

亞洲能源物流
ASIAENERGY
Logistics

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

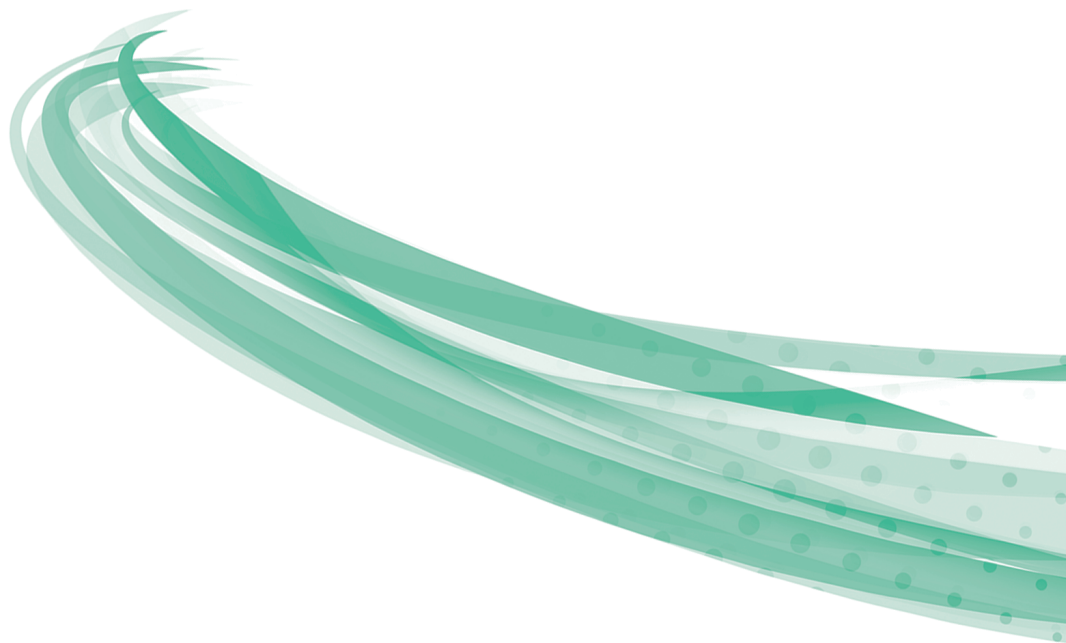
INTERIM REPORT

2016



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Management Discussion and Analysis

Business Review and Prospects

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

Railway Construction and Operations

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

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

* for identification purposes only

Management Discussion and Analysis

As announced by the Company on 28 February 2014, the Company's indirectly wholly-owned subsidiary, China Railway Logistic Holdings Limited (the "Vendor"), and 河北建投交通投資有限責任公司 (Hebei Construction, Transportation and Investment Co., Ltd*) (the "Purchaser") entered into three disposal agreements (the "Disposal Agreements") for the disposal (the "Disposal") of the Group's majority equity interests in Zunxiao Company and Kuanping Company and the entire equity interest in Tangcheng Company (the "Relevant Interests"). Since the signing of the Disposal Agreements, the Company, the Vendor and the Purchaser have been striving to address the outstanding issues in order to fulfill the conditions precedent to the completion of the Disposal collaboratively. However, as disclosed by the Company previously, the outstanding issues related mainly to the assessment of the scope of compensation payable to the overlaid mine owner have yet to be resolved by the parties involved.

As announced by the Company on 4 August 2016, the Vendor had been informed by a letter from the Purchaser stating that the Purchaser no longer has any further intention to proceed with the acquisition of the Relevant Interests due to the level of complexity of the Zunxiao Railway and the difficulties involved. In the circumstances, the Vendor has sought an advice from its legal advisers as to PRC law who, on the basis that the Purchaser has stated that the Purchaser no longer has any further intention to proceed with the acquisition of the Relevant Interests, opined that the Vendor may exercise its rights to dissolve the Disposal Agreements by serving notice on the Purchaser. As the Purchaser did not respond nor contest the notice within the prescribed time limit, the Disposal Agreements were considered dissolved with effect from 4 August 2016.

