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亞洲能源物流
ASIAENERGY
Logistics

ASIA ENERGY LOGISTICS GROUP LIMITED
亞洲能源物流集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 351)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

RESULTS

The board (the "Board") of directors (the "Directors") of Asia Energy Logistics Group Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2017, together with the comparative figures for the previous corresponding period, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		For the six months ended 30 June	
		2017	2016
		HK$'000	*HK$'000*
	Notes	**(Unaudited)**	(Unaudited)
Revenue	*4*	**7,792**	3,755
Cost of sales		**(7,205)**	(8,092)
Gross profit/(loss)		**587**	(4,337)
Other income, gains and (losses)	*5*	**510**	(1,640)
Depreciation and amortisation		**(922)**	(799)
Staff costs		**(8,192)**	(8,899)
Impairment loss on property, plant and equipment		**–**	(420)
Impairment loss on construction in progress		**–**	(187,076)
Impairment loss on railway construction prepayment		**–**	(978)
Change in fair value of derivative component of convertible notes	*14*	**(7)**	356
Change in fair value of options/commitment to issue convertible notes	*14*	**(217)**	(1,544)
Share of results of joint venture		**2,849**	(6,950)
Other operating expenses		**(7,424)**	(8,148)
Finance costs	*7*	**(28,032)**	(40,872)

	Notes	For the six months ended 30 June **2017** *HK$'000* **(Unaudited)**	2016 *HK$'000* (Unaudited)
Loss before income tax	*8*	**(40,848)**	(261,307)
Income tax	*9*	**–**	–
Loss for the period		**(40,848)**	(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		**(1,702)**	(3,494)
Total comprehensive income for the period		**(42,550)**	(264,801)
Loss for the period attributable to:			
Owners of the Company		**(28,294)**	(164,750)
Non-controlling interests		**(12,554)**	(96,557)
		(40,848)	(261,307)
Total comprehensive income for the period attributable to:			
Owners of the Company		**(29,255)**	(166,800)
Non-controlling interests		**(13,295)**	(98,001)
		(42,550)	(264,801)
Loss per share			
– basic and diluted (HK cents per share)	*10*	**(1.96)**	(11.63)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	At 30 June 2017 HK$'000 (Unaudited)	At 31 December 2016 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**34,930**	37,127
Intangible assets		**1,000**	1,000
Construction in progress	*12*	**1,623,856**	1,575,512
Railway construction prepayment	*12*	**8,487**	8,235
Interest in a joint venture		**–**	–
		1,668,273	1,621,874
Current assets			
Other receivables and prepayments		**37,211**	41,742
Cash and cash equivalents		**9,901**	7,154
		47,112	48,896
Current liabilities			
Trade and other payables	*13*	**153,274**	148,781
Bank loans and other borrowings		**520,038**	468,582
Convertible notes	*14*	**535**	3,278
Amount due to a joint venture		**125,558**	128,420
Amounts due to minority equity owners of subsidiaries		**8,427**	8,177
		807,832	757,238
Net current liabilities		**(760,720)**	(708,342)
Total assets less current liabilities		**907,553**	913,532
Non-current liabilities			
Bank loans		**1,046,168**	1,015,070
Contingent consideration payable		**–**	–
		1,046,168	1,015,070
Net liabilities		**(138,615)**	(101,538)
Capital and reserves attributable to owners of the Company			
Share capital	*15*	**1,600,694**	1,595,221
Other reserves		**(1,662,315)**	(1,633,060)
Equity attributable to owners of the Company		**(61,621)**	(37,839)
Non-controlling interests		**(76,994)**	(63,699)
TOTAL EQUITY		**(138,615)**	(101,538)

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 Hong Kong Accounting Standard 34 ("HKAS 34"), issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited ("Listing Rules").

The preparation of these unaudited condensed consolidated interim financial statements in compliance with HKAS 34 requires the use of certain judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The areas where significant judgments and estimates have been made in preparing these unaudited condensed consolidated interim financial statements and their effect are disclosed in note 3.

