

亞洲能源物流
ASIAENERGY
Logistics

Carrying the World's Future

2013 INTERIM
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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Management Discussion and Analysis

Business Review

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

Railway Construction and Operations

The Group’s investment in railway construction and operations started in July 2009. The Group acquired 100% equity interest in Gofar Holdings Limited (“Gofar”) which 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 referred to as 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”).

Relevant approvals for the construction of the Zunxiao Railway were obtained in 2008 and major construction work for the first 25 kilometre of the Tangshan Section has been completed and is ready for trial runs. 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 issued to the Tangcheng Company was renewed on 29 June 2012, effective for one year. The operating range covers Zunhua South Station (遵化南站), which is the transfer station of the national railway, to Santunying Station (三屯營站).

* for identification purposes only

Management Discussion and Analysis (Continued)

The construction of the whole 121.7 kilometre Zunxiao Railway was originally scheduled to be completed by the end of 2010. Due to the unforeseen circumstances encountered during the construction stage for infrastructure of this scale, the construction had been severely delayed and as disclosed in the Company's 2012 Annual Report, the completion of the construction will be delayed to the end of 2013. As such, additional resources were required to cover the additional costs caused by the delay in construction which would be financed by shareholders' contribution and bank loans in the ratio of 35% and 65% respectively. In addition, the Group had financial liabilities comprising principally bank loan and related interest for the construction of the railway and the first loan installment of approximately HK\$62,780,000 is due for repayment by the end of 2013. Based on the latest construction progress report, it was very likely that completion of the construction would be further delayed beyond the end of 2013. The Company will closely monitor and review the overall railway construction progress and will take appropriate actions including reorganization.

Shipping and Logistics

The Group has also diversified its business into the dry bulk shipping industry by acquiring the entire interest in Ocean Jade Investments Limited ("Ocean Jade") in May 2010. Ocean Jade holds 50% interest in a company which is a jointly controlled entity (the "JV Company", and together with its subsidiaries, the "JV Group") with Waibert Navigation Company Limited ("Waibert"), a wholly-owned subsidiary of the Guangdong Province Navigation Holdings Company Limited, one of the key provincial government owned enterprises. The JV Company is principally engaged in the investment in ship management, dry bulk carrier chartering and operation.

Under the shareholders' agreement dated 1 December 2009 (as amended by a supplemental agreement also dated 1 December 2009) (collectively, the "JV Agreement") entered into between Ocean Jade, Waibert and the JV Company (collectively referred to as the "Parties"), the JV Group is mandated 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



Management Discussion and Analysis (Continued)

Vessel", respectively) were then 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.

Since the acquisition of the two Handy-size Vessels on 30 April 2010 and 10 August 2010, respectively, the JV Group has not made further acquisition of the remaining two vessels as planned due to the unfavourable market conditions. The latest deadline for the acquisition of the two vessels was extended to 31 December 2013 pursuant to the fifth memorandum of mutual understanding dated 28 June 2013.

Although there is no clear sign the shipping market is starting to bounce back, the volatile shipping market has shown signs of bottoming out. The directors of the JV Company are constantly monitoring the shipping market conditions and will make the move to acquire the remaining two vessels when the shipping market conditions become more favourable. Also, the Company is considering the possibilities of expanding the scope of its current shipping business operations.

The JV Group recorded a revenue of approximately HK\$38,042,000 (30 June 2012: approximately HK\$45,220,000) for the period under review, the loss from this business segment was approximately HK\$7,023,000 (30 June 2012: loss approximately HK\$5,737,000).

Financial Review

During the period under review, the Group recorded a loss of approximately HK\$31,586,000 (30 June 2012: loss approximately HK\$51,629,000). Loss per share was HK0.23 cent (30 June 2012: HK0.38 cent).

Liquidity and Financial Resources

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

Management Discussion and Analysis (Continued)

As at 30 June 2013, the Group had bank and cash balances of approximately HK\$57,502,000.

As at 30 June 2013, the Group had secured bank loans of approximately HK\$188,324,000 repayable within one to two years, approximately HK\$690,450,000 repayable within two to five years and approximately HK\$418,064,000 repayable after five years. The average effective interest rate for the period was 7.86% (2012: 8.46%).

