directors, as at 31 December 2011, the following persons (not being a Director or chief executive of the Company) had interests in the Shares or underlying Shares which were notified to the Company and the Stock Exchange pursuant to the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO:

### Long Position in the Shares and underlying Shares

| Name  | Capacity   | Number of Shares and underlying Shares held | Approximate percentage of shareholding<br>(Note 4) |
|---|--|---|--|
| Mr. Wong Kin Ting ("Mr. Wong")<br>(formerly known as Mr. Ko Fong) | Interest of controlled corporations  | 4,552,970,325<br>(Note 1)                   | 35.41%   |
| Mr. Zhu Gongshan<br>("Mr. Zhu")                                   | Beneficiary of a discretionary trust &<br>interest of controlled<br>corporations | 2,137,450,000<br>(Note 2)                   | 16.62%   |
| Credit Suisse Trust Limited ("CST")                               | Trustee  | 2,000,000,000<br>(Note 3)                   | 15.56%   |

#### Notes:

- (1) According to the individual substantial shareholder notice filed by Mr. Wong on 17 May 2011, Mr. Wong was deemed to be interested in 4,552,970,325 Shares through his interests in the following corporations which are 100% owned by him:
  - (i) 295,000,000 Shares held by Delight Assets Management Limited, and
  - (ii) 4,257,970,325 Shares held by King Castle Enterprises Limited.
- (2) According to the individual substantial shareholder notice filed by Mr. Zhu on 20 May 2010, Mr. Zhu was deemed to be interested in 2,137,450,000 Shares that comprised:
  - (i) 2,000,000,000 Shares indirectly held by Asia Pacific Energy Fund Limited ("APEF") (as described in Note 3 below), and
  - (ii) 137,450,000 Shares directly held by Profit Act Limited, which is indirectly controlled by Mr. Zhu.
- (3) According to the corporate substantial shareholder notice filed by CST on 20 May 2010, CST was deemed to be interested in 2,000,000,000 Shares in its capacity as the trustee of these Shares. These 2,000,000,000 Shares were beneficially owned by Fast Sky Holdings Limited which in turn is 100% directly controlled by Golden Concord. Golden Concord is 100% controlled by Asia Pacific Energy Holdings Limited which in turn is 100% controlled by Asia Pacific Energy Fund Limited. Asia Pacific Energy Fund Limited is 50% controlled by Serangoon Limited and 50% controlled by Seletar Limited and both Serangoon Limited and Seletar Limited are 100% controlled by CST.

Out of these 2,000,000,000 Shares, 1,000,000,000 Shares are consideration Shares which may be issued (in whole or in part as appropriate) to Golden Concord or its nominee pursuant to an agreement dated 18 December 2009 (as amended by supplemental agreements on 24 December 2009 and 28 April 2010, respectively) in relation to the acquisition of the entire equity interests in Ocean Jade Investments Limited (collectively, the "Agreements"). Details of the Agreements are set out in the Company's circular dated 30 April 2010, whereby it was disclosed that the allotment and issue of these 1,000,000,000 Shares is subject to the achievement of the profit guarantee as contained in the Agreements.

- (4) The approximate percentage of shareholding was calculated based on the number of shares in issue of 12,857,027,100 Shares as at 31 December 2011.

Save as disclosed above, as at 31 December 2011, the Company had not been notified of any other person (other than the Directors whose interests are set out in the section headed "Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures" above) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO.

### CONNECTED TRANSACTIONS

Details of the material related party transactions for the year ended 31 December 2011 are set out in Note 39 to the financial statements, one of which also constituted continuing connected transactions for the Company under the Listing Rules. Details of the continuing connected transaction of the Group for the year under review is required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules.

On 20 April 2011, Palace View International Limited ("Palace View"), a wholly-owned subsidiary of the Company, entered into a third renewal of an operation consultation agreement with Shanghai GCL in relation to the appointment of Shanghai GCL to provide consultation services for the operation of a municipal solid waste incineration power plant owned by a subsidiary of Palace View and was subsequently terminated on 13 July 2011, details of which are set out in Note 39 to the financial statements.

Pursuant to Rule 14A.37 of the Listing Rules, the Independent Non-Executive Directors have reviewed the above continuing connected transactions and confirmed that such transactions have been entered into:

1. in the ordinary and usual course of business of the Group;
2. either on normal commercial terms or on terms no less favourable to the Group than those available from independent third parties; and
3. in accordance with the relevant agreement governing them and on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules during the year under review.

For the year under review, the aggregate volume of transactions for the provision of consultation services by Shanghai GCL to the Group did not exceed RMB2,000,000 (equivalent to approximately HK\$2,372,000).

The Company's auditor was engaged to report on the Group's continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transaction disclosed above by the Group in accordance with Listing Rule 14A.38. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

## LITIGATIONS

Details of the material litigations of the Group are set out in Note 43 to the financial statements.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the best of knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

## MAJOR SUPPLIERS AND CUSTOMERS

The Group's largest supplier contributed 96.4% to the Group's total purchases for the year under review and the aggregate amount of purchases attributable to the Group's top five suppliers represented 100% of the Group's total purchases.

The Group's largest customer accounted for 71% of the Group's turnover (excluding guaranteed return) and 98% of the total turnover (excluding guaranteed return) of the Group was attributable to the Group's top five customers.

None of the Directors, their associates or any shareholders of the Company (which to the best of the knowledge of the Directors own more than 5% of the Company's issued share capital) had any interest in the Group's major suppliers or customers noted above.

## CORPORATE GOVERNANCE

Throughout the year in 2011, the Company has complied with the applicable code provisions and principles of the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules except for the deviation mentioned in the Corporate Governance Report on pages 21 to 25 of this report.

## 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 main purpose of the Audit Committee is to review and provide supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three independent non-executive Directors of the Company. The Audit Committee has reviewed and approved the financial statements for the year ended 31 December 2011.

## AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2011 were audited by BDO Limited. A resolution for the re-appointment of BDO Limited as the auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

**Liang Jun**

*Executive Director*

Hong Kong

26 March 2012

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICE

It is one of the continuing commitments of the Board and of management of the Company to maintain high standards of corporate governance. The Company has adopted and applied the principles as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules. The Company considers that effective corporate governance makes significant contribution to corporate success and enhancement of shareholders' value.

Throughout the year ended 31 December 2011, the Company has complied with the CG Code, save for the exception specified and explained below:

### Code Provision A.2.1

The post of Chief Executive Officer ("CEO") has remained vacant since March 2009. The duties of CEO have been performed by other Executive Directors of the Company. As there exists a clear division of responsibilities of each Director in the Group, the vacancy of the CEO position did not have any material impact on the operations of the Group. However, the Board will keep reviewing the current structure from time to time. If a candidate with suitable knowledge, skill and experience is identified, the Company will make an appointment to fill the post of CEO as appropriate.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by Directors.

Having made specific enquiry, all Directors who held office in 2011 confirmed that they have complied with the code throughout the year ended 31 December 2011.

## BOARD OF DIRECTORS

### (1) Composition of the Board of Directors

The Board currently comprises three Executive Directors ("EDs"), three Non-Executive Directors ("NEDs") and three Independent Non-Executive Directors ("INEDs"). The biographical details of each Director are shown in the Directors' Profile on pages 9 to 11 of this report.

As at 31 December 2011, the Board comprised three EDs, three NEDs and three INEDs.

For the year ended 31 December 2011 and up to the date of this report, there is no change to the Board.

### (2) Responsibility of the Board of Directors

It is the function of the Board to assume the responsibility for leadership and control of the Company. The Directors are collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs.

Other duties include but are not limited to:

- maintaining effective control of the Company;
- giving strategic direction to the Company;
- reviewing, approving and monitoring fundamental financial and business strategies, plans and major corporate actions;

- ensuring that the Company complies with relevant laws, regulations and codes of business practice; and
- ensuring that the Company communicates with shareholders and the relevant stakeholders transparently and promptly.

Although the Board may and have delegated some of their responsibilities to various committees and principal divisions, it acknowledges that it remains ultimately accountable for the performance and affairs of the Company.

### (3) Board Meetings

There were five board meetings held during the year. The attendance of Directors at the board meetings was as follows:

|  | <b>Attendance<br/>No. of meetings<br/>attended/No.<br/>of meetings held during the year</b> |
|--|---|
| <b>Executive Directors</b>                 |   |
| Mr. Liang Jun                              | 5/5   |
| Mr. Fung Ka Keung, David                   | 4/5   |
| Ms. Yu Sau Lai                             | 5/5   |
| <b>Non-Executive Directors</b>             |   |
| Mr. Yu Baodong ( <i>Chairman</i> )         | 5/5   |
| Ms. Sun Wei                                | 0/5   |
| Mr. Tse On Kin                             | 4/5   |
| <b>Independent Non-Executive Directors</b> |   |
| Mr. Chan Chi Yuen                          | 5/5   |
| Mr. Zhang Xi                               | 5/5   |
| Professor Sit Fung Shuen, Victor           | 5/5   |

### (4) Chairman and Chief Executive Officer

The key role of the Chairman is to provide leadership to the Board. In performing his duties, the Chairman shall ensure that the Board functions effectively in the discharge of its responsibilities. The Chairman also has the responsibility of taking the lead to ensure that the Board acts in the best interests of the Company and the Group.

The key role of the CEO is to be responsible for the day-to-day management and operations of the Company and business of the Group. His duties mainly include:

- providing leadership and supervising the effective management of the Company;
- monitoring and controlling the financial and operational performance of various divisions; and
- implementing the strategy and policies adopted by the Company, setting and implementing objectives and development plans.

During the year, the post of CEO has been vacant and the duties of CEO were performed by the other EDs of the Company.

## (5) Non-Executive Directors

During the year under review and up to the date of this report, all NEDs have been appointed for a specific term of service.

Pursuant to the Articles, all NEDs shall be subject to retirement by rotation at least once every three years at annual general meeting of the Company and shall be eligible for re-election.

## REMUNERATION COMMITTEE

A Remuneration Committee was established in 2006 and its function is to make recommendations to the Board on policies relating to the remuneration of other Directors. In accordance with the Listing Rules, the majority of the members of the Remuneration Committee are INEDs.

Pursuant to its terms of reference, the remuneration committee's duties and responsibilities include but are not limited to:

- determining the specific remuneration packages of all EDs and senior management;
- reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
- reviewing and approving the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment; and
- consulting with the Chairman of the Company where to position the Company relative to comparable companies in terms of remuneration level and board composition.

The written terms of reference of the Remuneration Committee comply with the Listing Rules, namely Code Provision B.1.3 of the CG Code.

During the year under review and up to date of this report, the members of the Remuneration Committee are Mr. Liang Jun, Mr. Chan Chi Yuen and Mr. Zhang Xi. Mr. Liang Jun is the chairman of the Remuneration Committee.

The Remuneration Committee held one meeting during the year and the attendance of its members was as follows:

|                                   | <b>Attendance<br/>No. of meetings<br/>attended/No.<br/>of meetings held during the year</b> |
|-----------------------------------|---|
| Mr. Liang Jun ( <i>Chairman</i> ) | 1/1   |
| Mr. Chan Chi Yuen                 | 1/1   |
| Mr. Zhang Xi                      | 1/1   |

## NOMINATION COMMITTEE

As at the date of this report, the Company has not set up any nomination committee. Since the Board follows a formal, considered and transparent procedure for the appointment of new Directors, the Board does not consider it necessary to establish a nomination committee to review new appointments of directors and senior executives as well as management succession plans for executive directors and senior executives. The appointment of a new Director is a collective decision of the Board, taking into consideration the candidate's qualification, expertise, experience, integrity and commitment to his/her responsibilities within the Group.

The appointment of Directors made during the year and up to the date of this report can be found in the section headed "Directors and Directors' Service Contracts" on page 13 of this report.

## AUDITOR'S REMUNERATION

During the year under review, the fees in respect of audit and non-audit services provided by BDO Limited, the external auditor of the Company were HK\$750,000 and HK\$510,400, respectively.

## AUDIT COMMITTEE

The Company has an audit committee (the "Audit Committee") which was established in compliance with Rule 3.21 of the Listing Rules. The main purpose of the Audit Committee is to review and provide supervision over the Group's financial reporting process and internal controls. The audit committee comprises three INEDs of the Company.

Pursuant to its terms of reference, the Audit Committee's duties and responsibilities include but are not limited to:

- making recommendation to the Board on the appointment, re-appointment and removal of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;
- monitoring the integrity of financial statements of the Company; and
- reviewing the Company's financial controls, internal control and risk management systems.

The written terms of reference of the audit committee comply with the Listing Rules, namely Code Provision C.3.3 of the CG Code.

The members of the Audit Committee are Mr. Chan Chi Yuen, Professor Sit Fung Shuen, Victor and Mr. Zhang Xi. Mr. Chan Chi Yuen is the chairman of the Audit Committee.

The Audit Committee had reviewed and approved the financial statements for the year ended 31 December 2011.

The Audit Committee held two meetings during the year and the attendance of its members was as follows:

|                                       | <b>Attendance<br/>No. of meetings<br/>attended/No.<br/>of meetings held during the year</b> |
|---------------------------------------|---|
| Mr. Chan Chi Yuen ( <i>Chairman</i> ) | 2/2   |
| Mr. Zhang Xi                          | 2/2   |
| Professor Sit Fung Shuen, Victor      | 2/2   |

## INTERNAL CONTROL

The Company's systems of internal control consist of policies and procedures designed to provide management with reasonable assurance that the Company achieves its objectives in the following categories:

- reliability of financial reporting;
- effectiveness and efficiency of operations; and
- compliance with applicable laws and regulations.

The systems of internal control have been maintained within reasonable cost and are assessed on an ongoing basis by the Board and, if considered appropriate and necessary, by external professional bodies. It is the opinion of the Company that given the dynamic and ever-evolving nature of internal operation and industry conditions, the internal control systems can only safeguard against most of the unforeseeable circumstances. Therefore, the Company's internal control systems are subject to occasional reviews and updates.

During the year, the Board appointed an independent accountancy firm to review the effectiveness of certain aspects of the Group's internal control system including financial, operational and compliance controls as well as risk management function. The result has been reported to the Audit Committee. Through the review, no significant weakness was found. The Company will take appropriate measures in respect of those areas that have been identified for improvement.

## DIRECTORS' AND AUDITOR'S ACKNOWLEDGEMENT

All Directors acknowledge their responsibility for preparing the consolidated financial statements for the year ended 31 December 2011.

BDO Limited, the auditor of the Company, acknowledges its reporting responsibilities in the independent auditor's report on the consolidated financial statements for the year ended 31 December 2011.