Notwithstanding the prolonged delay of the Disposal mainly related to the assessment of the scope of compensation payable to the overlaid mine owner which are yet to be resolved by the parties involved as disclosed in the Company's previous announcements, the Company would endeavour to look for interested buyers of the Relevant Interests.

* for identification purposes only

Management Discussion and Analysis

Shipping and Logistics

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

For the first half of 2016, the Baltic Dry Index (BDI) fell to new record lows in February and period rates dropped well below operating costs across all vessels sizes. Although the BDI has since then recovered from below 300 in February to the level of 660 at the end of June 2016, the outlook for the shipping industry remains uncertain without clear sign of significant improvement. It is expected that the Company's shipping operation will continue to facing a challenging shipping market environment for the second half of 2016.

Pursuant to the JV agreement entered into on 1 December 2009 (as amended by a supplemental agreement dated 1 December 2009) (collectively, the “JV Agreement”) among the parties to the JV Agreement, a total of four vessels are to be acquired. However, due to the continuing poor performance of the shipping market for the past few years, the JV Group has not made further acquisition of the remaining two vessels as planned since its acquisition of the first two vessels in 2010. The acquisition of the remaining two vessels would depend, among other factors, the prevailing global shipping market condition and the Company will make further announcement as and when appropriate.

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

Management Discussion and Analysis

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

Details of the business segment of the Group are set out in Note 5 to the unaudited condensed consolidated interim financial statements.

Financial Review

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

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

Financial Resources, Liquidity and Gearing Ratio

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

As at 30 June 2016, the Group had bank and cash balances of approximately HK\$12,140,000 (31 December 2015: approximately HK\$30,512,000).

Management Discussion and Analysis

As at 30 June 2016, the Group had secured bank loans of approximately HK\$277,879,000 repayable within one year, approximately HK\$277,879,000 repayable within one to two years, approximately HK\$594,382,000 repayable within two to five years. The effective interest rate for the period was 6.09% per annum.

As at 30 June 2016, the Group had unsecured other borrowings of approximately HK\$8,952,000 repayable within one year and approximately HK\$342,249,000 repayable on demand. Other borrowings of approximately HK\$33,230,000 are interest bearing at 6.5% to 8% per annum with the remaining balances of HK\$317,971,000 being interest free.

As at 30 June 2016, the Company had outstanding convertible notes in the principal amount of HK\$4,000,000. The convertible notes due 1 April 2018 were issued at the coupon rate of 2% per annum.

As at 30 June 2016, the gearing ratio of the Group was approximately 97% (31 December 2015: approximately 84%). For this purpose, the gearing ratio is calculated as net debt divided by adjusted capital.

Share Capital

As at 30 June 2016, the total number of shares of the Company (the "Shares") in issue was 14,184,215,584.

During the period under review, convertible notes in the principal amount of HK\$1,250,000 were converted into 24,950,115 Shares, details of which are set out in the announcements of the Company published between January 2016 to June 2016.

Details of the movement in the Company's share capital are set out in Note 14 to the unaudited condensed consolidated interim financial statements.

Management Discussion and Analysis

Fundraising Activities

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

On 30 March 2015, shareholders' approval was obtained for, among other things, the issue of the Convertible Notes and the issue of the conversion shares upon exercise of the conversion rights attached to the Convertible Notes in an aggregate principal amount of up to HK\$60 million (the "Tranche 1 Notes"). As at 26 February 2016, the Tranche 1 Notes were fully issued, subscribed and converted and approximately HK\$55 million (net of arrangement fee) was raised.

Pursuant to the Subscription Agreement, the Company was granted an option (the "Option") to require the Subscriber to subscribe for the rest of the Convertible Notes in an aggregate principal amount of up to HK\$40 million (the "Tranche 2 Notes") during the option period (being the period commencing from and including the conversion date of the last of the Convertible Notes in Tranche 1 Notes to and including the tenth business day thereafter) subject to further shareholders' approval having been obtained.