The gearing ratio of the Group as at 30 June 2013, which is calculated as net debt divided by total capital, was approximately 62% (30 June 2012: approximately 59%).

Capital Structure

As at 30 June 2013, 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"). 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, 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 period under review, 14,700,000 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 258,300,000 share options are approximately HK\$43,394,000. The Company recognized a share option expense (a non-cash expense item) of approximately HK\$1,584,000 during the period under review.

Exposure to Fluctuation in Exchange Rates

The Group's assets, liabilities and transactions are mainly denominated either in Hong Kong dollars or Renminbi. As the exchange rate of the United States dollar to Renminbi is relatively stable due to the PRC foreign currency exchange policy and the Hong Kong dollars is pegged to the United States dollars, the directors of the Company (the



Management Discussion and Analysis (Continued)

“Directors”) consider that the Group’s currency exchange risk is within acceptable range. Therefore, no hedging devices or other alternatives have been implemented.

Pledge of Assets and Contingent Liabilities

Golden Concord Holdings Limited (“GCL”), a company beneficially owned by Mr. Zhu Gongshan, a director of various subsidiaries of the Company, had provided guarantee to the Group’s bank loan amounting to approximately HK\$1,297,000,000 at 30 June 2013 (30 June 2012: approximately HK\$1,267,000,000). In return for the GCL’s guarantee, the Group provided a counter-indemnity up to approximately HK\$756,000,000 (30 June 2012: approximately HK\$739,000,000) and a share mortgage of its shares in China Railway Logistic Holdings Limited (“CRL”) and equity and asset pledges of CRL’s subsidiaries in favour of GCL. Therefore, there was contingent liabilities of approximately HK\$756,000,000 for the Group as at 30 June 2013 (30 June 2012: approximately HK\$739,000,000).

Prospects

For the first half of 2013, the global economic uncertainty continued to affect the Group’s business. The Company is actively looking into the possibilities of broadening and restructuring its current business and investment portfolios as well as expanding the scope of its business operations. The Company is conducting a review on its current business operations and financial position with a view to formulate business plans and strategies for future business developments which would enable the Group to allocate its resources more effectively; to diversify its resources and broaden its income sources; to divest in the business operations which had not performed well as expected; and to channel and concentrate its resources to business areas which have better future prospects and exploring other business and investment opportunities.

As a first step, on 8 August 2013, a wholly owned subsidiary of the Company (the “Subsidiary”) entered into the memorandum of understanding (“MOU”) with a company incorporated in Hong Kong (“HK Company”) and the guarantor in relation

Management Discussion and Analysis (Continued)

to, among others, the establishment of a business cooperation partnership in developing an agricultural logistics park (“Agricultural Logistics Park”) located in Wuyishan City, Fujian Province of the PRC. Pursuant to the MOU, the HK Company will procure a company incorporated in the PRC (“PRC Company”), which is principally engaged in the consultation on business investment, marketing and exhibition and management and operation of agricultural products wholesale market, to negotiate with the Subsidiary for the establishment of the Agricultural Logistics Park with a view to enter into a formal cooperation agreement between the PRC Company and the Subsidiary (“Cooperation Project”). Details of the MOU were set out in the Company’s announcement dated 8 August 2013. It is believed that the MOU and, if materialised, the Cooperation Project is a step further towards the development of the Group’s business in the logistics industry.

The Group will take possible opportunities in the financial markets to raise funds to facilitate the current business operations, the Company’s future business development and to improve the Company’s working capital.

Employee and Remuneration Policy

As at 30 June 2013, the Group had 119 (31 December 2012: 135) full-time employees, 103 of whom were based in the PRC. Staff costs of the Group for the period under review, including directors’ remuneration, were approximately HK\$11,577,000 (30 June 2012: approximately HK\$15,236,000). The Group decides the remunerations 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.



Management Discussion and Analysis (Continued)

Disclosure of Interests

Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures

As at 30 June 2013, 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 of Hong Kong Limited (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 (Note)	Total	Approximate percentage of shareholding
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%

Management Discussion and Analysis (Continued)

Note:

- (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 30 June 2013.