The financial information relating to year ended 31 December 2016 that is included in these unaudited condensed consolidated 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 2016 which had been delivered to the Registrar of Companies in Hong Kong. The auditor had reported and had disclaimed their opinion on those financial statements 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$40,848,000 and had net current liabilities of approximately HK$760,720,000 as at 30 June 2017. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern, and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Group's net current liabilities as at 30 June 2017 principally included bank loans and construction costs payable and 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").

The Directors expect that the Railway Companies will continue to rely on the financial support from certain companies (the "Lenders") and Golden Concord Holdings Limited ("Golden Concord") as a guarantor (the "Guarantor"), of their entire bank loans of approximately HK$1,103,777,000 as at 30 June 2017. The Lenders and Guarantor 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.

* *for identification purposes only*

In this connection, 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$455,429,000 as at 30 June 2017, and related interests until the operation of the Zunxiao Railway records a breakeven point according to the loan renewal agreement duly signed by the Company and Golden Concord.

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 relating to the shipping operations.

In view of the above circumstances, the Directors have prepared a cash flow forecast of the Group covering a period up to 30 June 2018 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 within the twelve months from 30 June 2017. Accordingly, the Directors consider that it is appropriate to prepare the unaudited condensed consolidated interim financial statements on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether the Group will be able to successfully implement its plans and measures as mentioned above. The appropriateness of preparation of the unaudited condensed consolidated interim financial statements on the going concern basis depends on whether (i) the Lenders which have been providing financial support to the Railway Companies to meet their financial obligations would be able to do so and will not demand repayment of their loans made to the Railway Companies and related interests during the forecast period; (ii) the Group will be able to reach an agreement with the joint venture partner to withhold enforcement of or otherwise discharge the Group's financial obligations under a shareholders' agreement; (iii) the Group would be able to reach an agreement with the overlaid mine owner (the "Mine Owner") on the amount of compensation payable to the Mine Owner as planned so that the Group would be able to resume and complete the construction of the Zunxiao Railway.

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

These unaudited condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the year ended 31 December 2016, 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 2016 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 2017 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 2017. The adoption of these new/revised HKFRSs and amendments to HKFRSs did not result in significant changes to the Group's financial statements for the current period and prior periods.

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

3. USE OF JUDGEMENTS AND ESTIMATES

In preparing this condensed consolidated interim financial information, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2016 annual consolidated financial statements.

4. REVENUE

Revenue represents the amounts received and receivable for time charters:

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Charter-hire income	**7,792**	3,755

5. OTHER INCOME, GAINS AND (LOSSES)

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss on disposal of property, plant and equipment	**–**	(44)
Sundry income	**55**	139
Exchange gain	**455**	–
Written off of property, plant and equipment	**–**	(1,735)
	510	(1,640)

6. SEGMENT INFORMATION

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

– Railway construction and operations

– Shipping and logistics

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

Six months ended 30 June 2017 (Unaudited)	**Railway construction and operations**	**Shipping and logistics**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Segment revenue from external customers	**–**	**7,792**	**7,792**
Segment profit/(loss)	**(29,419)**	**3,388**	**(26,031)**
Other segment information:			
Interest expenses	**(27,600)**	**–**	**(27,600)**
Depreciation of property, plant, and equipment	**(339)**	**(1,394)**	**(1,733)**
Operating lease payments	**(37)**	**–**	**(37)**
Share of results of joint venture	**–**	**2,849**	**2,849**
Additions to non-current segment assets during the period	**–**	**–**	**–**

Six months ended 30 June 2016 (Unaudited)	Railway construction and operations	Shipping and logistics	Total
	HK$'000	*HK$'000*	*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 joint venture	–	(6,950)	(6,950)
Additions to non-current segment assets during the period	–	4,194	4,194

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

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss		
Segment loss	**(26,031)**	(246,646)
Change in fair value of derivative component of convertible notes	**(7)**	356
Change in fair value of options/commitment to subscribe for convertible notes	**(217)**	(1,544)
Other unallocated corporate expenses	**(14,593)**	(13,473)
Condensed consolidated loss before income tax	**(40,848)**	(261,307)