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

Management Discussion and Analysis

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

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

Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, and Future Plan for Material Investments or Capital Assets

Save for those disclosed in the section headed "Business Review and Prospect" above, there were no other significant investments held, nor were there any material acquisitions or disposals of subsidiaries during the period under review.

As at the date of this Report, there was no plan authorized by the board (the "Board") of directors (the "Directors") of the Company for any material investments or additions of capital assets.

Management Discussion and Analysis

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 facilities in aggregate, up to RMB1,033 million (equivalent to approximately HK\$1,209 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\$705 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 30 June 2016, the outstanding bank loans amounted to approximately RMB983 million (equivalent to approximately HK\$1,150 million). Therefore, according to the Group's percentage equity interest holdings in the subsidiaries, there was a contingent liability of approximately RMB573 million (equivalent to approximately HK\$670 million).

Capital Commitments

As at 30 June 2016, the Group had capital commitment of approximately HK\$274,000,000 (31 December 2015: approximately HK\$279,000,000), details of which are set out in Note 15 to the unaudited condensed consolidated interim financial statements.

Exposure to Fluctuation in Exchange Rates

The Group's assets, liabilities and transactions are mainly denominated 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, the Directors consider that the Group's currency exchange risk is minimal. Therefore, no hedging devices or other alternatives have been implemented.

Management Discussion and Analysis

Employees

As at 30 June 2016, the Group had 101 (31 December 2015: 97) full-time employees, 84 of whom were based in the PRC. Staff costs of the Group for the period under review, including directors' remuneration, were approximately HK\$8,899,000 (30 June 2015: approximately HK\$9,544,000). 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.

During the period under review, the Company has one share options scheme, namely, the 2008 Option Scheme.

The 2008 Option Scheme was adopted on 20 August 2008 and is valid and effective for a period of ten years commencing on 20 August 2008. A shareholders' resolution was passed at the annual general meeting held on 3 June 2010 to refresh the scheme mandate limit such that the maximum number of Shares which may be issued upon exercise of all the options would amount to 1,285,702,710 Shares. As at the date of this Report, 312,200,000 share option were granted and accepted.

Details of the 2008 Option Scheme are set out in page 20 to 24 of this Report.

Management Discussion and Analysis

Subsequent Events

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

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

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

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

Corporate Governance and Other Information

Corporate Governance

Compliance with Corporate Governance Code

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

Throughout the period of six months ended 30 June 2016, the Company has complied with the CG Code save as specified and explained below:

Code Provision A.2.1

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

Code Provision A.6.7

Code provision A.6.7 stipulates, among other things, that the independent non-executive directors and other non-executive directors should attend general meetings. Mr. Yu Baodong, a Non-Executive Director and the Chairman, was absent from the general meeting of the Company held on 26 April 2016 due to pre-arranged business engagement. Ms. Sun Wei, a Non-Executive Director, was absent from both the general meetings of the Company held on 26 April 2016 and 9 May 2016 due to her other business engagements.

Corporate Governance and Other Information

Board of Directors

(1) Board Composition

Save and except for the resignation of Mr. Zhang Xi as an Independent Non-Executive Director, the appointments of Mr. Fu Yong Yuan and Mr. Lin Wenqing as the Executive Directors and the appointment of Mr. Siu Miu Man as an Independent Non-Executive Director, there are no changes in the composition of the Board since the last published annual report of the Company.

The composition of the Board as at the date of this Report is set out below and their biographies are available on the Company's website.