Save as disclosed above, as at 30 June 2013, as far as the board (the “Board”) of Directors 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.

Substantial Shareholders’ and Other Persons’ Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2013, so far as is known to the Board, the following persons (other than a director or chief executive of the Company) had interests in the shares or underlying shares of the Company which were notified to the Company and the Stock Exchange



Management Discussion and Analysis (Continued)

pursuant to 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:

Long Position in the Shares and underlying Shares

Name	Capacity	Number of Shares and underlying Shares held	Approximate percentage of shareholding
Mr. Wong Kin Ting ("Mr. Wong")	Interest of controlled corporations	4,552,970,325 (Note 1)	35.41%
Mr. Zhu Gongshan ("Mr. Zhu")	Beneficiary of a discretionary trust & interest of controlled corporations	2,137,450,000 (Note 2)	16.62%
Credit Suisse Trust Limited ("CST")	Trustee	2,000,000,000 (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, a trust fund to which Mr. Zhu is both a founder and a beneficiary, details of which are described in Note 3 below, and

Management Discussion and Analysis (Continued)

- (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 ("APEFL"). APEFL is 50% controlled by Serangoon Limited and 50% controlled by Seletar Limited and both Serangoon Limited and Seletar Limited are 100% controlled by CST.

Out of these 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 (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 30 June 2013.

Save as disclosed above, as at 30 June 2013, 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 Share 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.



Management Discussion and Analysis (Continued)

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

Management Discussion and Analysis (Continued)

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 period under review:

Directors or category of participant	As at 1.1.2013	Exercised during the period	Cancelled during the period	Lapsed during the period	As at 30.6.2013
Employees (in aggregate)	700,000	—	—	—	700,000
	<i>(Note A)</i>				
	500,000	—	—	—	500,000
	<i>(Note B)</i>				

Notes:

- (A) These share options were granted on 26 May 2005 which may be exercised during the period from 26 May 2005 to 25 May 2015 at an exercise price of HK\$0.69 per Share.
- (B) These share options were granted on 3 August 2005 which may be exercised during the period from 3 August 2005 to 2 August 2015 at an exercise price of HK\$0.688 per Share.

During the period under review, no options under the 2002 Option Scheme were exercised, cancelled or lapsed.

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.



Management Discussion and Analysis (Continued)

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

Management Discussion and Analysis (Continued)

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, a shareholders' resolution was passed at the annual general meeting held on 26 April 2010 to refresh the scheme mandate limit of the 2008 Option Scheme such that the total number of Shares which may be issued upon exercise of all the options to be granted under the 2008 Option Scheme (as refreshed) would amount to 1,285,702,710 Shares, representing 10% of the issue share capital of the Company as at the date of passing of the resolution. The exercise 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. During the period under review, 14,700,000 share options have lapsed following the cessation of employment of the relevant grantees.

Management Discussion and Analysis (Continued)

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

Directors or category of participant	Exercise period of the share options	Exercise price of share options	As at	Granted	Exercised	Lapsed	As at	
			1.1.2013	during the period	during the period	during the period	30.6.2013	
<i>HKS</i>								
Mr. Liang Jun	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 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 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 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 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 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	
Employees (in aggregate)	21.4.2011 to 20.4.2021	0.168	42,080,000	—	—	8,400,000	33,680,000	
	21.4.2012 to 20.4.2021	0.168	31,560,000	—	—	6,300,000	25,260,000	
	21.4.2013 to 20.4.2021	0.168	24,360,000	—	—	—	24,360,000	
			0.168	273,000,000	—	—	14,700,000	258,300,000

During the period under review, no options under the 2008 Option Scheme were exercised.

Management Discussion and Analysis (Continued)

Corporate Governance

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 Corporate Governance Code and Corporate Governance Report (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 shareholder value.

Throughout the period of six months ended 30 June 2013, the Company has complied with the CG Code save as specified and explained below:

Code Provision A.2.1

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. However, the position of chief executive of the Company (the "CE") has remained vacant since March 2009 and the duties of the CE have been performed collectively by the executive Directors. The Board considered that the vacancy of the position of CE did not cast any material impact on the operations of the Group but should a candidate with suitable knowledge, skill and experience be identified, the Company will make the appointment accordingly.