	As at	As at
	30 June	31 December
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Assets		
Railway construction and operations	**1,659,308**	1,609,904
Shipping and logistics	**36,050**	36,858
Segment assets	**1,695,358**	1,646,762
Intangible assets	**1,000**	1,000
Other unallocated corporate assets	**19,027**	23,008
Condensed consolidated total assets	**1,715,385**	1,670,770
Liabilities		
Railway construction and operations	**1,706,439**	1,626,100
Shipping and logistics	**127,476**	130,170
Segment liabilities	**1,833,915**	1,756,270
Convertible notes	**535**	3,278
Other unallocated corporate liabilities	**19,550**	12,760
Condensed consolidated total liabilities	**1,854,000**	1,772,308

Geographical information

The Group's non-current assets are principally located in the 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	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Customer A	**–**	1,520
Customer B	**–**	851
Customer C	**–**	584
Customer D	**–**	441
Customer E	**7,565**	–
	7,565	3,396

7. FINANCE COSTS

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on bank loans and other borrowings	**28,026**	40,867
Interest on convertible notes	**6**	5
	28,032	40,872

8. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging:

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment		
– Recognised in cost of sales	**1,394**	2,330
– Recognised in administrative expenses	**922**	799
	2,316	3,129
Staff cost		
– Salaries, wages and other benefits	**8,020**	8,732
– Contributions to defined contribution retirement scheme	**172**	167
	8,192	8,899
Operating lease rentals in respect of land and buildings	**1,207**	1,376

9. INCOME TAX

No provision for Hong Kong profits tax and PRC enterprise income tax has been made in the condensed consolidated interim financial statements as the Group's operations in Hong Kong and PRC respectively had no estimated assessable profit for the six months ended 30 June 2017 and 2016.

10. LOSS PER SHARE

The calculation of basic loss per share is based on the following data:

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss for the year attributable to owners of the Company	**28,294**	164,750

	For the six months ended 30 June	
	2017	2016
		(Restated)
Weighted average number of ordinary shares for the purposes of basic loss per share *(Note)*	**1,443,586,605**	1,416,527,010

Note:

The weighted average number of ordinary shares for the purpose of basic loss per share has been adjusted for share consolidation on 27 March 2017. The basic loss per share for 2016 had been restated accordingly.

Diluted loss and basic loss per share are the same for the six months ended 30 June 2017 and 2016 as the potential ordinary shares on exercise of share options, contingent consideration payable and convertible notes are anti-dilutive.

11. DIVIDEND

No dividend was paid or declared by the Company during the six months ended 30 June 2017 and 2016.

The directors do not recommend the payment of any dividend in respect of the six months ended 30 June 2017 and 2016.

12. CONSTRUCTION IN PROGRESS AND RAILWAY CONSTRUCTION PREPAYMENT

	Construction in progress	**Railway construction prepayment**
	HK$'000	*HK$'000*
Cost:		
As at 1 January 2016 (Audited)	2,002,985	10,468
Impairment loss	(314,015)	(1,641)
Exchange adjustment	(113,458)	(592)
As at 31 December 2016 (Audited)	1,575,512	8,235
Exchange adjustment	48,344	252
As at 30 June 2017 (Unaudited)	1,623,856	8,487

During the year ended 31 December 2016, management considered that impairment indicator 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$645,000, HK$314,015,000 and HK$1,641,000 on the property, plant and equipment, construction in progress and the railway construction prepayment in relation to the Zunxiao Railway respectively were recognised as at 31 December 2016.

The recoverable amounts of the aforesaid assets as at 31 December 2016 have been determined from value in use calculations based on cash flows projections from formally approved budgets covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3.00%, which does not exceed the long-term growth rate for the railway industry. The cash flows are discounted using a discount rate of 17.80%. The discount rate used is pre-tax and reflect specific risks relating to the construction in progress. The cash flows are estimated based on various assumptions, mainly included the expected amount of the compensation to the Mine Owner, the expected payment terms of the compensation, the expected time of resumption of the construction of the Zunxiao Railway and the expected commencement date of the operation of the Zunxiao Railway. Although the carrying amounts of the property, plant and equipment, construction in progress and the railway construction prepayment in relation to the Zunxiao Railway have been reduced to their estimated recoverable amounts of HK$2,842,000, HK$1,575,512,000 and HK$8,235,000 respectively, any adverse change in the key assumptions used to calculate the recoverable amounts would result in further impairment losses.