Executive Directors

Mr. Liang Jun

Mr. Fung Ka Keung, David

Ms. Yu Sau Lai

Mr. Tse On Kin

Mr. Fu Yong Yuan (appointed on 6 July 2016)

Mr. Lin Wenqing (appointed on 12 July 2016)

Non-Executive Directors

Mr. Yu Baodong (*Chairman*)

Ms. Sun Wei

Independent Non-Executive Directors

Mr. Chan Chi Yuen

Mr. Zhang Xi (resigned on 5 July 2016)

Professor Sit Fung Shuen, Victor

Mr. Siu Miu Man (appointed on 15 August 2016)

Corporate Governance and Other Information

(2) **Non-Compliance with Rule 3.10A of the Listing Rules**

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

(3) **Disclosure of Information on Directors**

Save for the changes in the directorships and composition of Board committees of the Company disclosed in the section headed "Management Discussion and Analysis – Subsequent Events" above, since the last published annual report of the Company, there are no change in the Director's information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

(4) **Board Committees**

The Board currently has three committees, namely the Audit Committee, the Nomination Committee and the Remuneration Committee. All the Board committees are empowered by the Board under their own written terms of reference which were published on the Company's website. Their respective role and function and the composition of these committees are also available on the Company's website.

Corporate Governance and Other Information

Save and except for those mentioned in the respective written terms of reference of each Committee, as at the date of this Report, the Nomination Committee proposed the appointments of Mr. Fu Yong Yuan and Mr. Lin Wenqing as the Executive Directors and the appointment of Mr. Siu Miu Man as an Independent Non-Executive Director and all appointments were unanimously passed at the Board Meetings; the Remuneration Committee determined, with delegated power, the remuneration package of Mr. Fu Yong Yuan, Mr. Lin Wenqing and Mr. Siu Miu Man; and the Audit Committee reviewed the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2016.

(5) Continuous Professional Development

Ongoing professional trainings and seminars had been and will continuously be offered to all Directors in order for them to develop and refresh their knowledge and skills as directors of listed company.

All Directors during the period under review, namely, Mr. Liang Jun, Mr. Fung Ka Keung, David, Ms. Yu Sau Lai, Mr. Tse On Kin, Mr. Yu Baodong, Ms. Sun Wei, Mr. Chan Chi Yuen, Mr. Zhang Xi and Professor Sit Fung Shuen, Victor, have participated in continuous professional development programs by way of self-reading materials and attending seminars held internally and/or externally.

As at the date of this Report, Mr. Fu Yong Yuan, Mr. Lin Wenqing and Mr. Siu Miu Man declared they had and will continuously attend applicable continuous professional development programs.

Corporate Governance and Other Information

Compliance with Model Code

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.

Disclosure of Interests

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

As at 30 June 2016, the following persons are Directors 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 Listing Rules:

Corporate Governance and Other Information

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 1)	Total	Approximate percentage of Shareholding (Note 2)
Mr. Liang Jun	Beneficial Owner	2,000,000	50,000,000	52,000,000	0.37%
Mr. Fung Ka Keung, David	Beneficial Owner	—	10,000,000	10,000,000	0.07%
Ms. Yu Sau Lai	Beneficial Owner	—	7,300,000	7,300,000	0.05%
Mr. Yu Baodong	Beneficial Owner	—	50,000,000	50,000,000	0.35%
Ms. Sun Wei	Beneficial Owner	—	50,000,000	50,000,000	0.35%

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 14,184,215,584 Shares as at 30 June 2016.

Corporate Governance and Other Information

Save as disclosed above, as at 30 June 2016, as far as the Board was aware, none of the Directors 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 2016, 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 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:

Corporate Governance and Other Information

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)	32.10%
Mr. Zhu Gongshan ("Mr. Zhu")	Beneficiary of a discretionary trust & interest of controlled corporations	2,137,450,000 (Note 2)	15.07%
Credit Suisse Trust Limited ("CST")	Trustee	2,000,000,000 (Note 3)	14.10%

Notes:

- (1) According to the individual substantial shareholder notice filed by Mr. Wong, 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, 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
 - (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 1 November 2013, 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 Group Limited ("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.

Corporate Governance and Other Information

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 14,184,215,584 Shares as at 30 June 2016.

Save as disclosed above, as at 30 June 2016, 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.

Share Options

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");

Corporate Governance and Other Information

- (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.

Corporate Governance and Other Information

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.