Model Code of Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers 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 (the "Model Code"). Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the Model Code throughout the period under review.



Management Discussion and Analysis (Continued)

Audit Committee

The Company has established an audit committee (the “Audit Committee”) 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, namely Mr. Chan Chi Yuen, Mr. Zhang Xi and Professor Sit Fung Shuen, Victor.

During the period under review, the Audit Committee performed its duties according to its written terms of reference.

The unaudited consolidated results of the Group for the six months ended 30 June 2013 have been reviewed by the Audit Committee.

Purchase, Sale or Redemption of Listed Securities of the Company

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

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2013

	Notes	For the six months ended 30 June	
		2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Turnover	3	—	—
Other income, gains and losses	4	(1,532)	(8,206)
Depreciation and amortisation		(3,430)	(4,179)
Staff costs		(11,577)	(15,236)
Change in fair value of contingent consideration payable		4,482	(3,971)
Share of results of jointly controlled entity		(7,023)	(5,737)
Other operating expenses		(12,506)	(14,300)
Loss before income tax	7	(31,586)	(51,629)
Income tax	8	—	—
Loss for the period		(31,586)	(51,629)
Other comprehensive income			
Exchange difference arising on translation of financial statements of foreign operations which may be reclassified subsequently to profit or loss		11,307	(3,569)
Total comprehensive income for the period		(20,279)	(55,198)



Condensed Consolidated Statement of Comprehensive Income (Continued)

For the six months ended 30 June 2013

	Notes	For the six months ended 30 June	
		2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Loss for the period attributable to:			
Owners of the Company		(28,975)	(48,496)
Non-controlling interests		(2,611)	(3,133)
		(31,586)	(51,629)
Total comprehensive income for the period attributable to:			
Owners of the Company		(21,767)	(50,577)
Non-controlling interests		1,488	(4,621)
		(20,279)	(55,198)
Loss per share			
— basic and diluted (<i>HK cent per share</i>)	9	(0.23)	(0.38)

Condensed Consolidated Statement of Financial Position

As at 30 June 2013

	At 30 June 2013 HK\$'000 (Unaudited)	At 31 December 2012 HK\$'000 (Audited)
ASSETS AND LIABILITIES		
Non-current assets		
Property, plant and equipment	10,358	11,202
Intangible assets	86,505	88,683
Construction in progress	1,918,119	1,818,354
Railway construction prepayment	88,285	89,234
Interest in a jointly controlled entity	—	—
	2,103,267	2,007,473
Current assets		
Other receivables and prepayments	16,286	21,622
Trading securities	53,547	55,723
Loan to an associate	15,909	18,150
Cash and cash equivalents	57,502	113,279
	143,244	208,774
Total assets	2,246,511	2,216,247
Current liabilities		
Other payables	72,238	48,852
Bank loans	62,783	61,676
Amount due to a jointly controlled entity	20,849	13,826
Amounts due to minority equity owners of subsidiaries	9,183	9,021
	165,053	133,375
Net current (liabilities)/assets	(21,809)	75,399
Total assets less current liabilities	2,081,458	2,082,872



Condensed Consolidated Statement of Financial Position (Continued)

As at 30 June 2013

	<i>Notes</i>	At 30 June 2013 HK\$'000 (Unaudited)	At 31 December 2012 HK\$'000 (Audited)
Non-current liabilities			
Bank loans		1,234,055	1,212,292
Contingent consideration payable		6,498	10,980
		1,240,553	1,223,272
Net assets			
		840,905	859,600
Capital and reserves attributable to owners of the Company			
Share capital	13	128,570	128,570
Reserves		476,729	496,912
Equity attributable to owners of the			
Company		605,299	625,482
Non-controlling interests		235,606	234,118
TOTAL EQUITY			
		840,905	859,600