As at 30 June 2017, the management considered that there is no further impairment indicator of the carrying amounts of the property, plant and equipment, construction in progress and the railway construction prepayment in relation to the Zunxiao Railway.

13. TRADE AND OTHER PAYABLES

	At 30 June 2017 *HK$'000* **(Unaudited)**	At 31 December 2016 *HK$'000* (Audited)
Trade payables		
– current and up to 30 days	**616**	606
Construction cost payables	**141,660**	135,143
Other payables and accruals	**10,998**	13,032
	153,274	148,781

14. 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 authorised 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 (“Tranche 1 Notes”) and HK$40 million (“Tranche 2 Notes”) comprising 8 equal sub-tranches of HK$5 million each, respectively. On 1 March 2016, the Company entered into a second supplemental agreement (the “Second Supplemental Agreement”) with the Subscriber and Advance Capital Partners Pte. Ltd to further 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 (“Tranche 1 Notes”) and HK$40 million (“Tranche 2 Notes”) comprising one sub-tranche of HK$5 million for the first sub-tranche and 14 equal sub-tranches of HK$2.5 million each.

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 options are derivatives. At the date of issue of each tranche of the Convertible Notes, the Convertible Notes are recognised at fair value, with liability portion of the Convertible Notes measured at the present value of the future coupon payments discounted at market rate for equivalent non-convertible notes that do not have conversion option and early redemption option.

The Tranche 1 Notes

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

On the Closing Date, the Company issued the Tranche 1 Notes in an aggregate principal amount of HK$5 million to the Subscriber.

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) and the Tranche 1 Notes are set out in the Company’s circular dated 13 March 2015.

The Tranche 1 Notes were wholly converted into ordinary shares of the Company during the year ended 31 December 2016.

The Tranche 2 Notes

On 1 March 2016, the Company 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 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 million which comprise the first sub-tranche of HK$5 million and 14 equal subsequent sub-tranches of HK$2.5 million each.

During the six months ended 30 June 2017, the sub-tranches of the Tranche 2 Notes with principal amount of HK$2.5 million were subscribed by and issued to the Subscriber, of which HK$2 million were converted into ordinary shares of the Company, with remaining principal amount of the issued Tranche 2 Notes of HK$0.5 million outstanding as at 30 June 2017.

In this connection, the Group incurred a loss amounting to HK$217,000 (30 June 2016: loss of HK$1,544,000) arising from change in fair value of options/commitment to issue the Tranche 2 Notes during the six months ended 30 June 2017, being the difference between the aggregate fair values of the sub-tranches of the Tranche 2 Notes of HK$2,717,000 as at the date of its issuance and their principal amount of HK$2,500,000.

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

	Liability component	**Derivative component**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)
At 31 December 2016 (audited)	84	3,194	3,278
Issuance of the convertible notes	67	2,650	2,717
Interest expense	6	–	6
Fair value loss	–	7	7
Transfer to share capital on conversion of convertible notes *(Note 15)*	(143)	(5,330)	(5,473)
At 30 June 2017 (unaudited)	14	521	535

The fair value of the derivative component of convertibles notes is categorised as a Level 3 measurement in accordance with HKFRS 13 Fair Value Measurement. During the six months ended 30 June 2017 and 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

15. SHARE CAPITAL

	At 30 June 2017		At 31 December 2016	
	Number of shares	***HK$'000***	*Number of shares*	*HK$'000*
	(Unaudited)	**(Unaudited)**	(Audited)	(Audited)
Issued and fully paid ordinary shares:				
At 1 January 2017/1 January 2016	**14,339,369,875**	**1,595,221**	14,159,265,469	1,586,379
Shares issued on the conversion of convertible notes *(Note 14)*	**121,109,337**	**5,473**	180,104,406	8,842
Share consolidation *(Note)*	**(13,001,861,459)**	**–**	–	–
At 30 June 2017/31 December 2016	**1,458,617,753**	**1,600,694**	14,339,369,875	1,595,221

Note:

Pursuant to the share consolidation approved by the shareholder, every ten issued ordinary shares of the Company have been consolidated into one ordinary share. The share consolidation is effective on 27 March 2017.