## Independent Auditor's Report



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永安中心25樓

### TO THE SHAREHOLDERS OF ASIA ENERGY LOGISTICS GROUP LIMITED

亞洲能源物流集團有限公司

*(Incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of Asia Energy Logistics Group Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 28 to 91, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

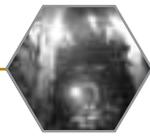
### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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



## Independent Auditor's Report

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

#### **BDO Limited**

*Certified Public Accountants*

#### **Li Pak Ki**

*Practising Certificate number P01330*

Hong Kong, 26 March 2012

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

|  | Notes | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|--|-------|------------------|------------------|
| <b>Continuing operations</b>   |       |                  |                  |
| Turnover   | 5     | —                | —                |
| Other income, gains and losses   | 6     | (66,523)         | (61,077)         |
| Depreciation and amortisation  | 9(a)  | (7,793)          | (3,926)          |
| Staff costs  | 9(a)  | (42,000)         | (18,957)         |
| Change in fair value of contingent consideration payable                                 | 28    | 5,204            | 68,804           |
| Change in fair value of the derivative component   |       |                  |                  |
| of convertible bonds   | 29    | —                | 2,613            |
| Share of results of jointly controlled entity  | 19    | 3,061            | (242)            |
| Share of (loss)/profit of an associate   | 21    | (85)             | 85               |
| Other operating expenses   |       | (34,792)         | (34,565)         |
| Finance costs  | 8     | —                | (117)            |
| Loss before income tax   | 9(a)  | (142,928)        | (47,382)         |
| Income tax   | 10    | —                | 731              |
| Loss for the year from continuing operations   |       | (142,928)        | (46,651)         |
| <b>Discontinued operations</b>   |       |                  |                  |
| Loss for the year from discontinued operations   | 9(b)  | (1,291)          | (60,180)         |
| Loss for the year  |       | (144,219)        | (106,831)        |
| <b>Other comprehensive income</b>  |       |                  |                  |
| Exchange difference arising on translation of financial statements of foreign operations |       | 32,440           | 22,685           |
| Reclassification adjustment upon disposal of subsidiaries                                |       | (22,072)         | 2,636            |
| Other comprehensive income for the year  |       | 10,368           | 25,321           |
| <b>Total comprehensive income for the year</b>   |       | <b>(133,851)</b> | <b>(81,510)</b>  |
| <b>Loss for the year attributable to:</b>  |       |                  |                  |
| Owners of the Company  |       | (137,697)        | (102,025)        |
| Non-controlling interests  |       | (6,522)          | (4,806)          |
|  |       | (144,219)        | (106,831)        |
| <b>Total comprehensive income for the year attributable to:</b>                          |       |                  |                  |
| Owners of the Company  |       | (139,030)        | (84,213)         |
| Non-controlling interests  |       | 5,179            | 2,703            |
|  |       | (133,851)        | (81,510)         |
| <b>Loss per share from continuing and discontinued operations</b>                        |       |                  |                  |
| — basic and diluted (HK cents per share)   | 13(b) | (1.07)           | (0.81)           |
| <b>Loss per share from continuing operations</b>   |       |                  |                  |
| — basic and diluted (HK cents per share)   | 13(b) | (1.06)           | (0.33)           |

## Consolidated Statement of Financial Position

As at 31 December 2011

|   | Notes | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|---|-------|------------------|------------------|
| <b>Non-current assets</b>                             |       |                  |                  |
| Property, plant and equipment                         | 14    | 14,239           | 8,750            |
| Concession intangible assets                          | 15    | —                | 330,876          |
| Intangible assets                                     | 16    | 121,555          | 125,631          |
| Construction in progress                              | 17    | 1,538,481        | 1,062,977        |
| Interest in a jointly controlled entity               | 19    | 3,214            | 15               |
| Investment in an associate                            | 21    | —                | 85               |
| Railway construction prepayment                       |       | 45,118           | —                |
|   |       | <b>1,722,607</b> | 1,528,334        |
| <b>Current assets</b>                                 |       |                  |                  |
| Inventories   | 22    | —                | 4,336            |
| Trade and other receivables                           | 23    | 7,229            | 41,315           |
| Trading securities                                    | 24    | 44,815           | 125,785          |
| Loan to an associate                                  | 21    | 23,417           | 37,000           |
| Cash and cash equivalents                             | 25    | 211,157          | 564,933          |
|   |       | <b>286,618</b>   | 773,369          |
| <b>Current liabilities</b>                            |       |                  |                  |
| Trade and other payables                              | 26    | 33,199           | 94,896           |
| Amount due to a shareholder                           | 39(a) | 238              | 439              |
| Amounts due to minority equity owners of subsidiaries | 39(a) | 6,185            | 9,383            |
| Tax payable   |       | —                | 6,578            |
|   |       | <b>39,622</b>    | 111,296          |
| <b>Net current assets</b>                             |       | <b>246,996</b>   | 662,073          |
| <b>Total assets less current liabilities</b>          |       | <b>1,969,603</b> | 2,190,407        |

## Consolidated Statement of Financial Position

As at 31 December 2011

|   | Notes | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|---|-------|------------------|------------------|
| <b>Non-current liabilities</b>                                    |       |                  |                  |
| Bank loans  | 27    | 1,009,792        | 1,102,634        |
| Contingent consideration payable                                  | 28    | 52,892           | 58,096           |
| Provision for maintenance of concession intangible assets         | 30    | —                | 11,717           |
|   |       | <b>1,062,684</b> | 1,172,447        |
| <b>NET ASSETS</b>   |       |                  |                  |
|   |       | <b>906,919</b>   | 1,017,960        |
| <b>Capital and reserves attributable to owners of the Company</b> |       |                  |                  |
| Share capital   | 32    | 128,570          | 128,570          |
| Reserves  |       | 537,269          | 653,489          |
| Equity attributable to owners of the Company                      |       | <b>665,839</b>   | 782,059          |
| Non-controlling interests   |       | <b>241,080</b>   | 235,901          |
| <b>TOTAL EQUITY</b>   |       |                  |                  |
|   |       | <b>906,919</b>   | 1,017,960        |

These financial statements were approved and authorised for issue by the Board of Directors on 26 March 2012.

**Liang Jun**  
Director

**Yu Sau Lai**  
Director

## Statement of Financial Position

As at 31 December 2011

|                               | Notes | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|-------------------------------|-------|------------------|------------------|
| <b>ASSETS AND LIABILITIES</b> |       |                  |                  |
| <b>Non-current assets</b>     |       |                  |                  |
| Interests in subsidiaries     | 18    | 497,646          | 659,103          |
| <b>Current assets</b>         |       |                  |                  |
| Other receivables             | 23    | 172              | 182              |
| Cash and cash equivalents     | 25    | 98,170           | 64,396           |
|                               |       | 98,342           | 64,578           |
| <b>Current liabilities</b>    |       |                  |                  |
| Other payables                | 26    | 1,350            | 2,697            |
| Amount due to a shareholder   | 39(a) | 239              | 439              |
|                               |       | 1,589            | 3,136            |
| <b>Net current assets</b>     |       | <b>96,753</b>    | 61,442           |
| <b>Net assets</b>             |       | <b>594,399</b>   | 720,545          |
| <b>EQUITY</b>                 |       |                  |                  |
| <b>Share capital</b>          | 32    | <b>128,570</b>   | 128,570          |
| <b>Reserves</b>               | 34    | <b>465,829</b>   | 591,975          |
| <b>Total equity</b>           |       | <b>594,399</b>   | 720,545          |

These financial statements were approved and authorised for issue by the Board of Directors on 26 March 2012.

**Liang Jun**  
Director

**Yu Sau Lai**  
Director

## Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

|  | Attributable to owners of the Company  |                           |                              |   |   |                                |                   |                                       |                          |
|--|--|---------------------------|------------------------------|---|---|--------------------------------|-------------------|---------------------------------------|--------------------------|
|  | Share capital<br>HK\$'000<br>(Note 32) | Share premium<br>HK\$'000 | Capital reserves<br>HK\$'000 | Share option reserve<br>HK\$'000<br>(Note 33) | Translation reserve<br>HK\$'000<br>(Note) | Accumulated losses<br>HK\$'000 | Total<br>HK\$'000 | Non-controlling interests<br>HK\$'000 | Total equity<br>HK\$'000 |
| As at 1 January 2010   | 102,570                                | 914,679                   | 4,190                        | 5,746   | 15,459                                    | (504,018)                      | 538,626           | 229,817                               | 768,443                  |
| Loss for the year  | —                                      | —                         | —                            | —   | —   | (102,025)                      | (102,025)         | (4,806)                               | (106,831)                |
| Other comprehensive income   |  |                           |                              |   |   |                                |                   |                                       |                          |
| — Exchange differences on translation of foreign operations  | —                                      | —                         | —                            | —   | 15,175                                    | —                              | 15,175            | 7,510                                 | 22,685                   |
| — Reclassification adjustment upon disposal of subsidiaries  | —                                      | —                         | —                            | —   | 2,636                                     | —                              | 2,636             | —                                     | 2,636                    |
| Total comprehensive income for the year  | —                                      | —                         | —                            | —   | 17,811                                    | (102,025)                      | (84,214)          | 2,704                                 | (81,510)                 |
| Acquisition of non-controlling interest of the subsidiary and the related loan due to the vendor by the subsidiary | 10,000                                 | 122,985                   | —                            | —   | —   | (52,250)                       | 80,735            | —                                     | 80,735                   |
| Shares issued at premium   | 15,000                                 | 214,867                   | —                            | —   | —   | —                              | 229,867           | —                                     | 229,867                  |
| Shares issued on conversion of convertible bonds, net of expenses  | 1,000                                  | 16,045                    | —                            | —   | —   | —                              | 17,045            | —                                     | 17,045                   |
| Capital injection of non-controlling interests   | —                                      | —                         | —                            | —   | —   | —                              | —                 | 3,380                                 | 3,380                    |
| As at 31 December 2010   | 128,570                                | 1,268,576                 | 4,190                        | 5,746   | 33,270                                    | (658,293)                      | 782,059           | 235,901                               | 1,017,960                |
| Loss for the year  | —                                      | —                         | —                            | —   | —   | (137,697)                      | (137,697)         | (6,522)                               | (144,219)                |
| Other comprehensive income   |  |                           |                              |   |   |                                |                   |                                       |                          |
| — Exchange differences on translation of foreign operations  | —                                      | —                         | —                            | —   | 20,739                                    | —                              | 20,739            | 11,701                                | 32,440                   |
| — Reclassification adjustment upon disposal of subsidiaries  | —                                      | —                         | —                            | —   | (22,072)                                  | —                              | (22,072)          | —                                     | (22,072)                 |
| Total comprehensive income for the year  | —                                      | —                         | —                            | —   | (1,333)                                   | (137,697)                      | (139,030)         | 5,179                                 | (133,851)                |
| Recognition of share option expenses   | —                                      | —                         | —                            | 22,810  | —   | —                              | 22,810            | —                                     | 22,810                   |
| As at 31 December 2011   | 128,570                                | 1,268,576                 | 4,190                        | 28,556  | 31,937                                    | (795,990)                      | 665,839           | 241,080                               | 906,919                  |

Note:

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in Note 3(s).

## Consolidated Statement of Cash Flows

For the year ended 31 December 2011

|   | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|---|------------------|------------------|
| <b>Operating activities</b>   |                  |                  |
| Loss before income tax  | (142,928)        | (47,382)         |
| Loss before income tax from discontinued operations                   | (1,291)          | (60,180)         |
|   | <b>(144,219)</b> | (107,562)        |
| Adjustments for:  |                  |                  |
| (Gain)/loss on disposal of subsidiaries                               | (7,905)          | 3,478            |
| Net loss on trading securities  | 68,017           | 59,904           |
| Bank interest income  | (414)            | (1,754)          |
| Depreciation of property, plant and equipment                         | 3,067            | 3,327            |
| Amortisation of land use rights                                       | —                | 48               |
| Amortisation of concession intangible assets                          | 8,384            | 19,295           |
| Amortisation of intangible assets                                     | 5,076            | 1,269            |
| Loss on disposal of property, plant and equipment                     | 11               | 25               |
| Impairment loss on concession intangible assets                       | —                | 24,107           |
| Impairment loss on goodwill   | —                | 27,550           |
| Equity-settled share-based payment expenses                           | 22,810           | —                |
| Interest on bank loans  | 8,362            | 15,221           |
| Imputed interest on convertible bonds                                 | —                | 114              |
| Change in fair value of the derivative component of convertible bonds | —                | (2,613)          |
| Change in fair value of contingent consideration payable              | (5,204)          | (68,804)         |
| Change in provision for maintenance of concession intangible assets   | —                | 8,169            |
| Share of loss/(profit) of an associate                                | 85               | (85)             |
| Impairment loss on loan to an associate                               | 13,583           | —                |
| Share of results of jointly controlled entity                         | (3,061)          | 242              |
| Effect of foreign exchange rate changes                               | (3,909)          | (3,523)          |
| Operating cash flows before working capital changes                   | (35,317)         | (21,592)         |
| Decrease/(increase) in inventories                                    | 1,604            | (2,718)          |
| Decrease/(increase) in trade and other receivables                    | 18,331           | (8,800)          |
| Decrease/(increase) in trading securities                             | 12,953           | (54,696)         |
| Decrease in trade and other payables                                  | (63,317)         | (69,214)         |
| Decrease in amounts due to related companies                          | —                | (80)             |
| Cash used in operations   | (65,746)         | (157,100)        |
| Income tax paid   | (6,578)          | —                |
| Interest paid on bank loans   | (8,362)          | (15,221)         |
| Interest received   | 414              | 1,754            |
| <b>Net cash used in operating activities</b>                          | <b>(80,272)</b>  | <b>(170,567)</b> |

## Consolidated Statement of Cash Flows

For the year ended 31 December 2011

|   | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|---|------------------|------------------|
| <b>Investing activities</b>                                     |                  |                  |
| Purchase of property, plant and equipment                       | (9,456)          | (5,556)          |
| Additions to concession intangible assets                       | (2,189)          | (230)            |
| Payments for construction in progress                           | (427,710)        | (205,423)        |
| Disposal of subsidiaries, net of cash disposed                  | 40,785           | 7,391            |
| Proceeds from disposal of property, plant and equipment         | 203              | 1                |
| Proceeds from pledged bank deposits                             | —                | 17,070           |
| Loan to jointly controlled entity                               | —                | (257)            |
| Purchase of club membership                                     | (1,000)          | —                |
| <b>Net cash used in investing activities</b>                    | <b>(399,367)</b> | <b>(187,004)</b> |
| <b>Financing activities</b>                                     |                  |                  |
| Proceeds from issue of shares                                   | —                | 229,867          |
| Capital injection from non-controlling interest                 | —                | 3,380            |
| Repayment of loan due to minority equity owners of subsidiaries | (3,198)          | (169,112)        |
| Proceeds from bank loans  | 115,752          | 832,020          |
| Repayment of bank loans   | (891)            | (47,680)         |
| Expenses incurred for redemption of convertible notes           | —                | (28)             |
| Repayment of loan due to shareholder                            | (201)            | (2)              |
| <b>Net cash generated from financing activities</b>             | <b>111,462</b>   | <b>848,445</b>   |
| <b>Net (decrease)/increase in cash and cash equivalents</b>     | <b>(368,177)</b> | <b>490,874</b>   |
| <b>Cash and cash equivalents at beginning of the year</b>       | <b>564,933</b>   | <b>62,691</b>    |
| <b>Effect of foreign exchange rate changes</b>                  | <b>14,401</b>    | <b>11,368</b>    |
| <b>Cash and cash equivalents at end of the year</b>             | <b>211,157</b>   | <b>564,933</b>   |

# Notes to the Financial Statements

31 December 2011

## 1. ORGANISATION AND OPERATIONS

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 is Rooms 1208–1210, Dah Sing Financial Centre, 108 Gloucester Road, Wan Chai, Hong Kong and its principal place of business is located at Unit 1708, Level 17, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong.

The Group, comprising the Company and its subsidiaries and jointly controlled entity, is engaged in (i) railway construction and operations and (ii) shipping and logistics. The waste incineration power generation business was discontinued on 13 July 2011.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) The Group has adopted the following new/revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for the current accounting period.

|                     |                             |
|---------------------|-----------------------------|
| HKFRSs (Amendments) | Improvements to HKFRSs 2010 |
| HKAS 24 (Revised)   | Related Party Disclosure    |

The adoption of these new/revised standards and interpretations has no significant impact on the consolidated financial statements of the Group for both the current and prior reporting periods.