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013

	Attributable to owners of the Company						Total	Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserves	Share option reserve	Translation reserve	Accumulated losses			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
	(Note 13)								
As at 1 January 2013 (Audited)	128,570	1,268,576	4,190	34,924	31,959	(842,737)	625,482	234,118	859,600
Loss for the period	—	—	—	—	—	(28,975)	(28,975)	(2,611)	(31,586)
Other comprehensive income									
— Exchange difference arising on translation of financial statements of foreign operations which may be reclassified subsequently to profit or loss	—	—	—	—	7,208	—	7,208	4,099	11,307
Total comprehensive income for the period	—	—	—	—	7,208	(28,975)	(21,767)	1,488	(20,279)
Recognition of share option expenses	—	—	—	1,584	—	—	1,584	—	1,584
Forfeiture of share options	—	—	—	(1,463)	—	1,463	—	—	—
As at 30 June 2013 (Unaudited)	128,570	1,268,576	4,190	35,045	39,167	(870,249)	605,299	235,606	840,905

Condensed Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2012

	Attributable to owners of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserves	Share option reserve	Translation reserve	Accumulated losses	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note 13)								
As at 1 January 2012 (Audited)	128,570	1,268,576	4,190	28,556	31,937	(795,990)	665,839	241,080	906,919
Loss for the period	—	—	—	—	—	(48,496)	(48,496)	(3,133)	(51,629)
Other comprehensive income									
— Exchange difference arising on translation of financial statements of foreign operations which may be reclassified subsequently to profit or loss	—	—	—	—	(2,081)	—	(2,081)	(1,488)	(3,569)
Total comprehensive income for the period	—	—	—	—	(2,081)	(48,496)	(50,577)	(4,621)	(55,198)
Recognition of share based payments	—	—	—	4,524	—	—	4,524	—	4,524
As at 30 June 2012 (Unaudited)	128,570	1,268,576	4,190	33,080	29,856	(844,486)	619,786	236,459	856,245

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2013

	For the six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash generated from/(used in) operating activities	17,462	(27,634)
Net cash used in investing activities	(65,410)	(155,021)
Net cash generated from financing activities	—	263,761
Net (decrease)/increase in cash and cash equivalents	(47,948)	81,106
Cash and cash equivalents at beginning of the period	113,279	211,157
Effect of foreign exchange rate changes	(7,829)	(786)
Cash and cash equivalents at end of the period	57,502	291,477



Notes to the Condensed Consolidated Interim Financial Statements

1. Basis of Preparation and Going Concern Assumption

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

During the period, the Group incurred a loss of approximately HK\$31,586,000 and had net current liabilities of approximately HK\$21,809,000 as at 30 June 2013. Further, there is capital expenditure in respect of the capital commitment for the construction of the railway as disclosed in Note 15 to these condensed consolidated interim financial statements which is expected to be incurred during the year ending 31 December 2013. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The directors have carried out a review of the cash flow forecast of the Group for the twelve months ending 30 June 2014 and consider that the Group will have sufficient working capital to meet its financial obligations as and when they fall due for the twelve months from 30 June 2013. Accordingly, the directors are satisfied that it is appropriate to prepare these condensed consolidated interim financial statements on a going concern basis.

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

1. Basis of Preparation and Going Concern Assumption

(Continued)

If the going concern basis is not appropriate, adjustments would have to be made to write down the values of the assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the HKICPA (hereinafter collectively referred to as the “HKFRSs”) and the disclosure requirements of Hong Kong Companies Ordinance and the Listing Rules.

2. Adoption of New and Revised Hong Kong Financial Reporting Standards

The accounting policies and methods of computation adopted in the 2012 annual financial statements have been applied consistently to these unaudited condensed consolidated interim financial statements, except for the accounting policy changes that are expected to be reflected in the 2013 annual financial statements.

In the current period, the Group has adopted all the new/revised HKFRSs and amendments to HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2013. The adoption of these new/revised HKFRSs and amendments to HKFRSs did not result in significant changes to the Group’s financial statements for the current period and prior periods except as stated below.