Corporate Governance and Other Information

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 HK\$	As at	Granted	Exercised	Lapsed	As at
			1.1.2016	during the period	during the period	during the period	30.6.2016
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	1,300,000	—	—	—	1,300,000
	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
Employees (in aggregate)	21.4.2011 to 20.4.2021	0.168	19,500,000	—	—	—	19,500,000
	21.4.2012 to 20.4.2021	0.168	16,950,000	—	—	—	16,950,000
	21.4.2013 to 20.4.2021	0.168	16,550,000	—	—	—	16,550,000
		0.168	220,300,000	—	—	—	220,300,000

Corporate Governance and Other Information

During the period under review, no share options were exercised, lapsed or cancelled. The number of Shares which may be issued upon exercise of the options which had been granted and outstanding on 30 June 2016 under the 2008 Option Scheme was 220,300,000 (31 December 2015: 220,300,000), representing approximately 1.56% (31 December 2015: approximately 1.56%) of the number of shares in issue as at 30 June 2016.

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 2016

	Notes	For the six months ended 30 June	
		2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Revenue	3	3,755	13,153
Cost of sales		(8,092)	(10,047)
Gross (loss)/profit		(4,337)	3,106
Other income, gains and (losses)	4	(1,640)	42
Depreciation and amortisation		(799)	(1,416)
Staff costs		(8,899)	(9,544)
Change in fair value of contingent consideration payable		–	(17,985)
Change in fair value of derivative component of convertible notes	13	356	8,794
Change in fair value of options/commitment to issue convertible notes	13	(1,544)	(94,847)
Impairment loss on property, plant and equipment	11	(420)	–
Impairment loss on construction in progress	11	(187,076)	–
Impairment loss on railway construction prepayment	11	(978)	–
Share of results of jointly controlled entity		(6,950)	(3,744)
Other operating expenses		(8,148)	(11,722)
Finance costs	6	(40,872)	(54,117)
Loss before income tax	7	(261,307)	(181,433)
Income tax	8	–	–
Loss for the period		(261,307)	(181,433)

Condensed Consolidated Statement of Comprehensive Income

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

Condensed Consolidated Statement of Financial Position

As at 30 June 2016

	Notes	At 30 June 2016 HK\$'000 (Unaudited)	At 31 December 2015 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment		41,159	40,579
Intangible assets		1,000	1,000
Construction in progress	11	1,779,321	2,002,985
Railway construction prepayment	11	9,299	10,468
Interests in a jointly controlled entity		–	–
		1,830,779	2,055,032
Current assets			
Other receivables and prepayments		51,923	51,522
Cash and cash equivalents		12,140	30,512
		64,063	82,034
Current liabilities			
Trade and other payables	12	170,335	154,512
Bank loans and other borrowings		629,080	617,662
Convertible notes	13	4,925	364
Amount due to a jointly controlled entity		143,961	137,060
Amounts due to minority equity owners of subsidiaries		8,558	8,731
		956,859	918,329
Net current liabilities		(892,796)	(836,295)
Total assets less current liabilities		937,983	1,218,737

Condensed Consolidated Statement of Financial Position

	<i>Notes</i>	At 30 June 2016 HK\$'000 (Unaudited)	At 31 December 2015 HK\$'000 (Audited)
Non-current liabilities			
Bank loans		872,261	889,846
Contingent consideration payable		–	–
		872,261	889,846
Net assets			
		65,722	328,891
Capital and reserves attributable to owners of the Company			
Share capital	14	1,588,011	1,586,379
Other reserves		(1,530,020)	(1,363,220)
Equity attributable to owners of the Company		57,991	223,159
Non-controlling interests		7,731	105,732
TOTAL EQUITY			
		65,722	328,891