### (b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements have been issued, but are not yet effective and have not been early adopted by the Group.

|                                   |  | Effective date |
|-----------------------------------|--|----------------|
| Amendments to HKAS 1 (Revised)    | Presentation of Items of Other Comprehensive Income                  | (ii)           |
| Amendments to HKFRS 7             | Disclosures — Transfers of Financial Assets                          | (i)            |
| HKFRS 9                           | Financial Instruments  | (iii)          |
| HKFRS 10                          | Consolidated Financial Statements                                    | (iii)          |
| HKFRS 11                          | Joint Arrangements   | (iii)          |
| HKFRS 12                          | Disclosure of Interests in Other Entities                            | (iii)          |
| HKFRS 13                          | Fair Value Measurement   | (iii)          |
| HKAS 27(2011)                     | Separate Financial Statements  | (iii)          |
| HKAS 28(2011)                     | Investments in Associates and Joint Ventures                         | (iii)          |
| HKAS 19(2011)                     | Employee Benefits  | (iii)          |
| Amendments to HKFRS 7             | Disclosures — Offsetting Financial Assets and Financial Liabilities  | (iii)          |
| Amendments to HKAS 32             | Presentation — Offsetting Financial Assets and Financial Liabilities | (iv)           |
| Amendments to HKFRS 9 and HKFRS 7 | Mandatory Effective Date of HKFRS 9 and Transaction Disclosures      | (v)            |

# Notes to the Financial Statements

31 December 2011

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

### (b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

Effective date:

- (i) Annual periods beginning on or after 1 July 2011
- (ii) Annual periods beginning on or after 1 July 2012
- (iii) Annual periods beginning on or after 1 January 2013
- (iv) Annual periods beginning on or after 1 January 2014
- (v) Annual periods beginning on or after 1 January 2015

#### *Amendments to HKAS 1 (Revised) — Presentation of Items of Other Comprehensive Income*

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

#### *HKFRS 9 — Financial Instruments*

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

#### *HKFRS 10 — Consolidated Financial Statements*

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of “de facto” control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

## Notes to the Financial Statements

31 December 2011

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

#### (b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

##### *HKFRS 11 — Joint Arrangements*

Joint arrangements under HKFRS 11 have the same basic characteristics as joint ventures under HKAS 31. Joint arrangements are classified as either joint operations or joint ventures. Where the Group has rights to the assets and obligations for the liabilities of the joint arrangement, it is regarded as a joint operator and will recognise its interests in the assets, liabilities, income and expenses arising from the joint arrangement. Where the Group has rights to the net assets of the joint arrangement as a whole, it is regarded as having an interest in a joint venture and will apply the equity method of accounting. HKFRS 11 does not allow proportionate consolidation. In an arrangement structured through a separate vehicle, all relevant facts and circumstances should be considered to determine whether the parties to the arrangement have rights to the net assets of the arrangement. Previously, the existence of a separate legal entity was the key factor in determining the existence of a jointly controlled entity under HKAS 31. HKFRS 11 will be applied retrospectively with specific restatement requirements for a joint venture which changes from proportionate consolidation to the equity method and a joint operation which changes from equity method to accounting for assets and liabilities.

##### *HKFRS 13 — Fair Value Measurement*

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 “Financial Instruments: Disclosures”. HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors are not yet in a position to quantify the effects on the Group’s financial statements.

# Notes to the Financial Statements

31 December 2011

## 3. PRINCIPAL ACCOUNTING POLICIES

### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of Hong Kong Companies Ordinance. In addition, the consolidated financial statements included applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

### (b) Basis of measurement

These 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.

### (c) Functional and presentation currency

The functional currency of the Company is Renminbi ("RMB") while the consolidated and the Company's 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 and the Company's presentation currency.

### (d) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries ("the Group"). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

## Notes to the Financial Statements

31 December 2011

### 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (d) Business combination and basis of consolidation (Continued)

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied HKFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

#### (e) Subsidiaries

Subsidiaries are entities in which the Group is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Investments in subsidiaries are stated in the Company's statement of financial position at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

#### (f) Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a jointly controlled entity. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount is adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

## Notes to the Financial Statements

31 December 2011

### 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (f) Associates (Continued)

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate and the entire carrying amount of the investment is subject to impairment test, by comparing the carrying amount with its recoverable amount, which is higher of value in use and fair value less costs to sell.

#### (g) Jointly controlled entity

Jointly controlled entities are accounted for using equity method whereby they are initially recognised at cost and thereafter, their carrying amounts are adjusted for the Group's share of the post-acquisition change in the jointly controlled entities' net assets except that losses in excess of the Group's interest in the jointly controlled entities are not recognised unless there is an obligation to make good those losses.

Unrealised profits and losses resulting from transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are immediately recognised in profit or loss.

#### (h) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

## Notes to the Financial Statements

31 December 2011

### 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (i) Intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination or through acquisition of asset is stated at fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is provided on a straight-line basis over their useful lives as follows. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses.

|                           |            |
|---------------------------|------------|
| Contract of affreightment | 25 years   |
| Club membership           | indefinite |

#### (j) Property, plant and equipment

Property, plant and equipment are stated in the statement of financial position at their historical costs, less any subsequent accumulated depreciation and accumulated impairment losses.

Historical cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the asset or a separate asset.

Depreciation is charged so as to write off the cost of assets, other than construction in progress, over their estimated useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at each reporting date, with the effect of any changes in estimate accounted for on a prospective basis. The principal annual rates are as follows:

|  |  |
|--|--|
| Buildings, plant, and equipment          | 2%–5%  |
| Leasehold improvements                   | Over the remaining term of the lease but not exceeding 5 years |
| Furniture, fixtures and office equipment | 20%–33%  |
| Motor vehicles                           | 20%  |
| Locomotives                              | 10%  |

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Construction in progress is carried at cost less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

## Notes to the Financial Statements

31 December 2011

### 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (k) Impairment of other assets

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- intangible assets;
- construction in progress;
- investments in subsidiaries, associates and jointly controlled entity

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

#### (l) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs on conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method of costing. Net realisable value is determined by reference to the anticipated sales proceeds of items sold in the ordinary course of business less estimated selling expenses after the reporting date or to management estimates based on prevailing market conditions.

#### (m) Financial assets

##### (i) *Financial assets at fair value through profit or loss*

These assets represent trading securities which are acquired for the purpose of sale in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

##### (ii) *Loans and receivables*

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

## Notes to the Financial Statements

31 December 2011

### 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (m) Financial assets (Continued)

##### (iii) *Impairment loss on financial assets*

Loans and receivables are assessed for indicators of impairment at each reporting date. Loans and receivables are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- for trade and other receivables, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which have been determined had no impairment loss been recognised in prior years.

Impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote, are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

##### (iv) *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

# Notes to the Financial Statements

31 December 2011

## 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### (m) Financial assets (Continued)

#### (v) *Derecognition*

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

#### (vi) *Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

### (n) Financial liabilities and equity instrument issued by the Group

#### (i) *Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangement.

#### (ii) *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

#### (iii) *Convertible bonds*

At initial recognition, the derivative component of the convertible bonds is measured at fair value. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured at fair value with changes in fair value recognised in profit or loss. The liability component is subsequently carried at amortised cost. The interest expenses recognised in profit or loss on the liability component is calculated using the effective interest method.

If the convertible bonds are converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the convertible bonds are redeemed, any difference between the amount paid and the carrying amounts of both components are recognised in profit or loss.

## Notes to the Financial Statements

31 December 2011

### 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (n) Financial liabilities and equity instrument issued by the Group (Continued)

(iv) *Financial liabilities*

The Group's other financial liabilities, including bank borrowings, are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method.

(v) *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

(vi) *Derecognition of financial liabilities*

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

#### (o) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

#### (p) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The cost of acquiring land use right held under an operating lease is amortised on a straight-line basis over the period of the lease term. Land use rights are stated at cost less accumulated amortisation and any impairment losses.

#### (q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

## Notes to the Financial Statements

31 December 2011

### 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (r) Income tax

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

#### (s) Foreign currencies

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to non-controlling interests as appropriate).

## Notes to the Financial Statements

31 December 2011

### 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (s) Foreign currencies (Continued)

Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operations concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign exchange reserve.

#### (t) Employees' benefits

##### (i) *Defined contribution retirement plan*

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

##### (ii) *Equity-settled share-based payments*

The Group issues share options to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured using the Binomial Option Pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

#### (u) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### (v) Repair and maintenance costs

Replacement spares and labour costs for the routine repairs of the infrastructure of the concession intangible assets are charged to profit or loss in the period in which they are incurred.

## Notes to the Financial Statements

31 December 2011

### 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (v) Repair and maintenance costs (Continued)

The Group's obligations to maintain or restore the infrastructure of the concession intangible assets are measured and recognised in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets". Provision for maintenance obligations is measured at the present value of the expenditures expected to settle the obligations using a pre-tax rate that reflects current market assessments of time value of money and the risks specific to the obligations.

#### (w) Related parties

- (a) A person or a close member of that person's family is related to the Group if that person:
- (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of key management personnel of the Group or the Company's parent.
- (b) An entity is related to the Group if any of the following conditions apply:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

## Notes to the Financial Statements

31 December 2011

### 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (x) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and returns.

- (i) Waste incineration power generation income is earned and recognised upon transmission of electricity to the power grid companies.
- (ii) Waste handling income is recognised when services are provided.
- (iii) Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.
- (iv) Dividend income is recognised when the right to receive the dividend is established.

### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### (a) Service concession arrangement

The Group has entered into a service concession arrangement in respect of its waste incineration power generation plant.

The Group concluded that this service concession arrangement is service concession arrangement under HK(IFRIC) — Int 12, because the local government controls and regulates the services that the Group must provide with the infrastructure at a pre-determined service charge. In addition, upon expiry of concession right agreement, the infrastructure will be transferred to the local government at nil consideration.

The provision for maintenance obligations is estimated by the directors based on the data compiled by the engineers of the Group, which includes the major maintenance cycles of each of the key components of the infrastructure and the estimated labour and material costs for such major maintenance cycles.

#### (b) Impairment of trade, other receivables and loan to an associate

The Group makes provision for impairment of trade, other receivables and loan to an associate based on an estimate of the recoverability of these receivables. Provisions are applied to trade, other receivables and loan to an associate where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of trade, other receivables and loan to an associate requires the use of estimates. Where the expectation is different from the original estimates, such difference will impact carrying value of receivables and provision for impairment losses in the period in which such estimate has been changed.

## Notes to the Financial Statements

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### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

#### (c) Estimated impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the future cash flows expected to arise from ownership of the intangible assets and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

#### (d) Suspended Investment

For investments which have been suspended from trading as at year end, the fair value was measured with reference to the quoted price of the last dealing date before suspension of trade and other available information considered appropriate by the Directors. The carrying amounts of these investments are approximately HK\$Nil (2010: HK\$24,416,000).

#### (e) Contingent consideration payable

The Group has accounted for the contingent consideration in the acquisition of an intangible asset, through the acquisition of subsidiary, by analogy to HKFRS 3 (Revised) — Business Combinations. The number of shares of the Company would be issued as consideration of the acquisition is subject to the results of the acquired subsidiary. The Group based on the fair value of the shares of the Company at the date of acquisition of the subsidiary and the directors' best estimate and weighted probability analysis of the future profit of Ocean Jade Investments Limited to determine the provision to be made in respect of such contingent consideration. As the process requires input of subjective assumptions, any changes to the assumptions can materially affect the provision made. Subsequent gain or loss in fair value is recognised in profit or loss. As at 31 December 2011, total provision made in respect of contingent consideration by the Group amounted to HK\$52,892,000 (2010: HK\$58,096,000) and was included in contingent consideration payable.

#### (f) Fair value of other financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each reporting date.

#### (g) Employee benefits — fair value of share-based payments

The determination of the fair value of the share options granted requires estimates in determining the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate for the life of the option and the number of share options that are expected to become exercisable. Where the outcome of the number of options that are exercisable is different, such difference will impact the income statement in the subsequent remaining vesting period of the relevant share options.

## Notes to the Financial Statements

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### 5. TURNOVER

Turnover, which is also revenue, represents the amount received and receivable for waste incineration power generation and waste handling income:

|  | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|--|------------------|------------------|
| <b>Continuing operations</b>               | —                | —                |
| <b>Discontinued operations</b>             |                  |                  |
| Waste incineration power generation income | 35,266           | 99,994           |
| Waste handling income                      | 14,206           | 30,107           |
|  | <b>49,472</b>    | 130,101          |
|  | <b>49,472</b>    | 130,101          |

### 6. OTHER INCOME, GAINS AND LOSSES

|   | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|---|------------------|------------------|
| <b>Continuing operations</b>                      |                  |                  |
| Net loss on trading securities                    |                  |                  |
| Change in fair value of trading securities        | (69,636)         | (72,247)         |
| Gain on disposal of trading securities            | 1,619            | 12,343           |
|   | <b>(68,017)</b>  | (59,904)         |
| Bank interest income                              | 390              | 630              |
| Loan interest income                              | 1,110            | 1,110            |
| Loss on disposal of subsidiaries                  | —                | (3,478)          |
| Loss on disposal of property, plant and equipment | (11)             | (25)             |
| Others  | 5                | 590              |
|   | <b>(66,523)</b>  | (61,077)         |

## Notes to the Financial Statements

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### 7. 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' profit that is used by the chief operating decision-maker for assessment of segment performance.

The Group has two reportable segments in 31 December 2011 (2010: two). The segments 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
- Waste incineration power generation business (discontinued operations)

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

| Year ended 31 December 2011                              | Continuing Operations                           |                         |                      | Discontinued Operations                                  | Total     |
|--|---|-------------------------|----------------------|--|-----------|
|  | Railway construction and operations<br>HK\$'000 | Unallocated<br>HK\$'000 | Subtotal<br>HK\$'000 | Waste incineration power generation business<br>HK\$'000 | HK\$'000  |
| Segment revenue from external customers                  | —   | —                       | —                    | 49,472   | 49,472    |
| Segment (loss)/profit                                    | (13,689)  | (49,526)                | (63,215)             | 7,877  | (55,338)  |
| Interest revenue   | 6   | 1,494                   | 1,500                | 23   | 1,523     |
| Interest expense   | —   | —                       | —                    | (8,362)  | (8,362)   |
| Amortisation of concession intangible assets             | —   | —                       | —                    | (8,384)  | (8,384)   |
| Depreciation of property, plant and equipment            | (1,666)   | (1,051)                 | (2,717)              | (350)  | (3,067)   |
| Amortisation of intangible assets                        | —   | (5,076)                 | (5,076)              | —  | (5,076)   |
| Net loss on trading securities                           | —   | (68,017)                | (68,017)             | —  | (68,017)  |
| Gain on disposal of subsidiaries                         | —   | —                       | —                    | 7,905  | 7,905     |
| Share of loss of an associate                            | —   | (85)                    | (85)                 | —  | (85)      |
| Impairment loss on loan to an associate                  | —   | (13,583)                | (13,583)             | —  | (13,583)  |
| Change in fair value of contingent consideration payable | —   | 5,204                   | 5,204                | —  | 5,204     |
| Share of results of jointly controlled entity            | —   | 3,061                   | 3,061                | —  | 3,061     |
| Loss before income tax                                   | (15,349)  | (127,579)               | (142,928)            | (1,291)  | (144,219) |

## Notes to the Financial Statements

31 December 2011

### 7. SEGMENT INFORMATION (CONTINUED)

| Year ended 31 December 2010                               | Continuing Operations                           |                         |                      | Discontinued Operations                                  | Total     |
|---|---|-------------------------|----------------------|--|-----------|
|   | Railway construction and operations<br>HK\$'000 | Unallocated<br>HK\$'000 | Subtotal<br>HK\$'000 | Waste incineration power generation business<br>HK\$'000 | HK\$'000  |
| Segment revenue from external customers                   | —   | —                       | —                    | 130,101  | 130,101   |
| Segment (loss)/profit                                     | (10,915)  | (39,429)                | (50,344)             | 25,584   | (24,760)  |
| Interest revenue  | 623   | 1,117                   | 1,740                | 1,124  | 2,864     |
| Interest expense  | —   | (117)                   | (117)                | (15,218)   | (15,335)  |
| Amortisation of concession intangible assets              | —   | —                       | —                    | (19,295)   | (19,295)  |
| Depreciation of property, plant and equipment             | (1,123)   | (1,486)                 | (2,609)              | (718)  | (3,327)   |
| Amortisation of intangible assets                         | —   | (1,269)                 | (1,269)              | —  | (1,269)   |
| Amortisation of land use rights                           | —   | (48)                    | (48)                 | —  | (48)      |
| Net loss on trading securities                            | —   | (59,904)                | (59,904)             | —  | (59,904)  |
| Loss on disposal of subsidiaries                          | —   | (3,478)                 | (3,478)              | —  | (3,478)   |
| Share of profit of an associate                           | —   | 85                      | 85                   | —  | 85        |
| Change in fair value of contingent consideration payables | —   | 68,804                  | 68,804               | —  | 68,804    |
| Share of results of jointly controlled entity             | —   | (242)                   | (242)                | —  | (242)     |
| Impairment loss on concession intangible assets           | —   | —                       | —                    | (24,107)   | (24,107)  |
| Impairment loss on goodwill                               | —   | —                       | —                    | (27,550)   | (27,550)  |
| Loss before income tax                                    | (11,415)  | (35,967)                | (47,382)             | (60,180)   | (107,562) |

|  | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|--|------------------|------------------|
| <b>Segment assets</b>                        |                  |                  |
| Waste incineration power generation business | —                | 364,425          |
| Railway construction and operations          | 1,691,286        | 1,569,655        |
| Intangible assets                            | 121,555          | 125,631          |
| Trading securities                           | 44,815           | 125,785          |
| Loan to an associate                         | 23,417           | 37,000           |
| Unallocated corporate assets                 | 128,152          | 79,207           |
| <b>Consolidated total assets</b>             | <b>2,009,225</b> | 2,301,703        |
| <b>Segment liabilities</b>                   |                  |                  |
| Waste incineration power generation business | —                | 294,115          |
| Railway construction and operations          | 1,045,188        | 918,173          |
| Contingent consideration payable             | 52,892           | 58,096           |
| Unallocated corporate liabilities            | 4,226            | 13,359           |
| <b>Consolidated total liabilities</b>        | <b>1,102,306</b> | 1,283,743        |

#### Geographical information and major customers

The Group's entire operations, non-current assets and all its customers are located in the People's Republic of China ("PRC"). Revenue from the Group's largest customer of the waste incineration power generation business segment which had been disposed during the year represents approximately 71% (2010: 77%) of the Group's total revenue. No other customer accounted for 10% or more of the total revenue for the year ended 31 December 2011 and 2010.