Notes to the Condensed Consolidated Interim Financial Statements (Continued)

2. Adoption of New and Revised Hong Kong Financial Reporting Standards *(Continued)*

Amendments to HKAS 1 “Presentation of Financial Statements”

The Amendments to HKAS 1 requires additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (i) items that will not be reclassified subsequently to profit or loss; and (ii) items that may be reclassified subsequently to profit or loss. The amendments have been applied retrospectively. The adoption of Amendments to HKAS 1 has no significant impact on the Group’s results and financial position.

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

3. Turnover

The Group did not generate any turnover during the periods.

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

4. Other Income, Gains and Losses

	For the six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss on trading securities		
— change in fair value of trading securities	(2,176)	(9,166)
Loan interest income	551	553
Bank interest income	93	407
	(1,532)	(8,206)



Notes to the Condensed Consolidated Interim Financial Statements (Continued)

5. Segment Information

The Group has only one reportable segment as at 30 June 2013 and 2012 which is railway construction and operations.

Unaudited Six months ended 30 June 2013	Railway construction and operations HK'000	Unallocated HK'000	Total HK'000
Segment revenue from external customers	—	—	—
Segment loss	(5,304)	(16,538)	(21,842)
Interest revenue	—	644	644
Depreciation of property, plant, and equipment	(769)	(483)	(1,252)
Amortisation of intangible assets	—	(2,178)	(2,178)
Loss on trading securities	—	(2,176)	(2,176)
Impairment loss on loan to an associate	—	(2,241)	(2,241)
Change in fair value of contingent consideration payable	—	4,482	4,482
Share of results of jointly controlled entity	—	(7,023)	(7,023)
Loss before income tax	(6,073)	(25,513)	(31,586)

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

5. Segment Information *(Continued)*

Unaudited Six months ended 30 June 2012	Railway construction and operations HK'000	Unallocated HK'000	Total HK'000
Segment revenue from external customers	—	—	—
Segment loss	(6,249)	(17,067)	(23,316)
Interest revenue	—	960	960
Depreciation of property, plant, and equipment	(1,030)	(611)	(1,641)
Amortisation of intangible assets	—	(2,538)	(2,538)
Loss on trading securities	—	(9,166)	(9,166)
Impairment loss on loan to an associate	—	(6,220)	(6,220)
Change in fair value of contingent consideration payable	—	(3,971)	(3,971)
Share of results of jointly controlled entity	—	(5,737)	(5,737)
Loss before income tax	(7,279)	(44,350)	(51,629)



Notes to the Condensed Consolidated Interim Financial Statements (Continued)

5. Segment Information (Continued)

	As at 30 June 2013 HK\$'000 (Unaudited)	As at 31 December 2012 HK\$'000 (Audited)
Segment assets		
Railway construction and operations	2,015,473	1,957,848
Intangible assets	86,505	88,683
Trading securities	53,547	55,723
Loan to an associate	15,909	18,150
Other unallocated corporate assets	75,077	95,843
Consolidated total assets	2,246,511	2,216,247
Segment liabilities		
Railway construction and operations	1,375,850	1,327,617
Contingent consideration payable	6,498	10,980
Other unallocated corporate liabilities	23,258	18,050
Consolidated total liabilities	1,405,606	1,356,647

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

6. Finance Costs

	For the six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank borrowings:		
— wholly repayable after five years	50,897	71,847
Total borrowing costs	50,897	71,847
Less: amount capitalised in construction in progress on specific borrowings	(50,897)	(71,847)
	—	—

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

7. Loss Before Income Tax

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

	For the six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	1,252	1,641
Amortisation of intangible assets	2,178	2,538
	3,430	4,179
Staff cost		
— Salaries, wages and other benefits	9,320	9,979
— Equity-settled share-based payments	1,584	4,524
— Contributions to defined contribution retirement scheme	673	733
	11,577	15,236
Auditor's remuneration	108	127
Impairment loss on loan to an associate	2,241	6,220
Operating lease rentals in respect of land and buildings	2,407	2,111
Change in fair value of trading securities	2,176	9,166
Change in fair value of contingent consideration payable	(4,482)	3,971
Net exchange loss	114	—

8. Income Tax

No provision for Hong Kong profits tax has been made in the condensed consolidated interim financial statements as the Group's operations in Hong Kong had no assessable profit for the six months ended 30 June 2013 and 2012.