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

	Attributable to owners of the Company							Total equity HK\$'000
	Share capital HK\$'000 <i>(Note 14)</i>	Capital reserves HK\$'000	Share option reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	
As at 1 January 2016 (Audited)	1,586,379	4,190	25,270	25,700	(1,418,380)	223,159	105,732	328,891
Loss for the period	-	-	-	-	(164,750)	(164,750)	(96,557)	(261,307)
Other comprehensive income								
- Exchange difference arising on translation of financial statements of foreign operations which may be reclassified subsequently to profit or loss	-	-	-	(2,050)	-	(2,050)	(1,444)	(3,494)
Total comprehensive income for the period	-	-	-	(2,050)	(164,750)	(166,800)	(98,001)	(264,801)
Issued on the conversion of convertible notes	1,632	-	-	-	-	1,632	-	1,632
As at 30 June 2016 (Unaudited)	1,588,011	4,190	25,270	23,650	(1,583,130)	57,991	7,731	65,722

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2015

	Attributable to owners of the Company						Non-controlling interests	Total equity
	Share capital	Capital reserves	Share option reserve	Translation reserve	Accumulated losses	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
As at 1 January 2015 (Audited)	1,435,649	4,190	31,862	42,501	(1,123,973)	390,229	161,472	551,701
Loss for the period	-	-	-	-	(157,414)	(157,414)	(24,019)	(181,433)
Other comprehensive income								
- Exchange difference arising on translation of financial statements of foreign operations which may be reclassified subsequently to profit or loss	-	-	-	(17)	-	(17)	53	36
Total comprehensive income for the period	-	-	-	(17)	(157,414)	(157,431)	(23,966)	(181,397)
Share issued upon exercise of share options	7,991	-	(3,135)	-	-	4,856	-	4,856
Issued on the conversion of convertible notes	136,125	-	-	-	-	136,125	-	136,125
Forfeiture/lapse of share options	-	-	(3,457)	-	3,457	-	-	-
As at 30 June 2015 (Unaudited)	1,579,765	4,190	25,270	42,484	(1,277,930)	373,779	137,506	511,285

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2016

	For the six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Net cash used in operating activities	(45,466)	(72,734)
Net cash generated used in investing activities	(6,008)	(26)
Net cash generated from financing activities	33,121	103,630
Net (decrease)/increase in cash and cash equivalents	(18,353)	30,870
Cash and cash equivalents at beginning of the period	30,512	15,653
Effect of foreign exchange rate changes	(19)	2
Cash and cash equivalents at end of the period	12,140	46,525

Notes to the Condensed Consolidated Interim Financial Statements

1. BASIS OF PREPARATION AND GOING CONCERN ASSUMPTION

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

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

During the period, the Group incurred a loss of approximately HK\$261,307,000 and as at 30 June 2016, it had net current liabilities of approximately HK\$892,796,000 which principally included bank loans and related interest, and construction costs payable incurred for the development of the Zunxiao railway as discussed below. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern, and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Notes to the Condensed Consolidated Interim Financial Statements

1. BASIS OF PREPARATION AND GOING CONCERN ASSUMPTION

(continued)

The Group's net current liabilities as at 30 June 2016 are mainly attributable to its three non-wholly owned subsidiaries, 承德寬平鐵路有限公司 (Chengde Kuanping Railway Limited*) ("Kuanping Company"), 承德遵小鐵路有限公司 (Chengde Zunxiao Railway Limited*) ("Zunxiao Company") and 唐山唐承鐵路運輸有限責任公司 (Tangshan Tangcheng Railway Transportation Company Limited*) ("Tangcheng Company") (collectively the "Railway Companies") which are principally engaged in the construction and operations of a railway connecting Tangshan City (唐山市) and Chengde City (承德市), Hebei Province (河北省), the People's Republic of China (the "PRC"), (the "Zunxiao Railway").

As described in the Company's announcement dated 28 February 2014, the Group, through its wholly-owned subsidiary, entered into three disposal agreements dated 14 February 2014 as amended subsequently, by three supplemental agreements (collectively the "Disposal Agreements") with 河北建投交通投資有限責任公司 (Hebei Construction, Transportation and Investment Co., Ltd.*) ("Hebei CTICL" or the "Purchaser") for the disposal of its majority equity interests in Kuanping Company and Zunxiao Company (with 9.48% equity interest to be retained by the Group) and the entire equity interest in Tangcheng Company ("the Disposal") at an aggregate cash consideration of RMB433,270,000.