## Notes to the Financial Statements

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### 8. FINANCE COSTS

|   | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|---|------------------|------------------|
| Continuing operations   |                  |                  |
| Interest on bank borrowings:  |                  |                  |
| — wholly repayable within one year  | —                | 10,350           |
| — wholly repayable after five years   | 67,114           | 8,514            |
| Imputed interest on convertible bonds                                       | —                | 114              |
| Bank overdraft interest   | —                | 3                |
| Total borrowing costs   | 67,114           | 18,981           |
| Less: amount capitalised in construction in progress on specific borrowings | (67,114)         | (18,864)         |
|   | —                | 117              |

### 9. LOSS BEFORE INCOME TAX

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

#### Continuing operations

|   | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|---|------------------|------------------|
| Depreciation of property, plant and equipment             | 2,717            | 2,609            |
| Amortisation of land use rights                           | —                | 48               |
| Amortisation of intangible assets                         | 5,076            | 1,269            |
|   | 7,793            | 3,926            |
| Staff cost  |                  |                  |
| — Salaries, wages and other benefits                      | 20,020           | 18,688           |
| — Equity-settled share-based payments                     | 21,754           | —                |
| — Contributions to defined contribution retirement scheme | 226              | 269              |
|   | 42,000           | 18,957           |
| Auditor's remuneration                                    | 1,260            | 1,585            |
| Impairment loss on loan to an associate                   | 13,583           | —                |
| Loss on disposal of property, plant and equipment         | 11               | 3                |
| Operating lease rentals in respect of land and buildings  | 4,415            | 4,454            |
| Net exchange loss   | 3                | 106              |

## Notes to the Financial Statements

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### 9. LOSS BEFORE INCOME TAX (CONTINUED)

#### (b) Discontinued operations

On 13 May 2011, the Group entered into a conditional sale and purchase agreement with independent third parties, pursuant to which the Group disposed of the entire equity interest of China Green Power Holdings Limited and its subsidiaries ("China Green Power Group") for a consideration of HK\$50,000,000. China Green Power Group ceased to be subsidiaries upon completion of the disposal on 13 July 2011. The sales, results, cash flows and net assets of China Green Power Group were as follows:

|  | <b>Period from<br/>1 January 2011 to<br/>13 July 2011<br/>HK\$'000</b> | 12 months to<br>31 December 2010<br>HK\$'000 |
|--|--|--|
| Turnover                                       | <b>49,472</b>  | 130,101                                      |
| Expenses                                       | <b>(58,668)</b>  | (190,281)                                    |
|  | <b>(9,196)</b>   | (60,180)                                     |
| Gain on disposal of subsidiaries               | <b>7,905</b>   | —  |
| Loss for the year from discontinued operations | <b>(1,291)</b>   | (60,180)                                     |
| Operating cash flows                           | <b>1,735</b>   | (2,108)                                      |
| Investing cash flows                           | <b>(2,194)</b>   | (350)  |
| Financing cash flows                           | <b>(891)</b>   | 3,827  |
| Effect of foreign exchange rate changes, net   | <b>198</b>   | 274  |
| Total cash flows                               | <b>(1,152)</b>   | 1,643  |

### 10. INCOME TAX

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

|  | <b>2011<br/>HK\$'000</b> | 2010<br>HK\$'000 |
|--|--------------------------|------------------|
| Loss before income tax   | <b>(144,219)</b>         | (107,562)        |
| Taxation calculated at PRC Enterprise Income Tax rate of 25% (2010: 25%) | <b>(36,055)</b>          | (26,891)         |
| Tax effect of differential tax rate                                      | <b>10,155</b>            | 3,717            |
| Tax effect of expenses not deductible for taxation purpose               | <b>40,989</b>            | 22,322           |
| Tax effect of non-taxable items  | <b>(23,955)</b>          | (12,749)         |
| Tax effect of unrecognised tax losses and temporary differences          | <b>8,866</b>             | 13,601           |
| Over provision in prior years  | <b>—</b>                 | (731)            |
| Income tax credit for the year   | <b>—</b>                 | (731)            |

Hong Kong profits tax is calculated at 16.5% (2010: 16.5%) on the estimated assessable profits for the year. PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2010: 25%).

# Notes to the Financial Statements

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## 11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

Year ended 31 December 2011

|  | Directors' fees<br>HK\$'000 | Salaries, and other benefits<br>HK\$'000 | Payments for loss of office<br>HK\$'000 | Share-based payments<br>HK\$'000 | Pension fund contributions<br>HK\$'000 | Total<br>HK\$'000 |
|--|-----------------------------|--|---|----------------------------------|--|-------------------|
| <b>Executive directors</b>                 |                             |  |   |                                  |  |                   |
| Liang Jun                                  | —                           | 1,400                                    | —                                       | 4,023                            | 12                                     | 5,435             |
| Yu Sau Lai                                 | —                           | 546                                      | —                                       | 804                              | 12                                     | 1,362             |
| Fung Ka Keung (i)                          | —                           | 650                                      | —                                       | 804                              | 12                                     | 1,466             |
| <b>Non-executive directors</b>             |                             |  |   |                                  |  |                   |
| Tse On Kin                                 | 444                         | —  | —                                       | 402                              | —                                      | 846               |
| Sun Wei (i)                                | 444                         | —  | —                                       | 4,023                            | —                                      | 4,467             |
| Yu Baodong                                 | —                           | —  | —                                       | 4,023                            | —                                      | 4,023             |
| <b>Independent non-executive directors</b> |                             |  |   |                                  |  |                   |
| Chan Chi Yuen                              | 120                         | —  | —                                       | —                                | —                                      | 120               |
| Zhang Xi                                   | 120                         | —  | —                                       | —                                | —                                      | 120               |
| Sit Fung Shuen (ii)                        | 120                         | —  | —                                       | —                                | —                                      | 120               |
|  | <b>1,248</b>                | <b>2,596</b>                             | <b>—</b>                                | <b>14,079</b>                    | <b>36</b>                              | <b>17,959</b>     |

Year ended 31 December 2010

|  | Directors' fees<br>HK\$'000 | Salaries, and other benefits<br>HK\$'000 | Payments for loss of office<br>HK\$'000 | Pension fund contributions<br>HK\$'000 | Total<br>HK\$'000 |
|--|-----------------------------|--|---|--|-------------------|
| <b>Executive directors</b>                 |                             |  |   |  |                   |
| Liang Jun                                  | —                           | 1,300                                    | —                                       | 12                                     | 1,312             |
| Yu Sau Lai                                 | —                           | 546                                      | —                                       | 12                                     | 558               |
| Fung Ka Keung (i)                          | —                           | 606                                      | —                                       | 11                                     | 617               |
| <b>Non-executive directors</b>             |                             |  |   |  |                   |
| Tse On Kin                                 | 444                         | —  | —                                       | —                                      | 444               |
| Sun Wei (i)                                | 414                         | —  | —                                       | —                                      | 414               |
| Yu Baodong                                 | —                           | —  | —                                       | —                                      | —                 |
| <b>Independent non-executive directors</b> |                             |  |   |  |                   |
| Chan Chi Yuen                              | 120                         | —  | —                                       | —                                      | 120               |
| Tsang Kwok Wa (iii)                        | 52                          | —  | —                                       | —                                      | 52                |
| Zhang Xi                                   | 120                         | —  | —                                       | —                                      | 120               |
| Sit Fung Shuen (ii)                        | 68                          | —  | —                                       | —                                      | 68                |
|  | <b>1,218</b>                | <b>2,452</b>                             | <b>—</b>                                | <b>35</b>                              | <b>3,705</b>      |

## Notes to the Financial Statements

31 December 2011

### 11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

#### (a) Directors' emoluments (Continued)

- (i) Appointed as director of the Company with effect from 26 January 2010.
- (ii) Appointed as director of the Company with effect from 7 June 2010.
- (iii) Resigned as director of the Company with effect from 7 June 2010.

#### (b) Five highest paid individuals

The five highest paid individuals of the Group included four (2010: three) directors, details of whose emoluments are set out in (a) above. The emoluments of the remaining one (2010: two) highest paid non-director individual(s) for the years ended 31 December 2011 and 2010, are as follows:

|   | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|---|------------------|------------------|
| Salaries and other benefits                             | 703              | 1,339            |
| Share-based payments                                    | 709              | —                |
| Contributions to defined contribution retirement scheme | 12               | 24               |
|   | <b>1,424</b>     | <b>1,363</b>     |

The emoluments of the highest paid individuals, other than the directors of the Company, were within the following band:

|                                | 2011<br>Number of<br>employees | 2010<br>Number of<br>employees |
|--------------------------------|--------------------------------|--------------------------------|
| HK\$Nil to HK\$1,000,000       | —                              | 2                              |
| HK\$1,000,001 to HK\$1,500,000 | 1                              | —                              |

### 12. DIVIDENDS

No dividend was paid or declared by the Company during the year ended 31 December 2011 (2010: Nil).

The directors do not recommend the payment of any dividend for 2011 (2010: Nil).

## Notes to the Financial Statements

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### 13. LOSS PER SHARE

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

|   | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|---|------------------|------------------|
| Loss for the year attributable to owners of the Company |                  |                  |
| — Continuing operations                                 | (136,406)        | (41,845)         |
| — Discontinued operations                               | (1,291)          | (60,180)         |
|   | <b>(137,697)</b> | (102,025)        |

(b) **Weighted average number of ordinary shares**

The weighted average number of ordinary shares in issue during the year ended 31 December 2011 was 12,857,027,100 (2010: 12,624,150,388).

|                                 | 2011   | 2010   |
|---------------------------------|--------|--------|
| Basic loss per share (HK cents) |        |        |
| — Continuing operations         | (1.06) | (0.33) |
| — Discontinued operations       | (0.01) | (0.48) |

- (c) Diluted loss per share was not presented for both years as the potential ordinary shares and contingent consideration shares are anti-dilutive.
- (d) The consolidated loss attributable to owners of the Company includes a loss of HK\$25,094,000 (2010: loss of HK\$59,551,000) which has been dealt with in the financial statements of the Company.

## Notes to the Financial Statements

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## 14. PROPERTY, PLANT AND EQUIPMENT

|                                     | <b>Buildings,<br/>plant and<br/>equipment</b> | <b>Leasehold<br/>improvements</b> | <b>Furniture,<br/>fixtures and<br/>office<br/>equipment</b> | <b>Motor<br/>vehicles</b> | <b>Locomotives</b> | <b>Total</b> |
|-------------------------------------|---|-----------------------------------|---|---------------------------|--------------------|--------------|
|                                     | HK\$'000                                      | HK\$'000                          | HK\$'000  | HK\$'000                  | HK\$'000           | HK\$'000     |
| <b>The Group</b>                    |   |                                   |   |                           |                    |              |
| Cost:                               |   |                                   |   |                           |                    |              |
| As at 1 January 2010                | 2,746   | 1,103                             | 4,204   | 5,965                     | —                  | 14,018       |
| Additions                           | —   | 1,391                             | 1,088   | 3,077                     | —                  | 5,556        |
| Exchange adjustment                 | 33  | 13                                | 91  | 181                       | —                  | 318          |
| Disposals                           | (2,258)                                       | (246)                             | (243)   | (2,497)                   | —                  | (5,244)      |
| As at 31 December 2010              | 521   | 2,261                             | 5,140   | 6,726                     | —                  | 14,648       |
| Additions                           | 346   | —                                 | 774   | 1,983                     | 6,353              | 9,456        |
| Through disposal of<br>subsidiaries | (533)   | —                                 | (1,952)   | (857)                     | —                  | (3,342)      |
| Written off                         | —   | —                                 | (45)  | (782)                     | —                  | (827)        |
| Exchange adjustment                 | 20  | 18                                | 118   | 297                       | 147                | 600          |
| Disposals                           | —   | (161)                             | (47)  | (554)                     | —                  | (762)        |
| As at 31 December 2011              | 354   | 2,118                             | 3,988   | 6,813                     | 6,500              | 19,773       |
| Accumulated depreciation:           |   |                                   |   |                           |                    |              |
| As at 1 January 2010                | 591   | 632                               | 1,601   | 1,136                     | —                  | 3,960        |
| Charge for the year                 | 82  | 459                               | 853   | 1,933                     | —                  | 3,327        |
| Exchange adjustment                 | 8   | 11                                | 48  | 80                        | —                  | 147          |
| Eliminated on disposals             | (548)   | (196)                             | (209)   | (583)                     | —                  | (1,536)      |
| As at 31 December 2010              | 133   | 906                               | 2,293   | 2,566                     | —                  | 5,898        |
| Charge for the year                 | 24  | 250                               | 803   | 1,558                     | 432                | 3,067        |
| Through disposal of<br>subsidiaries | (149)   | —                                 | (1,506)   | (634)                     | —                  | (2,289)      |
| Written off                         | —   | —                                 | (45)  | (782)                     | —                  | (827)        |
| Exchange adjustment                 | 4   | 18                                | 55  | 147                       | 10                 | 234          |
| Eliminated on disposals             | —   | (161)                             | (18)  | (370)                     | —                  | (549)        |
| As at 31 December 2011              | 12  | 1,013                             | 1,582   | 2,485                     | 442                | 5,534        |
| Carrying amount:                    |   |                                   |   |                           |                    |              |
| As at 31 December 2011              | 342   | 1,105                             | 2,406   | 4,328                     | 6,058              | 14,239       |
| As at 31 December 2010              | 388   | 1,355                             | 2,847   | 4,160                     | —                  | 8,750        |

Note:

The Group has pledged property, plant and equipment having a carrying amount at 31 December 2011 of HK\$Nil (2010: HK\$1,204,000) to secure banking facilities granted to the Group (Note 27).