16. CAPITAL COMMITMENTS

	At 30 June 2017	At 31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Authorised and contracted for in respect of construction of railway:		
– Zunxiao Company	**157,041**	152,373
– Tangcheng Company	**112,516**	109,172
	269,557	261,545

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% respectively as at 30 June 2017 and 31 December 2016.

17. RELATED PARTY TRANSACTIONS

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

The Group had entered into the following significant related party transactions during the six months ended 30 June 2017:

(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	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Salaries and other benefits	**2,919**	2,784
Contributions to defined contribution retirement scheme	**48**	45
	2,967	2,829

(b) Interest expenses on other borrowings of approximately HK$1,193,000 (30 June 2016: approximately HK$1,168,000) for the six months ended 30 June 2017 were charged by 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

During the period under review, the Group was principally engaged in (i) the railway construction and operations, and (ii) the 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*

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. Accordingly, the management considered that the impairment indicator 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 31 December 2016. An independent expert was engaged to assess the recoverable amounts of the aforesaid assets by value in use calculations based on the expected amount of the compensation to the overlaid mine owner, the expected payment terms of the compensation payable, the expected time of the resumption of the construction of the railway and the expected commencement date of the operation of the railway business. Impairment losses of HK$645,000, HK$314,015,000, and HK$1,641,000 on the property, plant and equipment, construction in progress and the railway construction prepayment were therefore recognised at 31 December 2016.

* *for identification purposes only*

As disclosed by the Company previously, the outstanding issue which caused the prolonged delay of the construction related mainly to the assessment of the scope of compensation payable to the overlaid mind owner. Although continuous effort has been made in negotiation with the overlaid mine owner throughout the years, no agreement has been reached by the parties involved in respect of the scope of compensation payable as at the date of this announcement. The relevant authorities are now involved in coordinating the discussion and negotiation in respect of the compensation payable and with a view to resume the construction of the Zunxiao Railway, the railway companies are seeking for professionals with expertise in infrastructure construction management to assess the construction cost of the outstanding Railway sections and to put forward any possible solutions to the Company and the relevant authorities to expedite the construction progress. Meanwhile, the Company is striving to explore different fundraising means in order to obtain sufficient capital commitment to sustain its railway construction and operations and will publish further announcement as and when appropriate.

Shipping and Logistics

Dry-Bulk Vessels

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 2017, due to the rebound of the general commodities price, the Baltic Dry Index (BDI) also recovered significantly from its record lows in February 2016. For the period under review, the average BDI improved to about 975 points as compared to an average BDI of about 486 points for the same period last year, an increase of over 100%. Despite the fact that there are no clear signals indicating any further improvement of the dry bulk market for the remaining half of 2017, it is expected that the BDI will at least keep at the same level as first half of 2017 and the Company is expecting a better performance from its shipping operation in 2017 against 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 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 the JV Agreement and publish further announcement as and when appropriate.

For the period under review, the JV Group recorded revenue of approximately HK$33,780,000 (30 June 2016: approximately HK$18,999,000), representing an increase of approximately 78% as compared to the corresponding period of 2016. The Group's share of profit from the JV Group was approximately HK$2,849,000 (30 June 2016: loss of approximately HK$6,950,000).

For the period under review, MV Asia Energy recorded revenue of approximately HK$7,792,000 (30 June 2016: approximately HK$3,755,000), representing an increase of approximately 108% as compared to the corresponding period of 2016.

Details of the business segment of the Group are set out in Note 6 to the unaudited condensed consolidated interim financial statements.