No provision for the People's Republic of China ("PRC") enterprise income tax has been made in the condensed consolidated interim financial statements as the Group's operations in the PRC had no assessable profit for the six months ended 30 June 2013 and 2012.

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

9. Loss Per Share

The calculation of the basic loss per share is based on the loss for the period attributable to owners of the Company of approximately HK\$28,975,000 (six months ended 30 June 2012: approximately HK\$48,496,000) and 12,857,027,100 ordinary shares (six months ended 30 June 2012: 12,857,027,100 ordinary shares) in issue during the six months ended 30 June 2013.

Diluted loss per share was not presented for the six months ended 30 June 2013 and 2012 as the potential ordinary shares are anti-dilutive.

10. Dividend

No dividend was paid or declared by the Company during the six months ended 30 June 2013 and 2012.

The directors do not recommend the payment of any dividend in respect of the six months ended 30 June 2013 and 2012.



Notes to the Condensed Consolidated Interim Financial Statements (Continued)

11. Trading Securities

	At	At
	30 June	31 December
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Hong Kong listed equity securities at fair value	53,547	55,723

For investments which have been suspended from trading as at the end of reporting period, 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. At 31 December 2012, the carrying amounts of these investments were HK\$6,405,000. No trading securities of the Group were suspended from trading as at 30 June 2013.

12. Other Payables

	At	At
	30 June	31 December
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Construction cost payables	42,959	43,582
Other payables	29,279	5,270
	72,238	48,852

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

13. Share Capital

	Number of ordinary shares of HK\$0.01 each	Amount HK\$'000
Authorised ordinary shares:		
At 30 June 2013 and 31 December 2012	120,000,000,000	1,200,000
Issued and fully paid ordinary shares:		
At 30 June 2013 and 31 December 2012	12,857,027,100	128,570
	Number of preference shares of HK\$0.01 each	Amount HK\$'000
Authorised preference shares class A:		
At 30 June 2013 and 31 December 2012	10,000,000,000	100,000
Authorised preference shares class B:		
At 30 June 2013 and 31 December 2012	10,000,000,000	100,000

No preference shares have been issued as at 30 June 2013 and 31 December 2012.



Notes to the Condensed Consolidated Interim Financial Statements (Continued)

14. Share Options

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 number and weighted average exercise prices of share option are as follow:

	Number of options '000	Weighted average exercise price HK\$
As at 1 January 2012	294,200	0.1680
Forfeited during the year	(21,200)	0.1680
As at 31 December 2012	273,000	0.1680
Forfeited during the period	(14,700)	0.1680
As at 30 June 2013	258,300	0.1680

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.

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

15. Capital Commitments

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

	At	At
	30 June	31 December
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Authorised and contracted for in respect of		
construction of railway:		
— Zunxiao Company	156,237	157,993
— Kuanping Company	472	4,440
— Tangcheng Company	181,752	183,290
	338,461	345,723

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 30 June 2013 and 31 December 2012.



Notes to the Condensed Consolidated Interim Financial Statements (Continued)

16. Events After the Reporting Period

On 8 August 2013, a wholly owned subsidiary of the Company entered into the Memorandum Of Understanding (“MOU”) with an independent third party and a guarantor in relation to, among others, the establishment of a business corporation partnership in developing an agricultural logistics park (“Agricultural Logistics Park”) located in Wuyishan City, Fujian Province of the PRC.

The Company agrees to pay HK\$22,000,000 as earnest money upon the signing of the MOU to obtain an exclusive period of 3 months from the date of the MOU to conduct feasibility study on the prospect of the Agricultural Logistics Park and the independent third party agrees to use their best efforts to procure a company incorporated in the PRC to forbid other potential investors from participation in the cooperation project during the exclusive period.

If no formal cooperation agreement in relation to the Agricultural Logistics Park is entered into within one month after the exclusive period or all parties agree to terminate the MOU, the independent third party will return the earnest money in full to the Company.

17. Approval of the Condensed Consolidated Interim Financial Statements

The condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 23 August 2013.