# Notes to the Financial Statements

31 December 2011

## 15. CONCESSION INTANGIBLE ASSETS

|   | <b>The Group</b><br>HK\$'000 |
|---|------------------------------|
| <b>Cost:</b>                                    |                              |
| As at 1 January 2010                            | 401,485                      |
| Addition  | 230                          |
| Exchange adjustment                             | 13,125                       |
| As at 31 December 2010                          | 414,840                      |
| Addition  | 2,189                        |
| Exchange adjustment                             | 9,629                        |
| Disposal  | (426,658)                    |
| As at 31 December 2011                          | —                            |
| <b>Accumulated amortisation and impairment:</b> |                              |
| As at 1 January 2010                            | 38,281                       |
| Charge for the year                             | 19,295                       |
| Impairment loss                                 | 24,107                       |
| Exchange adjustment                             | 2,281                        |
| As at 31 December 2010                          | 83,964                       |
| Charge for the year                             | 8,384                        |
| Exchange adjustment                             | 2,037                        |
| Disposal  | (94,385)                     |
| As at 31 December 2011                          | —                            |
| <b>Carrying amount:</b>                         |                              |
| As at 31 December 2011                          | —                            |
| As at 31 December 2010                          | 330,876                      |

Notes:

- (a) The Group has been granted by the Dongguan Provincial Government the concession for operating waste incineration power generation plant in Dongguan for a period of 25 years from November 2003.

The concession intangible assets are amortised on a straight-line basis over the remaining duration of the concessionary period from 1 January 2008.

(b) **Assets pledged as security**

The Group has pledged concession intangible assets having a carrying amount at 31 December 2011 of HK\$Nil (2010: HK\$330,876,000) to secure banking facilities granted to the Group (Note 27).

## Notes to the Financial Statements

31 December 2011

### 16. INTANGIBLE ASSETS

|  | <b>Contract of<br/>Affreightment</b><br>HK\$'000 | <b>The Group<br/>Club<br/>membership</b><br>HK\$'000 | <b>Total</b><br>HK\$'000 |
|--|--|--|--------------------------|
| <b>Cost:</b>                             |  |  |                          |
| As at 1 January 2010                     | —  | —  | —                        |
| Additions from acquisition of net assets | 126,900  | —  | 126,900                  |
| As at 31 December 2010                   | 126,900  | —  | 126,900                  |
| Additions                                | —  | 1,000  | 1,000                    |
| As at 31 December 2011                   | 126,900  | 1,000  | 127,900                  |
| <b>Accumulated amortisation:</b>         |  |  |                          |
| As at 1 January 2010                     | —  | —  | —                        |
| Charge for the year                      | 1,269  | —  | 1,269                    |
| As at 31 December 2010                   | 1,269  | —  | 1,269                    |
| Charge for the year                      | 5,076  | —  | 5,076                    |
| As at 31 December 2011                   | 6,345  | —  | 6,345                    |
| <b>Carrying amount:</b>                  |  |  |                          |
| As at 31 December 2011                   | 120,555  | 1,000  | 121,555                  |
| As at 31 December 2010                   | 125,631  | —  | 125,631                  |

### 17. CONSTRUCTION IN PROGRESS

|                         | <b>The Group<br/>2011<br/>HK\$'000</b> | 2010<br>HK\$'000 |
|-------------------------|--|------------------|
| <b>Cost:</b>            |  |                  |
| As at beginning of year | <b>1,062,977</b>                       | 816,116          |
| Additions               | <b>413,161</b>                         | 215,094          |
| Exchange adjustment     | <b>62,343</b>                          | 31,767           |
| As at end of year       | <b>1,538,481</b>                       | 1,062,977        |

Construction in progress represents railway construction costs in the PRC.

# Notes to the Financial Statements

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## 18. INTERESTS IN SUBSIDIARIES

|                               | <b>The Company</b>                 |                      |
|-------------------------------|------------------------------------|----------------------|
|                               | <b>2011</b><br><b>HK\$'000</b>     | 2010<br>HK\$'000     |
| Unlisted shares, at cost      | <b>1</b>                           | 1                    |
| Amounts due from subsidiaries | <b>875,730</b>                     | 912,276              |
| Less: Impairment loss         | <b>875,731</b><br><b>(378,085)</b> | 912,277<br>(253,174) |
|                               | <b>497,646</b>                     | 659,103              |

The amounts due from subsidiaries are unsecured, interest-free and in substance represent the Company's investments in the subsidiaries in the form of quasi-equity loans.

The directors assessed that only a portion of the amounts due from subsidiaries is expected to be recoverable. Consequently, a provision for impairment loss was made.

Particulars of the Company's principal subsidiaries as at 31 December 2011 are as follows:

| Name of subsidiary                              | Country of incorporation/<br>establishment and<br>operation | Issued and fully<br>paid share capital/<br>registered capital | Attributable equity interest |                    | Principal activities |
|---|---|---|------------------------------|--------------------|----------------------|
|   |   |   | Directly<br>held             | Indirectly<br>held |                      |
| Teleroute Enterprises Limited                   | British Virgin Islands                                      | 1 ordinary share<br>of US\$1                                  | 100%                         | —                  | Investment holding   |
| Palace View International Limited               | British Virgin Islands                                      | 1 ordinary share<br>of US\$1                                  | 100%                         | —                  | Investment holding   |
| Allpride Holdings Limited                       | British Virgin Islands                                      | 1 ordinary share<br>of US\$1                                  | 100%                         | —                  | Investment holding   |
| Colour Sunlight Limited                         | British Virgin Islands                                      | 1 ordinary share<br>of US\$1                                  | 100%                         | —                  | Investment holding   |
| CSCP Management Limited                         | Hong Kong   | 1 ordinary share<br>of HK\$1                                  | —                            | 100%               | Investment holding   |
| Talent Will Administration Limited              | British Virgin Islands                                      | 1 ordinary share<br>of US\$1                                  | —                            | 100%               | Investment holding   |
| Bright Master Investments Limited<br>(耀鋒投資有限公司) | Hong Kong   | 1 ordinary share<br>of HK\$1                                  | —                            | 100%               | Investment holding   |
| Ocean Jade Investments Limited                  | British Virgin Islands                                      | 1 ordinary share<br>of US\$1                                  | —                            | 100%               | Investment holding   |

# Notes to the Financial Statements

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## 18. INTERESTS IN SUBSIDIARIES (CONTINUED)

| Name of subsidiary   | Country of incorporation/<br>establishment and<br>operation | Issued and fully<br>paid share capital/<br>registered capital | Attributable equity interest |                    | Principal activities                   |
|--|---|---|------------------------------|--------------------|--|
|  |   |   | Directly<br>held             | Indirectly<br>held |  |
| Gofar Holdings Limited   | British Virgin Islands                                      | 1 ordinary share<br>of US\$1                                  | —                            | 100%               | Investment holding                     |
| China Railway Logistic Holdings<br>Limited (Note a)  | Hong Kong   | 1 ordinary share<br>of HK\$1                                  | —                            | 100%               | Investment holding                     |
| Chengde Zunxiao Railway Limited<br>(承德遵小鐵路有限公司) (Note b)                                     | PRC, limited liability<br>company                           | RMB224,000,000  | —                            | 62.5%              | Railway construction<br>and operations |
| Chengde Kuanping Railway Limited<br>(承德寬平鐵路有限公司) (Note b)                                    | PRC, limited liability<br>company                           | RMB129,000,000  | —                            | 62.5%              | Railway construction<br>and operations |
| Tangshan Tangcheng Railway<br>Transportation Company Limited<br>(唐山唐承鐵路運輸有限責任公司)<br>(Note b) | PRC, limited liability<br>company                           | RMB205,000,000  | —                            | 51%                | Railway construction<br>and operations |
| Treasure Delight Holdings Limited  | British Virgin Islands                                      | 1 ordinary share<br>of US\$1                                  | —                            | 100%               | Investment holding                     |
| Chengde Gangtong Railway Logistic<br>Company Limited<br>(承德港通鐵路物流有限公司)                       | PRC, limited liability<br>company                           | RMB3,007,224  | —                            | 100%               | Logistic                               |

### Notes

- (a) A share mortgage was executed in respect of this subsidiary in favour of a connected party as detailed in Note 39(d).
- (b) Equity and assets pledges were executed in respect of these subsidiaries in favour of a connected party as detailed in Note 39(d).

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

The consolidated financial statements for both years have not included certain subsidiaries which were in the course of liquidation for which the appointed liquidators had assumed overall control of those companies' financial and operating policies. The results and cash flows of these subsidiaries up to the respective dates of appointment of liquidators have not been consolidated as the amounts involved are immaterial.

## Notes to the Financial Statements

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### 19. INTEREST IN A JOINTLY CONTROLLED ENTITY

|   | <b>The Group</b>               |                  |
|---|--------------------------------|------------------|
|   | <b>2011</b><br><b>HK\$'000</b> | 2010<br>HK\$'000 |
| As at beginning of year                       | <b>15</b>                      | —                |
| Share of results of jointly controlled entity | <b>3,061</b>                   | (242)            |
| Loan to a jointly controlled entity           | <b>138</b>                     | 257              |
| As at end of year                             | <b>3,214</b>                   | 15               |

Loan to a jointly controlled entity are unsecured, non-interest-bearing with no fixed terms of repayment and classified as non-current asset as they are not expected to be recoverable within the next twelve months.

The summary financial information related to the Group's interest in a jointly controlled entity are as follows:

|                          | <b>The Group</b>               |                  |
|--------------------------|--------------------------------|------------------|
|                          | <b>2011</b><br><b>HK\$'000</b> | 2010<br>HK\$'000 |
| Non-current assets       | <b>209,236</b>                 | 101,115          |
| Current assets           | <b>9,509</b>                   | 76,047           |
| Current liabilities      | <b>(2,868)</b>                 | (1,032)          |
| Non-current liabilities  | <b>(212,992)</b>               | (176,372)        |
| Net assets/(liabilities) | <b>2,885</b>                   | (242)            |
| Income                   | <b>57,801</b>                  | 8,871            |
| Expenses                 | <b>(54,676)</b>                | (9,022)          |
| Profit/(loss) before tax | <b>3,125</b>                   | (151)            |
| Income tax               | <b>(64)</b>                    | (91)             |
| Profit/(loss) after tax  | <b>3,061</b>                   | (242)            |

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### 20. GOODWILL

|  | <b>The Group</b><br>HK\$'000 |
|--|------------------------------|
| Cost:                                      |                              |
| As at 1 January 2010                       | 40,822                       |
| Exchange adjustment                        | 1,334                        |
| As at 31 December 2010                     | 42,156                       |
| Exchange adjustment                        | 979                          |
| Derecognised upon disposal of subsidiaries | (43,135)                     |
| As at 31 December 2011                     | —                            |
| Accumulated impairment:                    |                              |
| As at 1 January 2010                       | 13,510                       |
| Impairment on goodwill                     | 27,550                       |
| Exchange adjustment                        | 1,096                        |
| As at 31 December 2010                     | 42,156                       |
| Exchange adjustment                        | 979                          |
| Derecognised upon disposal of subsidiaries | (43,135)                     |
| As at 31 December 2011                     | —                            |
| Carrying amount:                           |                              |
| As at 31 December 2011                     | —                            |
| As at 31 December 2010                     | —                            |

Goodwill acquired in a business combination is allocated, on acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated to waste incineration power generation operation.

During the year ended 31 December 2010, the Group assessed the recoverable amount of the CGU with reference to an independent valuation, and determined that goodwill of HK\$27,550,000 should be impaired. The recoverable amount of CGU has been determined from value in use calculations based on cash flow projections from formally approved budgets covering a two-year period. Cash flows beyond the two-year period are extrapolated using an estimated weighted average growth rate of 3% which does not exceed the long-term growth rate for the same industry in the PRC. The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. Key assumptions used for value-in-use calculations are as follows:

|               | 2010   |
|---------------|--------|
| Growth rate   | 3.00%  |
| Discount rate | 13.69% |

Management estimated the budgeted gross margin based on the past performance and their expectations for market development. The discount rate used is pre-tax and reflects specific risks relating to the relevant segment.

# Notes to the Financial Statements

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## 21. INVESTMENT IN AN ASSOCIATE

|                                     | <b>The Group</b> |          |
|-------------------------------------|------------------|----------|
|                                     | <b>2011</b>      | 2010     |
|                                     | <b>HK\$'000</b>  | HK\$'000 |
| Share of net assets                 | —                | 85       |
| Loan to an associate                |                  |          |
| At cost                             | <b>37,000</b>    | 37,000   |
| Less: Provision for impairment loss | <b>(13,583)</b>  | —        |
|                                     | <b>23,417</b>    | 37,000   |

Note: The loan is unsecured, interest bearing at 3% per annum (2010: 3%) and repayable on demand.

Details of the associate are as follows:

| <b>Name</b>                    | <b>Form of business structure</b> | <b>Place of incorporation and operation</b> | <b>Principal activity</b> | <b>Percentage of ownership interests</b> |
|--------------------------------|-----------------------------------|---|---------------------------|--|
| Brilliant Success Asia Limited | Limited company                   | Hong Kong                                   | Investment holding        | 30%                                      |

The summarised financial information in respect of the Group's associate is set out below:

|  | <b>The Group</b> |          |
|--|------------------|----------|
|  | <b>2011</b>      | 2010     |
|  | <b>HK\$'000</b>  | HK\$'000 |
| Total assets   | <b>15,372</b>    | 38,712   |
| Total liabilities  | <b>(39,539)</b>  | (38,429) |
| Net (liabilities)/assets                                 | <b>(24,167)</b>  | 283      |
| Group's share of net assets of associates                | —                | 85       |
| Total revenue  | <b>181</b>       | 1,874    |
| Total (loss)/profit for the year                         | <b>(24,450)</b>  | 2,977    |
| Group's share of (loss)/profit of associate for the year | <b>(85)</b>      | 85       |

During the year ended 31 December 2011, the Group had discontinued recognition of its share of loss of the above associate. The amounts of unrecognised share of this associate, both for the year and cumulatively, are as follows:

|   | <b>2011</b>     | 2010     |
|---|-----------------|----------|
|   | <b>HK\$'000</b> | HK\$'000 |
| Unrecognised share of loss of an associate for the year | <b>(7,250)</b>  | —        |
| Accumulated unrecognised share of loss of an associate  | <b>(7,250)</b>  | —        |

## Notes to the Financial Statements

31 December 2011

### 22. INVENTORIES

|  | <b>The Group</b> |          |
|--|------------------|----------|
|  | <b>2011</b>      | 2010     |
|  | <b>HK\$'000</b>  | HK\$'000 |
| Fuel and supplies for power generation | —                | 4,336    |

### 23. TRADE AND OTHER RECEIVABLES

|                                | <b>The Group</b> |          | <b>The Company</b> |          |
|--------------------------------|------------------|----------|--------------------|----------|
|                                | <b>2011</b>      | 2010     | <b>2011</b>        | 2010     |
|                                | <b>HK\$'000</b>  | HK\$'000 | <b>HK\$'000</b>    | HK\$'000 |
| Trade receivables              | —                | 14,585   | —                  | —        |
| Other receivables              | <b>43,129</b>    | 62,630   | <b>36,072</b>      | 36,082   |
| Less: Provision for impairment | <b>(35,900)</b>  | (35,900) | <b>(35,900)</b>    | (35,900) |
| Other receivables, net         | <b>7,229</b>     | 26,730   | <b>172</b>         | 182      |
|                                | <b>7,229</b>     | 41,315   | <b>172</b>         | 182      |

- (i) The movement in the provision for impairment for other receivables during the year, including both specific and collective loss components, is as follows:

|   | <b>The Group</b> |          | <b>The Company</b> |          |
|---|------------------|----------|--------------------|----------|
|   | <b>2011</b>      | 2010     | <b>2011</b>        | 2010     |
|   | <b>HK\$'000</b>  | HK\$'000 | <b>HK\$'000</b>    | HK\$'000 |
| At beginning of the year                      | <b>35,900</b>    | 77,744   | <b>35,900</b>      | 35,900   |
| Provision attributable to disposed subsidiary | —                | (42,150) | —                  | —        |
| Exchange adjustment                           | —                | 306      | —                  | —        |
| At end of the year                            | <b>35,900</b>    | 35,900   | <b>35,900</b>      | 35,900   |

The Group and the Company recognised impairment loss on other receivables based on the accounting policy stated in Note 3(m)(iii).