Heavy lift Vessel, Dry-Bulk Vessels and Placing

On 8 February 2017, an indirect wholly-owned subsidiary of the Company entered into a memorandum of agreement (the "Memorandum of Agreement") with a vendor for the acquisition of a heavy lift vessel (the "Heavy Lift Vessel") at a consideration of US$103.3 million (the "Acquisition Consideration"). The Acquisition Consideration should be satisfied by (i) US$10 million in cash as down payment within 3 banking days after the date of the completion of the Placing (as defined below); (ii) US$83.3 million in cash on delivery of the Heavy Lift Vessel which would be funded partly by the proceeds generated from the Placing of approximately US$27.4 million and partly funded by a mortgage loan of approximately US$55.9 million; and (iii) US$10 million to be settled by the issuance of 311,200,000 consideration shares on delivery of the Heavy Lift Vessel.

On the same day of 8 February 2017, the Company entered into a placing agreement with the placing agent (the "Placing Agent"), pursuant to which the Placing Agent has conditionally agreed to procure not less than six Placees, to subscribe for, and the Company has conditionally agreed to allot and issue, on a best effort basis, a total of 4,000,000,000 Shares (the "Placing Shares") at the price of HK$0.10 per Share (the "Placing Price") (the "Placing"). The net proceeds of HK$384 million should be applied towards the settlement of partial Acquisition Consideration and the general working capital of the Group.

On 27 March 2017, the Acquisition and the Placing were duly passed as ordinary resolutions of the Company by the Shareholders.

As disclosed by the Company on 31 March 2017, the conditions precedent to the Memorandum of Agreement regarding the availability of the financing for the Acquisition and the Placing Completion had not been fulfilled before the long stop date, the Memorandum of Agreement lapsed in accordance with the terms thereof and the Acquisition contemplated thereunder would not proceed. The Company also announced that the Company and the Placing Agent entered into a side letter (the "Side Letter") to the Placing Agreement to extend the placing period and the long stop date. The net proceeds of HK$384 million would be used for the acquisition of dry bulk vessels and as working capital.

On 19 May 2017, the Company received from the Securities and Futures Commission (the "SFC") a notice (the "Section 6 Notice") under Section 6(2) of the Securities and Futures (Stock Market Listing) Rules (the "SMLR") via fax that the SFC objected to the listing of the Placing Shares to be issued and allotted pursuant to the Placing 10 minutes before the commencement of the general meeting for the approval of the Placing and the transactions contemplated thereunder. Under Section 6(2) of the SMLR, the Stock Exchange may only list the securities to which a listing application relates if the SFC has not given the Section 6 Notice.

On 26 May 2017, the Company announced that the Company and the Placing Agent entered into a deed of termination for the termination of the Placing Agreement and that the Company will continue to explore other possible business opportunities that would improve the long-term financial position of the Group.

Subsequent to the unsuccessful implementation of business plans in respect of the acquisition of the Heavy Lift Vessel, the Placing Shares and also the acquisition of dry bulk vessels, the management has been actively discussing and exploring other possible options with a view to further developing the Group's existing business operations and to improving the Group's current financial position. In order to rectify the above-mentioned adverse situation faced by the Group and having considered the positive segment performance of the shipping and logistics business, the management is envisaging the possibility of enlarging the existing shipping and logistics business that may generate immediate cash inflow in near future. Further announcements will be published as and when appropriate.

Financial Review

For the period under review, the unaudited revenue of the Group was approximately HK$7,792,000 (30 June 2016: approximately HK$3,755,000), representing an increase of approximately 108% compared to the corresponding period of 2016. The increase in revenue was due to the improvement in global shipping market.

The Group recorded a loss after tax for the period under review of approximately HK$40,848,000 (30 June 2016: loss of approximately HK$261,307,000) representing a decrease in loss of approximately 84% as compared to the corresponding period of 2016. The decrease in loss was mainly attributable to the increase in the revenue, share of profit from the JV Group, the decrease in finance costs and general operating expenses, as well as the fact that the impairment losses recognised in the previous corresponding period no longer exist. The loss per share was HK1.96 cents (30 June 2016: HK11.63 cents).