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

* for identification purposes only

Notes to the Condensed Consolidated Interim Financial Statements

1. BASIS OF PREPARATION AND GOING CONCERN ASSUMPTION

(continued)

Although the requisite approval has not yet been obtained within the time limit during the year ended 31 December 2015 due to the outstanding issues mainly relating to the assessment and negotiation of the scope of compensation payable to the overlaid mine owner (the "Mine Owner") around the Tangcheng section of the Zunxiao Railway, the Group considered the Purchaser would continue to proceed with the acquisition of the Railway Companies until recently as described in the Company's announcement dated 4 August 2016, the Group had been informed by a letter from the Purchaser stating that the Purchaser no longer has any further intention to proceed with the acquisition of the relevant interests in the Railway Companies due to the level of complexity of the Zunxiao Railway and the difficulties involved.

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

Notes to the Condensed Consolidated Interim Financial Statements

1. BASIS OF PREPARATION AND GOING CONCERN ASSUMPTION

(continued)

Despite that the Disposal will not go ahead with the Purchaser, the Company would endeavor to look for interested buyers of the Railway Companies and the Directors expect that the Railway Companies will continue to rely on the financial support from certain companies (the "Lenders"), one of which is a guarantor (the "Guarantor") of their entire bank loans of HK\$1,150,140,000 as at 30 June 2016 and all of them are beneficially owned by a director of certain subsidiaries of the Company including the Railway Companies who is a beneficiary of a discretionary trust which in turn is a substantial shareholder of the Company, in order to meet their financial obligations including payment of interests on bank loans, construction cost payables and other operating expenses. In addition, the Group has been actively requesting further information from the Mine Owner to assess and negotiate the scope of compensation payable in order to expedite the process of resolving the above issues.

The Guarantor which is also the holding company of the other companies comprising the Lenders has confirmed that it will continue to provide such financial support to the Railway Companies and will not demand them for repayment of the Lenders' loans, which amounted to HK\$342,249,000 as at 30 June 2016, and related interests before completion of the disposal of the Railway Companies.

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

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

Notes to the Condensed Consolidated Interim Financial Statements

1. BASIS OF PREPARATION AND GOING CONCERN ASSUMPTION

(continued)

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

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

Notes to the Condensed Consolidated Interim Financial Statements

1. BASIS OF PREPARATION AND GOING CONCERN ASSUMPTION

(continued)

Notwithstanding the above, significant uncertainties exist as to whether the Group will be able to successfully implement its plans and measures as mentioned above. The appropriateness of preparation of the unaudited condensed consolidated financial statements on the going concern basis depends on whether (i) the Company will be able to solicit new buyer for the Railway Companies (ii) the outstanding issues related to the railway, mainly completion of assessment and negotiation of the scope of compensation payable to the Mine Owner will be resolved; (iii) the Lenders will have sufficient financial ability to continue to provide the financial support to the Railway Companies before completion of disposal of the Railway Companies; (iv) the Group will be able to reach an agreement with the joint venture partner to withhold enforcement of or otherwise discharge the Group's obligations under a shareholders' agreement; and (v) the other receivable of HK\$19,850,000 will be received no later than 31 December 2016.

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

Notes to the Condensed Consolidated Interim Financial Statements

1. BASIS OF PREPARATION AND GOING CONCERN ASSUMPTION

(continued)

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

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

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

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

Notes to the Condensed Consolidated Interim Financial Statements

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

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

3. REVENUE

Revenue represents the amounts received and receivable for time charters:

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

Notes to the Condensed Consolidated Interim Financial Statements

4. OTHER INCOME, GAINS AND (LOSSES)

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

5. SEGMENT INFORMATION

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

- Railway construction and operations
- Shipping and logistics

Notes to the Condensed Consolidated Interim Financial Statements

5. SEGMENT INFORMATION *(continued)*

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

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

Notes to the Condensed Consolidated Interim Financial Statements

5. SEGMENT INFORMATION (continued)

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

Notes to the Condensed Consolidated Interim Financial Statements

5. SEGMENT INFORMATION *(continued)*

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

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

Notes to the Condensed Consolidated Interim Financial Statements

5. SEGMENT INFORMATION (continued)

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

Notes to the Condensed Consolidated Interim Financial Statements

5. SEGMENT INFORMATION *(continued)*

Geographical information

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

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

Major customers

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

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

Notes to the Condensed Consolidated Interim Financial Statements

6. FINANCE COSTS

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

Notes to the Condensed Consolidated Interim Financial Statements

7. LOSS BEFORE INCOME TAX

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

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

Notes to the Condensed Consolidated Interim Financial Statements

8. INCOME TAX

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

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

9. LOSS PER SHARE

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

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

10. DIVIDEND

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

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

Notes to the Condensed Consolidated Interim Financial Statements

11. CONSTRUCTION IN PROGRESS AND RAILWAY CONSTRUCTION PREPAYMENT

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

As at 30 June 2016, management considered that impairment indication of the carrying amounts of the property, plant and equipment, construction in progress and the railway construction prepayment in relation to the Zunxiao Railway existed as at the end of the reporting period. An independent expert was engaged to assess the recoverable amounts of the aforesaid assets which were determined based on value in use calculations and were determined to be less than their carrying amounts. Accordingly, impairment losses of HK\$420,000, HK\$187,076,000 and HK\$978,000 on the property, plant and equipment, construction in progress and the railway construction prepayment respectively were recognised during the six months ended 30 June 2016 (2015: HK\$Nil).

Notes to the Condensed Consolidated Interim Financial Statements

11. CONSTRUCTION IN PROGRESS AND RAILWAY CONSTRUCTION PREPAYMENT *(continued)*

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

12. TRADE AND OTHER PAYABLES

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

Notes to the Condensed Consolidated Interim Financial Statements

13. CONVERTIBLE NOTES

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

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

Notes to the Condensed Consolidated Interim Financial Statements

13. CONVERTIBLE NOTES *(continued)*

The Tranche 1 Notes

On 2 April 2015, all the conditions precedent to the closing of the first sub-tranche of the Tranche 1 Notes were fulfilled and closing of the first sub-tranche of the Tranche 1 Notes took place on 2 April 2015.

The Tranche 1 Notes were interest bearing at 2% per annum, with a maturity date falling 36 months from the Closing Date (that is, 2 April 2018) and entitled the holder to convert them, in tranches into ordinary shares of the Company at either a fixed conversion price or floating conversion price at any time before the maturity date. The principal terms and conditions of the Subscription Agreement (as amended by the Supplemental Agreement) are set out in the Company's circular dated 13 March 2015.

The movements of the liability component and derivative component of the Tranche 1 Notes during the period are set out below:

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

Notes to the Condensed Consolidated Interim Financial Statements

13. CONVERTIBLE NOTES *(continued)*

The Tranche 1 Notes (continued)

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

The Tranche 2 Notes

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

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

Notes to the Condensed Consolidated Interim Financial Statements

13. CONVERTIBLE NOTES *(continued)*

The Tranche 2 Notes *(continued)*

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

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

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

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

Notes to the Condensed Consolidated Interim Financial Statements

14. SHARE CAPITAL

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

Notes to the Condensed Consolidated Interim Financial Statements

15. CAPITAL COMMITMENTS

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

These commitments were entered into by two PRC non-wholly owned subsidiaries. The Group's effective interests in Zunxiao Company and Tangcheng Company are 62.50% and 51.00% respectively as at 30 June 2016 and 31 December 2015.

16. RELATED PARTY TRANSACTIONS

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

Notes to the Condensed Consolidated Interim Financial Statements

16. RELATED PARTY TRANSACTIONS *(continued)*

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

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

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

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

Notes to the Condensed Consolidated Interim Financial Statements

17. SUBSEQUENT EVENTS

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

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

18. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved and authorised for issue by the directors on 19 August 2016.