## Notes to the Financial Statements

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### 23. TRADE AND OTHER RECEIVABLES (CONTINUED)

- (ii) The Group normally allows an average credit period of 30 days to its trade customers. The ageing analysis of trade receivables as at the reporting date is as follows:

|                   | <b>The Group</b> |          |
|-------------------|------------------|----------|
|                   | <b>2011</b>      | 2010     |
|                   | <b>HK\$'000</b>  | HK\$'000 |
| Trade receivables |                  |          |
| — 0 to 30 days    | —                | 14,585   |
| — Over 30 days    | —                | —        |
|                   | —                | 14,585   |

- (iii) The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

|                               | <b>The Group</b> |          |
|-------------------------------|------------------|----------|
|                               | <b>2011</b>      | 2010     |
|                               | <b>HK\$'000</b>  | HK\$'000 |
| Neither past due nor impaired | —                | 14,585   |
|                               | —                | 14,585   |

Trade receivables that were past due but not impaired last year relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

## Notes to the Financial Statements

31 December 2011

### 24. TRADING SECURITIES

|  | <b>The Group</b>               |                  |
|--|--------------------------------|------------------|
|  | <b>2011</b><br><b>HK\$'000</b> | 2010<br>HK\$'000 |
| Hong Kong listed equity securities at fair value | <b>44,815</b>                  | 125,785          |

For investments which have been suspended from trading as at year end, the fair value was measured with reference to the quoted price of the last dealing date before suspension of trade and other available information consider appropriate by the Directors. The carrying amounts of these investments are HK\$Nil (2010: HK\$24,416,000).

### 25. CASH AND CASH EQUIVALENTS

Cash at banks earns interest at floating rates based on daily bank deposit rates. The directors consider the carrying amounts of cash and cash equivalents approximate their fair values.

### 26. TRADE AND OTHER PAYABLES

The ageing analysis of trade payables as at the end of reporting period is as follows:

|                             | <b>The Group</b>               |                  | <b>The Company</b>             |                  |
|-----------------------------|--------------------------------|------------------|--------------------------------|------------------|
|                             | <b>2011</b><br><b>HK\$'000</b> | 2010<br>HK\$'000 | <b>2011</b><br><b>HK\$'000</b> | 2010<br>HK\$'000 |
| Trade payables              |                                |                  |                                |                  |
| — current and up to 30 days | —                              | 13,049           | —                              | —                |
| Construction cost payables  | <b>27,935</b>                  | 56,393           | —                              | —                |
| Other payables              | <b>5,264</b>                   | 25,454           | <b>1,350</b>                   | 2,697            |
|                             | <b>33,199</b>                  | 94,896           | <b>1,350</b>                   | 2,697            |

## Notes to the Financial Statements

31 December 2011

### 27. BANK LOANS

At 31 December 2011, total bank loans were scheduled to be repaid as follows:

|   | <b>The Group</b>               |                  |
|---|--------------------------------|------------------|
|   | <b>2011</b><br><b>HK\$'000</b> | 2010<br>HK\$'000 |
| On demand or within one year                                  | —                              | —                |
| More than one year but not exceeding two years (iii)          | <b>61,687</b>                  | —                |
| More than two years but not exceeding five years (ii) & (iii) | <b>555,063</b>                 | 603,427          |
| After five years (iii)  | <b>393,042</b>                 | 499,207          |
| <b>Non-current liabilities</b>                                | <b>1,009,792</b>               | 1,102,634        |

- (i) All bank loans were denominated in Renminbi. The directors estimated that the fair value of the bank loans is not significantly different from its carrying amount.
- (ii) The amount of bank loan in the original denominated borrowing currency is RMB213,464,000 equivalent to HK\$263,308,000. The average effective interest rate for the year is 6.59% (2010: 6.11%) per annum.

During the year ended 31 December 2010, the Group has pledged to the bank with property, plant and equipment amounted to RMB1,025,000 equivalent to HK\$1,204,000 (Note 14) and concession intangible assets amounted to RMB281,552,000 equivalent to HK\$330,876,000 (Note 15) in respect of the waste incineration power generation plant in the PRC, corresponding waste incineration licence and related income generated from the project (including waste handling income and electricity generation income). The loan was disposed following the disposal of subsidiaries (Note 35).

- (iii) The amount of bank loans in the original denominated borrowing currency is RMB818,640,000 equivalent to HK\$1,009,792,000 (2010: RMB724,800,000 equivalent to HK\$851,774,000). The average effective interest rate for the year is 8.09% (2010: 7.368%) per annum. The bank loans were secured by guarantee provided by a connected party in aggregate up to RMB1,033,000,000 (equivalent to HK\$1,274,000,000) (2010: RMB1,033,000,000 equivalent to HK\$1,214,000,000). In return, the Company agreed to provide a counter-guarantee to indemnify this connected party to the extent of the percentage of equity interest held by the Group in each of the subsidiaries of up to approximately RMB602,155,000 (equivalent to HK\$743,000,000) (2010: RMB602,155,000 equivalent to HK\$708,000,000), share mortgage, equity and assets pledges in favour of the connected party as detailed in Note 39(d).

## Notes to the Financial Statements

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### 28. CONTINGENT CONSIDERATION PAYABLE

|  | <b>The Group</b>               |                  |
|--|--------------------------------|------------------|
|  | <b>2011</b><br><b>HK\$'000</b> | 2010<br>HK\$'000 |
| Cost:                                    |                                |                  |
| At beginning of the year                 | <b>58,096</b>                  | —                |
| Additions from acquisition of net assets | —                              | 126,900          |
| Change in fair value                     | <b>(5,204)</b>                 | (68,804)         |
| At end of the year                       | <b>52,892</b>                  | 58,096           |

On 19 May 2010, the Group had completed the acquisition of 100% equity interest in Ocean Jade Investments Limited ("Ocean Jade") from Golden Concord. The acquisition is to be satisfied by the issue of 1,000,000,000 consideration shares to the Vendor, when the net profit after tax of Ocean Jade shall not be less than HK\$20 million for the first 12 months after the start of commercial operation of all 4 vessels in accordance with the agreements. As at 31 December 2011, only 2 vessels had started commercial operation. In the event that this profit target is not met, the number of consideration shares to be issued shall be reduced pro-rata to the actual shortfall.

The Company's obligation to issue a variable number of shares is accounted for as a liability and carried at fair value at the end of each reporting period, with resulting gain or loss recognised in profit or loss.

At the date of completion, the fair value of the Company's shares is HK\$0.141 each and based on the directors' best estimate and weighted probability analysis of the future profit of Ocean Jade, the fair value of consideration shares expected to be issuable is estimated to be HK\$126,900,000.

As at 31 December 2011, the fair value of contingent consideration was decreased by HK\$5,204,000 (2010: decreased by HK\$68,804,000) as a result of the directors' re-estimation of the fair value of contingent consideration payable.

## Notes to the Financial Statements

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### 29. CONVERTIBLE BONDS

On 30 September 2008, the Company issued 2% convertible bonds at a nominal value of HK\$200,000,000 with interest payable annually. The convertible bonds have a maximum maturity period of 2 years from the issue date and are convertible into ordinary shares of the Company at a conversion price of HK\$0.05 each at the holder's option. This conversion price is subject to adjustments under certain circumstances as stipulated in the terms and conditions of the convertible bonds contemplated under the Subscription Agreements.

As the convertible bonds do not entitle their holders to convert them into a fixed number of equity instruments of the Company at a fixed conversion price, they are regarded as financial liabilities consisting of liability and derivative components.

At the date of issue, the fair value of the derivative component was estimated by a firm of professional valuers using Black-Scholes Option Pricing Model, and this amount is carried as a derivative liability until extinguished on conversion or redemption. The balance of the proceeds of the convertible bonds was allocated to the liability component and is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption. The derivative component is measured at fair value with gains or losses recognised in profit or loss. The assumptions of the valuation of the derivative component of the convertible bonds are set out as follows:

|                         | <b>31 December 2009</b> |
|-------------------------|-------------------------|
| Share price             | HK\$0.181               |
| Exercise price          | HK\$0.040               |
| Expected volatility     | 72.05%                  |
| Expected option life    | 0.75 year               |
| Expected dividends      | Nil                     |
| Risk-free interest rate | 0.190%                  |

The movement of the convertible bonds is summarised as follows:

|                                      | <b>Liability<br/>component</b> | <b>Derivative<br/>component</b> | <b>Total</b> |
|--------------------------------------|--------------------------------|---------------------------------|--------------|
|                                      | HK\$'000                       | HK\$'000                        | HK\$'000     |
| As at 1 January 2010                 | 1,924                          | 17,648                          | 19,572       |
| Imputed interest                     | 114                            | —                               | 114          |
| Changes in fair value                | —                              | (2,613)                         | (2,613)      |
| Full conversion into ordinary shares | (2,038)                        | (15,035)                        | (17,073)     |
| As at 31 December 2010               | —                              | —                               | —            |

During the year ended 31 December 2010, convertible bonds in an aggregate principal amount of HK\$5,000,000 were converted into 100,000,000 ordinary shares of the Company at a conversion price of HK\$0.05 each. All convertible bonds had been converted during the year ended 31 December 2010 and no outstanding convertible bond as at 31 December 2011 and 2010.

## Notes to the Financial Statements

31 December 2011

### 30. PROVISION FOR MAINTENANCE OF CONCESSION INTANGIBLE ASSETS

The movement in the provision for maintenance of concession intangible assets during the year is as follows:

|  | <b>The Group</b> |          |
|--|------------------|----------|
|  | <b>2011</b>      | 2010     |
|  | <b>HK\$'000</b>  | HK\$'000 |
| At beginning of the year                   | <b>11,717</b>    | 3,436    |
| Additional provision                       | —                | 9,579    |
| Utilised during the year                   | —                | (1,410)  |
| Exchange adjustment                        | <b>273</b>       | 112      |
| Derecognized upon disposal of subsidiaries | <b>(11,990)</b>  | —        |
| At end of the year                         | —                | 11,717   |

The provision for maintenance of concession intangible assets has been made for the estimated obligations under the service concession for the maintenance of the waste incineration power generation plant and equipment.

### 31. DEFERRED TAX

No deferred tax liabilities have been recognised in the consolidated financial statements as the Group and the Company did not have material temporary differences between the tax bases of assets and liabilities and their carrying amounts as at 31 December 2011 and 2010.

A deferred tax asset has not been recognised in the consolidated financial statements in respect of tax losses available to offset future profits due to the uncertainty of the future profits streams against which the asset can be utilised.

At the reporting date, the Group and the Company had unused tax losses of HK\$145,444,000 (2010: HK\$106,437,000) and HK\$24,814,000 (2010: HK\$3,660,000) respectively available for offset against future profits indefinitely.

## Notes to the Financial Statements

31 December 2011

### 32. SHARE CAPITAL

#### (a) Authorised share capital

|  | Number of ordinary shares of<br>HK\$0.01 each   |                 | Amount           |                  |
|--|---|-----------------|------------------|------------------|
|  | 2011  | 2010            | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
| <b>Authorised ordinary shares:</b>           |   |                 |                  |                  |
| At beginning and end of the year             | 120,000,000,000                                 | 120,000,000,000 | 1,200,000        | 1,200,000        |
|  |   |                 |                  |                  |
|  | Number of preference shares of HK\$0.01<br>each |                 | Amount           |                  |
|  |   |                 | HK\$'000         | HK\$'000         |
| <b>Authorised preference shares class A:</b> |   |                 |                  |                  |
| At beginning and end of the year             | 10,000,000,000                                  | 10,000,000,000  | 100,000          | 100,000          |
| <b>Authorised preference shares class B:</b> |   |                 |                  |                  |
| At beginning and end of the year             | 10,000,000,000                                  | 10,000,000,000  | 100,000          | 100,000          |

The preference shares class A and B do not carry a right to vote. On liquidation of the Company, the preference shareholders would participate only to the extent of the issue value (aggregate of par value and the premium paid) of the shares adjusted for any dividends in arrears. The preference shares shall rank for return of capital on liquidation in priority to all other shares in the capital of the Company for the time being in issue.

#### *Preference Shares Class A*

The term of the preference shares class A is 3 years and the holders of the preference shares shall be entitled to a fixed cumulative preferential dividend at the rate of 3% per annum on the issue value. The holders of the preference shares may not request the redemption of the preference shares held by them. The Company shall redeem all the preference shares outstanding on the third anniversary of the date of issue of the issue value and any dividends in arrears. The preference shareholders can convert the preference shares into ordinary shares of the Company during the 3-year term using the following formula:

$$\frac{\text{Number of preference shares}}{\text{Adjusting factor}} = \text{Number of ordinary shares to be issued}$$

Adjusting factor is calculated as the higher of (i) 90% of the average of the closing price of the Company's ordinary shares on the Stock Exchange for the five trading days up to and including the conversion date (or, if such day is not a trading day, the last trading day before the conversion day); and (ii) HK\$0.50, provided that if trading in the ordinary shares is suspended on any day during such period, the average of the closing prices shall be calculated by reference to the latest five consecutive trading days on which the trading in the ordinary shares is not suspended up to and including the conversion date but subject to a minimum value equivalent to the then nominal value of an ordinary share.

## Notes to the Financial Statements

31 December 2011

### 32. SHARE CAPITAL (CONTINUED)

#### (a) Authorised share capital (Continued)

##### *Preference Shares Class B*

The term of the preference shares class B is 3 years and the holders of the preference shares shall be entitled to a fixed cumulative preferential dividend at the rate of 3% per annum on the issue value. The holders of the preference shares may not request the redemption of the preference shares held by them. The Company shall redeem all the preference shares outstanding on the third anniversary of the date of issue of the issue value and any dividends in arrears. The preference shareholders can convert the preference shares into ordinary shares of the Company during the 3-year term at a ratio of HK\$0.76 subject to an adjusting factor. The adjusting factor is calculated as follows:

Beginning on the date of issue and ending on (and including) the first anniversary of the date of issue

HK\$0.76

Beginning from the day after the first anniversary of the date of issue and ending on (and including) the third anniversary of the date of issue

The higher of (i) 90% of the average of the closing prices on the Stock Exchange for one ordinary share for the five trading days up to and including the conversion date; and (ii) HK\$0.50, provided that if trading of the ordinary shares is suspended on any date during such period, the average of the closing prices shall be calculated by reference to the latest five consecutive trading days on which the trading of the ordinary shares is not suspended up to and including the conversion date.

During the year, no preference shares have been issued.

#### (b) Issued and fully paid share capital

|  | Number of ordinary<br>shares | Nominal value<br>HK\$'000 |
|--|------------------------------|---------------------------|
| Ordinary shares of HK\$0.01 each                                     |                              |                           |
| At 1 January 2010  | 10,257,027,100               | 102,570                   |
| New issue and allotment of shares (note a)                           | 1,500,000,000                | 15,000                    |
| Issue of shares for acquisition of non-controlling interest (note a) | 1,000,000,000                | 10,000                    |
| Issued on the conversion of the convertible bonds (note a)           | 100,000,000                  | 1,000                     |
| At 31 December 2010 and 2011   | 12,857,027,100               | 128,570                   |

Note (a):

The issued share capital of the Company was increased to HK\$128,570,000 by:

- (1) the placement of 1,500,000,000 ordinary shares of HK\$0.159 each for cash in January 2010 to provide additional working capital to the Company;
- (2) the issue of 1,000,000,000 ordinary shares for acquisition of the remaining 30% interest in Gofar; and
- (3) the issue of 100,000,000 ordinary shares at the conversion price of HK\$0.05 each on the conversion of the convertible bonds during 2010. Such ordinary shares rank pari passu in all respects with the then existing ordinary shares of the Company.

## Notes to the Financial Statements

31 December 2011

### 33. SHARE OPTIONS

#### 2002 Share Option Scheme

On 27 May 2002, a share option scheme (the "2002 Share Option Scheme") was adopted by the Company. The purpose of the 2002 Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contributions to the Group. The participants include (i) any eligible employee; (ii) any supplier of goods or services to any member of the Group or any entity in which any member of the Group holds any interest ("Invested Entity"); (iii) any customer of the Group or any Invested Entity; (iv) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; (v) any shareholder or any member of the Group or any Invested Entity; (vi) any company wholly owned by any participant. The 2002 Share Option Scheme will remain in force for a period commencing on 27 May 2002 and expiring at the close of business on the business day preceding the tenth anniversary.