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 authorised representative, Advance Capital Partners Pte. Ltd ("ACP"), pursuant to which the Company agreed to issue and the Subscriber agreed to subscribe for the convertible notes (the "Convertible Notes") in the aggregate principal amount of up to HK$100 million at a price equivalent to 100% of the principal amount of the Convertible Notes. The principal terms and conditions of the Subscription Agreement are set out in the Company's circular dated 13 March 2015.

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

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

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

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

During the period under review, Convertible Notes of the Tranche 2 Notes in the principal amount of HK$2,500,000 was subscribed and issued and approximately HK$2,325,000 (net of arrangement fee) was raised which had been applied towards the general working capital. As at 30 June 2017, Convertible Notes of the Tranche 2 Notes in the principal amount of HK$500,000 remained unconverted.

Given the revenue from the Zunxiao Railway business will only be generated after completion of the construction of the Zunxiao Railway which is mainly prolonged by the lengthy negotiation between the railway companies and the overlaid mine owner on compensation issues, the Group is exploring different fundraising means, including but not limited to the allotment of Shares under general mandate, to fund the growth of the existing shipping and logistics business that may generate immediate cash inflow and as working capital for the Group including the Zunxiao Railway business.

Changes in Directorship

During the period under review, Mr. Tse On Kin and Mr Fung Ka Keung, David resigned as Executive Director with effect from 14 February 2017 and 1 June 2017 respectively, details of which have been disclosed in the Company's announcements dated 14 February 2017 and 1 June 2017 respectively.

SUBSEQUENT EVENTS

Events subsequent to the period under review are as follows:

On 3 July 2017, Professor Sit Fung Shuen, Victor resigned as an Independent Non-Executive Director and a member of the audit committee of the Company (the "Audit Committee"). Mr. Wong Cheuk Bun has been appointed as an Independent Non-Executive Director and a member of the Audit Committee with effect from the same date.

On 31 July 2017, the Subscriber converted the Convertible Notes in an aggregate principal amount of HK$500,000 into conversion shares. On 11 August 2017, the fifth sub-tranche of the Tranche 2 Notes in the principal amount of HK$2,500,000 was subscribed and issued. As at the date of this announcement, Convertible Notes of the Tranche 2 Notes in the principal amount of HK$2,500,000 remained unconverted.

CORPORATE GOVERNANCE

Compliance with Corporate Governance Code

It is one of the continuing commitments of the Board and the management of the Company to maintain high standards of corporate governance. The Company has adopted and applied the principles as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers that effective corporate governance makes significant contribution to corporate success and enhancement of shareholder value. Throughout the period of six months ended 30 June 2017, 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. Chan Chi Yuen, an Independent Non-Executive Director, was absent from the general meeting of the Company held on 19 May 2017 due to a pre-arranged business engagement. Professor Sit Fung Shuen, Victor, an Independent Non-Executive Director until 3 July 2017, was absent from both the general meetings of the Company held on 24 March 2017 and 19 May 2017 due to his other business engagements.

REVIEW OF INTERIM RESULTS

The unaudited consolidated interim results of the Group for the six months ended 30 June 2017 have been reviewed by the Audit Committee, which expressed no disagreement with the accounting treatments adopted in preparation of the interim financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites on the Stock Exchange (http://www.hkex.com.hk) and the Company (http://www.aelg.com.hk). The interim report of the Company for the six months ended 30 June 2017 will be despatched to the shareholders of the Company and made available on the same websites in due course.

By Order of the Board
Asia Energy Logistics Group Limited
Liang Jun
Executive Director

18 August 2017

As at the date of this announcement, the executive directors of the Company are Mr. Liang Jun, Mr. Fu Yongyuan and Mr. Lin Wenqing; the non-executive director of the Company is Mr. Yu Baodong (Chairman); and the independent non-executive directors of the Company are Mr. Chan Chi Yuen, Mr. Siu Miu Man and Mr. Wong Cheuk Bun.