The total number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme and any other scheme of the Company shall not in aggregate exceed 10% of the issued share capital of the Company as at the date on which the 2002 Share Option Scheme was adopted, without prior approval from the Company's shareholders. The total number of shares issued and to be issued upon exercise of the option granted and to be granted to each participant in any 12-month period up to and including the date of grant of options shall not exceed 1% of the shares in issue.

The subscription price will be determined by the directors, which shall not be less than the higher of the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant of options or the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five days immediately preceding the date of grant of options.

The 2002 Share Option Scheme was terminated with the passing of an ordinary resolution at the extraordinary general meeting of the Company held on 20 August 2008.

- (a) The terms and conditions of the options granted that were outstanding at the reporting date:

| Options granted to employees | Number of options ('000) |       | Vesting condition | Contractual life of options |
|------------------------------|--------------------------|-------|-------------------|-----------------------------|
|                              | 2011                     | 2010  |                   |                             |
| On 26 May 2005               | 700                      | 700   | note              | 10 years                    |
| On 3 August 2005             | 500                      | 500   | note              | 10 years                    |
|                              | <b>1,200</b>             | 1,200 |                   |                             |

Note:

During the period beginning on the first business day from the date of grant and ending at the close of business on the business day preceding the second anniversary from the date of grant (both dates inclusive), the option holder must not exercise any of the options granted to him on the date of grant.

During the period beginning on the second anniversary from the date of grant and ending at the close of business on the business day preceding the third anniversary from the date of grant (both dates inclusive), the option holder must not exercise more than 25% of the share options granted to him on the date of grant.

## Notes to the Financial Statements

31 December 2011

### 33. SHARE OPTIONS (CONTINUED)

#### 2002 Share Option Scheme (Continued)

(a) (Continued)

Note: (Continued)

During the period beginning on the third anniversary from the date of grant and ending at the close of business on the business day preceding the fourth anniversary from the date of grant (both dates inclusive), the option holder must not exercise more than 50% of the share options granted to him on the date of grant.

During the period beginning on the fourth anniversary from the date of grant and ending at the close of business on the business day preceding the fifth anniversary from the date of grant (both dates inclusive), the option holder must not exercise more than 75% of the share options granted to him on the date of grant.

During the period beginning on the fifth anniversary from the date of grant, the option holder can exercise the remaining balance of the share options granted to him on the date of grant.

(b) The number and weighted average exercise prices of share options are as follows:

|  | 2011                   |                                      | 2010                   |                                      |
|--|------------------------|--------------------------------------|------------------------|--------------------------------------|
|  | Number of options '000 | Weighted average exercise price HK\$ | Number of options '000 | Weighted average exercise price HK\$ |
| Outstanding at the beginning and end of the year   | 1,200                  | 0.6892                               | 1,200                  | 0.6892                               |
| Outstanding and exercisable at the end of the year | 1,200                  | 0.6892                               | 1,200                  | 0.6892                               |

The options outstanding under the 2002 Share Option Scheme at 31 December 2011 had an exercise price between HK\$0.688 and HK\$0.69 (2010: HK\$0.688 and HK\$0.69) and a weighted average remaining contractual life of 3.48 years (2010: 4.48 years).

#### 2008 Share Option Scheme

On 20 August 2008, a new share option scheme (the "2008 Share Option Scheme") was adopted by the Company. The purpose of the 2008 Share Option Scheme is to attract, retain and motivate talented participants to strive for future developments and expansion of the Group. The participants are as follows:

- (i) any full-time employee and director (including non-executive director and independent non-executive director) of the Group; and any part time employee with weekly working hours of ten hours and above of the Group (collectively "Employee");
- (ii) any advisor or consultant to the Group; any provider of goods and/or services to the Group; or any other person who, at the sole determination of the Board, has contributed to the Group (the assessment criteria of which are (a) such person's contribution to the development and performance of the Group; (b) the quality of work performed by such person for the Group; and (c) the initiative and commitment of such person in performing his or her duties; and (d) the length of service or contribution of such person to the Group) (collectively "Business Associate"); and
- (iii) the trustee of any trust (whether family, discretionary or otherwise) whose beneficiaries or objects include any Employee or Business Associate of the Group.

## Notes to the Financial Statements

31 December 2011

### 33. SHARE OPTIONS (CONTINUED)

#### 2008 Share Option Scheme (Continued)

The total number of shares which may be issued upon exercise of all options to be granted under the 2008 Share Option Scheme and any other scheme of the Company shall not in aggregate exceed 10% of the issued share capital of the Company as at the date on which the 2008 Share Option Scheme was adopted, without prior approval from the Company's shareholders. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant in any 12-month period shall not exceed 1% of the shares in issue.

The subscription price will be determined by the directors, which shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant of options; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five days immediately preceding the date of grant of options; or (iii) the nominal value of an ordinary share.

As at 31 December 2010, no share option had been issued under the 2008 Share Option Scheme.

On 21 April 2011, 313,200,000 share options carrying the rights to subscribe for a total of 313,200,000 ordinary shares of HK\$0.01 each of the Company were granted to 51 individuals under the 2008 Share Option Scheme and as refreshed on 3 June 2010. 312,200,000 share options granted were accepted by the grantees and 1,000,000 share options were lapsed due to non-acceptance by the grantee within the prescribed time limit. The contractual life of options is 10 years.

The fair value of the share options is determined using a binomial option pricing model. Where relevant, the expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Expected volatility is based on the historical share price volatility over the past three years.

The following information is relevant in the determination of the fair value of options granted during the year under the 2008 Share Option Scheme operated by the Group.

|                         |           |
|-------------------------|-----------|
| Grant date share price  | HK\$0.168 |
| Exercise price          | HK\$0.168 |
| Risk-free rate          | 2.67%     |
| Expected life           | 10 years  |
| Expected volatility     | 101.43%   |
| Expected dividend yield | 0%        |

## Notes to the Financial Statements

31 December 2011

### 33. SHARE OPTIONS (CONTINUED)

#### 2008 Share Option Scheme (Continued)

The weighted average fair value of each option granted during the year was HK\$0.112.

The terms and conditions of the options granted that were outstanding at 31 December 2011:

|  | 2011                   |                                      |
|--|------------------------|--------------------------------------|
|  | Number of options '000 | Weighted average exercise price HK\$ |
| Outstanding at the beginning of the year | —                      | —                                    |
| Granted and accepted during the year     | 312,200                | 0.1680                               |
| Forfeited during the year                | (18,000)               | 0.1680                               |
| Outstanding at the end of the year       | 294,200                | 0.1680                               |
| Exercisable at the end of the year       | 124,880                |                                      |

Note:

- (i) up to 40% of the total number of options will be vested from the date of grant of the options;
- (ii) an additional 30% of the total number of options will be vested upon the first anniversary of the date of grant of the options; and
- (iii) the remaining 30% of the total number of options will be vested upon the second anniversary of the date of grant of the options.

The options outstanding under the 2008 Share Option Scheme at 31 December 2011 had an exercise price of HK\$0.168 and an average remaining contractual life of 9.30 years.

## Notes to the Financial Statements

31 December 2011

### 34. RESERVES

#### The Company

|  | Share<br>premium<br>HK\$'000 | Capital<br>reserve<br>HK\$'000 | Share<br>option<br>reserve<br>HK\$'000<br>(Note 33) | Accumulated<br>losses<br>HK\$'000 | Total<br>HK\$'000 |
|--|------------------------------|--------------------------------|---|-----------------------------------|-------------------|
| As at 1 January 2010                             | 914,679                      | 4,190                          | 5,746   | (617,873)                         | 306,742           |
| Total comprehensive income for the year          | —                            | —                              | —   | (68,664)                          | (68,664)          |
| Shares issued at premium                         | 337,852                      | —                              | —   | —                                 | 337,852           |
| Shares issued on conversion of convertible bonds | 16,045                       | —                              | —   | —                                 | 16,045            |
| As at 31 December 2010                           | 1,268,576                    | 4,190                          | 5,746   | (686,537)                         | 591,975           |
| Total comprehensive income for the year          | —                            | —                              | —   | <b>(148,956)</b>                  | <b>(148,956)</b>  |
| Recognition of share option expenses             | —                            | —                              | <b>22,810</b>                                       | —                                 | <b>22,810</b>     |
| As at 31 December 2011                           | <b>1,268,576</b>             | <b>4,190</b>                   | <b>28,556</b>                                       | <b>(835,493)</b>                  | <b>465,829</b>    |

The Company did not have any reserves available for distribution to shareholders as at 31 December 2011 and 2010. The Company's share premium may be distributed in the form of fully paid bonus shares.

(a) *Share premium*

The application of the share premium is governed by section 48B of the Hong Kong Companies Ordinance.

(b) Other reserves are dealt with in accordance with the relevant accounting policies set out in Note 3.

## Notes to the Financial Statements

31 December 2011

### 35. DISPOSAL OF SUBSIDIARIES

As referred to in note 9(b), on 13 July 2011, China Green Power Group ceased to be subsidiaries upon completion of the disposal. The net assets of China Green Power Group at the date of disposal were as follows:

|  | <b>China Green Power<br/>Group<br/>2011<br/>HK\$'000</b> |
|--|--|
| Net assets disposed of:  |  |
| Property, plant and equipment  | 1,053  |
| Concession intangible assets   | 332,272  |
| Trade and other receivables  | 15,617   |
| Inventories  | 2,732  |
| Cash and cash equivalents  | 8,033  |
| Other payables   | (28,949)   |
| Bank loans   | (255,783)  |
| Provision for maintenance of concession intangible assets                | (11,990)   |
|  | <b>62,985</b>  |
| Translation reserve reclassified upon disposal                           | <b>(22,072)</b>  |
|  | <b>40,913</b>  |
| Gain on disposal   | <b>7,905</b>   |
|  | <b>48,818</b>  |
| Total consideration  | <b>48,818</b>  |
| Satisfied by:  |  |
| Cash consideration   | 50,000   |
| Direct expenses incurred in connection with the disposal of subsidiaries | (1,182)  |
|  | <b>48,818</b>  |
| Net cash inflow arising on disposal:                                     |  |
| Cash consideration   | 50,000   |
| Direct expenses incurred in connection with the disposal of subsidiaries | (1,182)  |
| Bank balances and cash disposed of                                       | (8,033)  |
|  | <b>40,785</b>  |

On 9 July 2010, the Group entered into a sale and purchase agreement with independent third parties, pursuant to which the Group disposed of the entire equity interest of China Science Green Energy Investments Limited and subsidiary ("China Science Green Energy") for a consideration of HK\$5,700,000. China Science Green Energy ceased to be subsidiaries upon completion of the disposal.

On 31 December 2010, the Group entered into a sale and purchase agreement with independent third parties, pursuant to which the Group disposed of the entire equity interest of East Grand Limited ("East Grand") for a consideration of HK\$2,000,000. East Grand ceased to be a subsidiary upon completion of the disposal.

## Notes to the Financial Statements

31 December 2011

### 35. DISPOSAL OF SUBSIDIARIES (CONTINUED)

|   | China Science<br>Green Energy<br>2010<br>HK\$'000 | East Grand<br>2010<br>HK\$'000 | Total<br>2010<br>HK\$'000 |
|---|---|--------------------------------|---------------------------|
| Net assets disposed of:   |   |                                |                           |
| Property, plant and equipment   | 1,770   | 1,914                          | 3,684                     |
| Land use right  | 4,557   | —                              | 4,557                     |
| Bank balances and cash  | 302   | —                              | 302                       |
| Other payables  | (8)   | —                              | (8)                       |
| Translation reserve reclassified upon disposal                              | 2,636   | —                              | 2,636                     |
|   | 9,257   | 1,914                          | 11,171                    |
| (Loss)/gain on disposal   | (3,564)   | 86                             | (3,478)                   |
| Total consideration   | 5,693   | 2,000                          | 7,693                     |
| Satisfied by:   |   |                                |                           |
| Cash  | 5,700   | 2,000                          | 7,700                     |
| Direct expenses incurred in connection<br>with the disposal of subsidiaries | (7)   | —                              | (7)                       |
|   | 5,693   | 2,000                          | 7,693                     |
| Net cash inflow arising on disposal:  |   |                                |                           |
| Cash consideration  | 5,700   | 2,000                          | 7,700                     |
| Direct expenses incurred in connection<br>with the disposal of subsidiaries | (7)   | —                              | (7)                       |
| Bank balances and cash disposed of  | (302)   | —                              | (302)                     |
|   | 5,391   | 2,000                          | 7,391                     |

## Notes to the Financial Statements

31 December 2011

### 36. CAPITAL COMMITMENTS

Capital commitments outstanding as at the reporting date not provided for in the consolidated financial statements are as follows:

|  | The Group        |                  |
|--|------------------|------------------|
|  | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
| Authorised and contracted for in respect of construction of railway: |                  |                  |
| — Zunxiao Company  | 221,496          | 294,313          |
| — Kuanping Company   | 14,524           | 23,307           |
| — Tangcheng Company  | 221,641          | 286,727          |
|  | <b>457,661</b>   | 604,347          |

These commitments were entered into by three PRC non-wholly owned subsidiaries. The Group's effective interest in Zunxiao Company, Kuanping Company, and Tangcheng Company is 62.50%, 62.50% and 51.00% respectively as at 31 December 2010 and 2011.

### 37. OPERATING LEASE COMMITMENTS

|  | The Group        |                  |
|--|------------------|------------------|
|  | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
| Minimum lease payments under operating leases charged as expense in the year | 4,157            | 4,570            |

At the reporting date, the Group had outstanding minimum commitments under non-cancellable operating leases, which fall due as follows:

|  | The Group        |                  |
|--|------------------|------------------|
|  | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
| Within one year                        | 3,894            | 4,591            |
| In the second to fifth years inclusive | 1,636            | 5,595            |
|  | <b>5,530</b>     | 10,186           |

Operating lease payments represent rentals payable by the Group for certain of its office premises and staff quarters. The leases typically run for lease term of one to three years, with an option to renew the lease at which time all terms are renegotiated. None of the lease includes contingent rentals.

## Notes to the Financial Statements

31 December 2011

### 38. FINANCIAL GUARANTEE CONTRACT — THE COMPANY

The Company has executed a counter-guarantee to indemnify Golden Concord Holdings Limited ("Golden Concord") up to HK\$742,758,000 (2010: HK\$707,641,000) (excluding all related accrued interest, costs and expenses incurred, if any), in which Golden Concord has agreed to execute guarantees to financial institution in respect of bank loans granted to certain non-wholly owned subsidiaries of the Company in the PRC (Note 27). Under the counter-guarantee, the Company would be liable to pay Golden Concord in the event of any default. The counter-guarantee was issued by the Company at nil consideration. The transaction was not at arm's length, and it is not possible to measure reliably the fair value of this transaction in accordance with HKAS 39 had they been at arm's length. Accordingly, the guarantee has not been accounted for as financial liabilities and measured at fair value.

As at the reporting date, no provision for the Company's obligation under the guarantee contract has been made as the directors do not consider it to be probable that a claim will be made against the Company under the counter-guarantee issued.

### 39. 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.

- (a) The amounts due to a shareholder, minority equity owners of subsidiaries and related companies are unsecured, interest-free and repayable on demand.
- (b) On 13 February 2009, Palace View International Limited, a wholly-owned subsidiary of the Company, entered into an operation consultation agreement with Shanghai GCL- Poly Electricity Operating Management Co. Ltd. ("Shanghai GCL") to provide consultation service in respect of the operation of the municipal solid waste incineration power plant owned by the Group. Mr. Zhu Gongshan ("Mr. Zhu") is a director of the subsidiary of the Company, and also a director and a deemed Controlling Shareholder of GCL-Poly Energy Holdings Limited, the ultimate holding company of Shanghai GCL. Therefore, this transaction also constitutes continuing connected transaction as defined under the Listing Rules. This operation consultation agreement was terminated when the waste incineration power generation segment were disposal in July 2011. Total management fee paid during the current year amounted to approximately HK\$1,435,000 (2010: HK\$2,749,000).
- (c) Members of key management during the year comprised the directors only whose remuneration is set out in Note 11.
- (d) As discussed in Note 38, the Company had provided a counter-guarantee to Golden Concord, a company incorporated in Hong Kong which is beneficially owned by Mr. Zhu, a director of a subsidiary of the Company. This constitutes a connected transaction as defined under the Listing Rules.

## Notes to the Financial Statements

31 December 2011

### 40. CAPITAL RISK MANAGEMENT

The Group's objectives of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity owners and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustment to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings including borrowings and trade and other payables, as shown in the consolidated statement of financial position less cash and bank balances. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

During the year ended 31 December 2011, the Group's strategy, which was unchanged from 2010, was to maintain a gearing ratio of not more than 100%.

The gearing ratio as at 31 December 2011 and 2010 were as follows:

|                              | <b>The Group</b>        |                  |
|------------------------------|-------------------------|------------------|
|                              | <b>2011</b><br>HK\$'000 | 2010<br>HK\$'000 |
| Current liabilities          | <b>39,622</b>           | 111,296          |
| Non-current liabilities      | <b>1,062,684</b>        | 1,172,447        |
| Total borrowings             | <b>1,102,306</b>        | 1,283,743        |
| Less: Cash and bank balances | <b>(211,157)</b>        | (564,933)        |
| Net debt                     | <b>891,149</b>          | 718,810          |
| Total equity                 | <b>906,919</b>          | 1,017,960        |
| Total capital                | <b>1,798,068</b>        | 1,736,770        |
| Gearing ratio                | <b>50%</b>              | 41%              |

### 41. FINANCIAL RISK MANAGEMENT

Exposure to credit, liquidity, interest rate, currency and equity price risks arises in the normal course of the Group's business.

The main risks arising from the Groups' financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk, currency risk and equity price risk arising from movements in its own equity share price and the fair value changes of its trading securities. The Group does not consider it necessary to use derivative financial instruments to hedge these risk exposures.

## Notes to the Financial Statements

31 December 2011

### 41. FINANCIAL RISK MANAGEMENT (CONTINUED)

These risks are limited by the Group's financial management policies and practices described below:

#### (a) Credit risk

The Group has policies in place to ensure that the sales of goods are made to customers with appropriate credit history and the Group performs credit evaluation of its customers. The Group also has policies that limit the amount of credit exposure to any financial institution.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At 31 December 2011, since the Group does not have any trade receivable, the Group has no concentration of credit risk. At 31 December 2010, the Group has a concentration of credit risk as over 62% and over 83% of the total trade receivables was due from the Group's largest customer and the five largest customers respectively. The credit risk arising from the Group's largest customer is not considered to be high as it is a local government authority. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in Note 23.

#### (b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

The following table details the remaining contractual maturities at the reporting date of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Group and the Company can be required to pay:

#### *The Group*

| 2011   | Carrying amount<br>HK\$'000 | Total contractual undiscounted cash flow<br>HK\$'000 | Within 1 year or on demand<br>HK\$'000 | More than 1 year but less than 2 years<br>HK\$'000 | More than 2 years but less than 5 years<br>HK\$'000 | More than 5 years<br>HK\$'000 |
|--|-----------------------------|--|--|--|---|-------------------------------|
| Trade and other payables                             | 33,199                      | 33,199   | 33,199                                 | —  | —   | —                             |
| Amount due to minority equity owners of subsidiaries | 6,185                       | 6,185  | 6,185                                  | —  | —   | —                             |
| Amount due to a shareholder                          | 238                         | 238  | 238                                    | —  | —   | —                             |
| Bank loans   | 1,009,792                   | 1,382,149  | 74,402                                 | 136,089  | 732,822   | 438,836                       |
|  | 1,049,414                   | 1,421,771  | 114,024                                | 136,089  | 732,822   | 438,836                       |

## Notes to the Financial Statements

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### 41. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (b) Liquidity risk (Continued)

*The Group (Continued)*

| 2010   | Carrying amount<br>HK\$'000 | Total contractual undiscounted cash flow<br>HK\$'000 | Within 1 year or on demand<br>HK\$'000 | More than 1 year but less than 2 years<br>HK\$'000 | More than 2 years but less than 5 years<br>HK\$'000 | More than 5 years<br>HK\$'000 |
|--|-----------------------------|--|--|--|---|-------------------------------|
| Trade and other payables                             | 94,896                      | 94,896   | 94,896                                 | —  | —   | —                             |
| Amount due to minority equity owners of subsidiaries | 9,383                       | 9,383  | 9,383                                  | —  | —   | —                             |
| Amount due to a shareholder                          | 439                         | 439  | 439                                    | —  | —   | —                             |
| Bank loans   | 1,102,634                   | 1,514,616  | 78,265                                 | 215,301  | 661,899   | 559,151                       |
|  | 1,207,352                   | 1,619,334  | 182,983                                | 215,301  | 661,899   | 559,151                       |

*The Company*

| 2011  | Carrying amount<br>HK\$'000 | Total contractual undiscounted cash flow<br>HK\$'000 | Within 1 year or on demand<br>HK\$'000 | More than 1 year<br>HK\$'000 |
|---|-----------------------------|--|--|------------------------------|
| Other payables  | 1,350                       | 1,350  | 1,350                                  | —                            |
| Amount due to a shareholder                             | 239                         | 239  | 239                                    | —                            |
|   | 1,589                       | 1,589  | 1,589                                  | —                            |
| Financial guarantee issued<br>Maximum amount guaranteed | —                           | 742,758  | 742,758                                | —                            |

| 2010  | Carrying amount<br>HK\$'000 | Total contractual undiscounted cash flow<br>HK\$'000 | Within 1 year or on demand<br>HK\$'000 | More than 1 year<br>HK\$'000 |
|---|-----------------------------|--|--|------------------------------|
| Other payables  | 2,697                       | 2,697  | 2,697                                  | —                            |
| Amount due to a shareholder                             | 439                         | 439  | 439                                    | —                            |
|   | 3,136                       | 3,136  | 3,136                                  | —                            |
| Financial guarantee issued<br>Maximum amount guaranteed | —                           | 707,641  | 707,641                                | —                            |

## Notes to the Financial Statements

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### 41. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (c) Interest rate risk

The Group's interest rate risk arises primarily from its borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's interest rate profile as monitored by management is set out below:

|                           | The Group                 |               | The Group                 |               |
|---------------------------|---------------------------|---------------|---------------------------|---------------|
|                           | Effective Interest Rate % | 2011 HK\$'000 | Effective Interest Rate % | 2010 HK\$'000 |
| Variable rate borrowings: |                           |               |                           |               |
| Bank loans                | 6.59%–8.09%               | 1,009,792     | 6.11%–7.37%               | 1,102,634     |

At 31 December 2011, since all bank loans were obtained for the purpose of financing the railway construction, all related interest expenses are capitalised in construction in progress. Accordingly, any change in interest rates, would not affect the Group's loss for the year and accumulated losses.

At 31 December 2010, it is estimated that a general increase or decrease of 100 basis points in interest rates, with all other variables held constant, would increase or decrease the Group's loss for the year and accumulated losses by HK\$2,509,000.

The sensitivity analysis for the year ended 31 December 2010 above has been determined assuming that the change in interest rates had occurred at the reporting date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date.

#### (d) Currency risk

Currency risk to the Group is minimal as most of the Group's sales and purchases which give rise to receivables, payables and cash balances are carried out in the functional currency of the operations to which the transactions relate and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

All the Group's borrowings are denominated in the functional currency of the entity taking out the loan. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings.

#### (e) Equity price risk

The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of the contingent consideration payable of the Group and the share prices of the Group's trading securities at the reporting date.

## Notes to the Financial Statements

31 December 2011

### 41. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (e) Equity price risk (Continued)

##### *Sensitivity analysis*

The following table indicates the approximate change in the Group's loss for the year and other components of consolidated equity in response to reasonably possible changes in the Company's own share price for the fair value of the contingent consideration payables and the share prices of the Group's trading securities at the reporting date. A positive number below indicates an increase in loss for the year and accumulated losses and a negative number below indicates a decrease in loss for the year and accumulated losses where the relevant equity prices increased by 10%. Had the relevant equity prices been 10% lower, there would be an equal and opposite effect on the loss for the year and accumulated losses.

| The Group and Company                                   | Increase in the relevant risk variable | 2011   | Effect on other components of equity<br>HK\$'000 | Increase in the relevant risk variable | 2010   | Effect on other components of equity<br>HK\$'000 |
|---|--|--|--|--|--|--|
|   |  | Effect on loss for the year and accumulated losses<br>HK\$'000 |  |  | Effect on loss for the year and accumulated losses<br>HK\$'000 |  |
| — Company's own share price                             | 10%                                    | 5,289  | —  | 10%                                    | 5,810  | —  |
| — financial assets at fair value through profit or loss | 10%                                    | (4,482)  | —  | 10%                                    | (10,137)   | —  |
|   | 10%                                    | 807  | —  | 10%                                    | (4,327)  | —  |

The sensitivity analysis has been determined assuming that the reasonably possible change in the relevant risk variables had occurred at the reporting date and had been applied to the exposure to equity price risk in existence at that date. It is also assumed that the fair value of the Group's equity would change in accordance with the historical correlation with the relevant risk variables and that all other variables remain constant. The stated change represents management's assessment of reasonably possible change in the relevant risk variable over the period until the next annual reporting date.

#### (f) Fair values estimation

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

## Notes to the Financial Statements

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### 42. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2011 and 2010 may be categorised as follows:

|  | <b>The Group</b> |           |
|--|------------------|-----------|
|  | <b>2011</b>      | 2010      |
|  | <b>HK\$'000</b>  | HK\$'000  |
| <b>Financial assets</b>                                  |                  |           |
| Fair value through profit or loss                        | <b>44,815</b>    | 125,785   |
| Loans and receivables (including cash and bank balances) | <b>239,804</b>   | 623,543   |
| <b>Financial liabilities</b>                             |                  |           |
| Fair value through profit or loss                        |                  |           |
| — Contingent consideration payable                       | <b>52,892</b>    | 58,096    |
| Financial liabilities measured at amortised cost         | <b>1,049,414</b> | 1,207,352 |

HKFRS 7 requires disclosure for financial instruments that are carried at fair value by level of the following fair value measurement hierarchy:

- Level 1 — Quoted price (unadjusted) in active markets for identical assets or liabilities.
- Level 2 — Inputs other than quoted price included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.
- Level 3 — Inputs for the asset or liability that are not based on observable market data.

The Group's trading securities and contingent consideration payable are measured at fair value. During the year ended 31 December 2010, trading securities of HK\$23,576,000 was transferred from Level 1 to Level 2, and HK\$840,000 was transferred from Level 1 to Level 3. There were no transfers between instruments in Level 2 and Level 3 during both years.

During the year ended 31 December 2011, the Group had recognised a loss of HK\$840,000 for its Level 3 financial assets and included in other income, gains and losses. There were no purchase, sales, issues or settlements of this financial assets during the year.

| <b>At 31 December 2011</b>       | <b>Level 1</b>  | <b>Level 2</b>  | <b>Level 3</b>  | <b>Total</b>    |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                  | <b>HK\$'000</b> | <b>HK\$'000</b> | <b>HK\$'000</b> | <b>HK\$'000</b> |
| <b>Assets</b>                    |                 |                 |                 |                 |
| Trading securities               | <b>44,815</b>   | —               | —               | <b>44,815</b>   |
| <b>Liabilities</b>               |                 |                 |                 |                 |
| Contingent consideration payable | —               | —               | <b>52,892</b>   | <b>52,892</b>   |
| <b>At 31 December 2010</b>       | <b>Level 1</b>  | <b>Level 2</b>  | <b>Level 3</b>  | <b>Total</b>    |
|                                  | <b>HK\$'000</b> | <b>HK\$'000</b> | <b>HK\$'000</b> | <b>HK\$'000</b> |
| <b>Assets</b>                    |                 |                 |                 |                 |
| Trading securities               | 101,369         | 23,576          | 840             | 125,785         |
| <b>Liabilities</b>               |                 |                 |                 |                 |
| Contingent Consideration payable | —               | —               | 58,096          | 58,096          |

Reconciliation for financial liabilities carried at fair value based on significant unobservable inputs (Level 3) are included in Note 28.

## Notes to the Financial Statements

31 December 2011

### 43. LITIGATIONS

There are two outstanding litigations cases between the Company and Mr. Chan Tat Chee ("Mr. Chan"), a former director of the Company:

- (a) On 6 January 2009, the Company sued against Mr. Chan for the return of a sum of HK\$3,000,000 being a sum advanced to him in July 2005. Mr. Chan defended and counterclaimed the Company for a total sum of HK\$17,046,206 being his loan to the Company.
- (b) On 9 March 2009, Mr. Chan claimed against the Company for a sum of HK\$1,500,000 being his loan advanced to the Company and the Company defended the suit.

Since a bankruptcy order had been issued against Mr. Chan on 22 November 2010, all the properties of Mr. Chan had become vested in the Official Receiver, including the cause of action of these two outstanding litigations cases. Upon the request by the Company of discontinuing these two outstanding litigations cases with no costs and further claims against each other, the Official Receiver indicated that it decided not to take over the conduct of the proceedings in these two outstanding litigations cases.

The directors are of the opinion that the above outstanding litigations cases will not have any material impact on the financial statements.

## Five-Year Financial Summary

Year ended 31 December 2011

|  | <b>2011</b><br><b>HK\$'000</b> | 2010<br>HK\$'000 | 2009<br>HK\$'000 | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
|--|--------------------------------|------------------|------------------|------------------|------------------|
| Turnover                                   |                                |                  |                  |                  |                  |
| Continuing operations                      | —                              | —                | —                | —                | —                |
| Discontinued operations                    | <b>49,472</b>                  | 130,101          | 111,687          | 108,130          | 81,428           |
|  | <b>49,472</b>                  | 130,101          | 111,687          | 108,130          | 81,428           |
| Profit/(loss) before income tax:           |                                |                  |                  |                  |                  |
| Continuing operations                      | <b>(142,928)</b>               | (47,382)         | (1,544)          | (13,092)         | 7,617            |
| Discontinued operations                    | <b>(1,291)</b>                 | (60,180)         | 2,775            | (27,627)         | (42,999)         |
|  | <b>(144,219)</b>               | (107,562)        | 1,231            | (40,719)         | (35,382)         |
| Income tax credit/(expense)                | —                              | 731              | (7,309)          | 3                | —                |
| Loss for the year                          | <b>(144,219)</b>               | (106,831)        | (6,078)          | (40,716)         | (35,382)         |
| Non-controlling interests                  | <b>(6,522)</b>                 | (4,806)          | (2,153)          | (2,851)          | (4,271)          |
| Loss attributable to owners of the Company | <b>(137,697)</b>               | (102,025)        | (3,925)          | (37,865)         | (31,111)         |
| <b>ASSETS AND LIABILITIES</b>              |                                |                  |                  |                  |                  |
| Total assets                               | <b>2,009,225</b>               | 2,301,703        | 1,503,150        | 753,310          | 478,653          |
| Total liabilities                          | <b>(1,102,306)</b>             | (1,283,743)      | (734,707)        | (397,031)        | (440,498)        |
|  | <b>906,919</b>                 | 1,017,960        | 768,443          | 356,279          | 38,155           |
| Equity attribute to owners of the Company  | <b>665,839</b>                 | 782,059          | 538,626          | 353,257          | 32,627           |
| Non-controlling interests                  | <b>241,080</b>                 | 235,901          | 229,817          | 3,022            | 5,528            |
|  | <b>906,919</b>                 | 1,017,960        | 768,443          | 356,279          | 38,155           |

Note: The financial information for the years ended 31 December 2007 to 2010 had been restated for the operations discontinued in 2011.