ARES ASIA
安 域 亞 洲

ARES ASIA LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 645)

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

INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of Ares Asia Limited (the "Company") is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2016 together with the comparative figures for the corresponding period in 2015 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 September 2016
(Expressed in United States dollars)

		Unaudited Six months ended 30 September	
		2016	2015
	Note	***$'000***	*$'000*
Revenue	*3*	**98,837**	9,189
Cost of sales		**(97,805)**	(9,114)
Gross profit		**1,032**	75
Other income	*4*	**2**	25
Selling expenses		**(73)**	(88)
Administrative expenses		**(911)**	(891)
Finance costs		**(388)**	—

		Unaudited Six months ended 30 September	
		2016	2015
	Note	***$'000***	*$'000*
Loss before taxation	*5*	**(338)**	(879)
Income tax	*6*	**—**	—
Loss and total comprehensive income for the period		**(338)**	(879)
Loss per share			
Basic and diluted	*8*	**(0.10) cent**	(0.26) cent

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 September 2016

(Expressed in United States dollars)

	Note	**Unaudited At 30 September 2016 *$'000***	Audited At 31 March 2016 *$'000*
Non-current assets			
Property, plant and equipment		**33**	56
Prepayments	*9*	**—**	—
		33	56
Current assets			
Trade and other receivables	*9*	**62,001**	25,344
Cash and cash equivalents		**9,352**	9,046
		71,353	34,390
Current liabilities			
Trade and other payables	*10*	**10,831**	14,236
Discounted bills with recourse	*11*	**49,766**	9,083
		60,597	23,319
Net current assets		**10,756**	11,071
Net assets		**10,789**	11,127
Capital and reserves			
Share capital		**441**	441
Reserves		**10,348**	10,686
Total equity		**10,789**	11,127

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 September 2016
(Expressed in United States dollars)

For the six months ended 30 September 2016

	Unaudited				
	Share Capital	**Share premium account**	**Contributed surplus**	**Accumulated losses**	**Total**
	$'000	***$'000***	***$'000***	***$'000***	***$'000***
Balance at 1 April 2016	**441**	**172**	**15,088**	**(4,574)**	**11,127**
Loss and total comprehensive income for the period	**—**	**—**	**—**	**(338)**	**(338)**
Balance at 30 September 2016	**441**	**172**	**15,088**	**(4,912)**	**10,789**

For the six months ended 30 September 2015

	Unaudited				
	Share Capital	Share premium account	Contributed surplus	Retained profits	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Balance at 1 April 2015	441	172	15,088	8,796	24,497
Loss and total comprehensive income for the period	—	—	—	(879)	(879)
Balance at 30 September 2015	441	172	15,088	7,917	23,618

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 30 September 2016
(Expressed in United States dollars)

	Unaudited Six months ended 30 September	
	2016	2015
	$'000	*$'000*
Operating activities		
(Increase)/decrease in trade and other receivables	**(36,657)**	27,336
Decrease in trade and other payables	**(3,405)**	(233)
Other cash flows used in operating activities	**(317)**	(863)
Net cash (used in)/generated from operating activities	**(40,379)**	26,240
Investing activities		
Proceeds from disposal of intangible asset	**—**	330
Other cash flows arising from investing activities	**2**	12
Net cash generated from investing activities	**2**	342
Financing activities		
Increase/(decrease) in discounted bills with recourse	**40,683**	(26,919)
Net cash generated from/(used in) financing activities	**40,683**	(26,919)
Net increase/(decrease) in cash and cash equivalents	**306**	(337)
Cash and cash equivalents at 1 April	**9,046**	12,531
Cash and cash equivalents at 30 September	**9,352**	12,194

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

(Expressed in United States dollars)

1 Basis of preparation

The unaudited condensed consolidated interim financial statements for the six months ended 30 September 2016 (the "Interim Financial Statements") has 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 Hong Kong Accounting Standard ("HKAS") 34 — "Interim financial reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 30 November 2016.

The Interim Financial Statements have been prepared in accordance with the same accounting policies adopted in the 2015/16 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016/17 annual financial statements. Details of any changes in accounting polices are set out in note 2.

The financial information relating to the financial year ended 31 March 2016 that is included in the Interim Financial Statements as being previously reported information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. The auditors have expressed an unqualified opinion on those financial statements in their report dated 30 June 2016.

2 Changes in accounting policies

The HKICPA has issued the following amendments to Hong Kong Financial Reporting Standards that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

— Annual Improvements to HKFRSs 2012-2014 Cycle

— Amendments to HKAS 1, Presentation of financial statements: Disclosure initiative

None of these amendments have had a material effect on how the Group's results and financial positions for the current or prior period have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 Revenue and segment reporting

(a) Revenue

The Group is principally engaged in the coal trading business. Revenue represents the sales value of goods sold less returns, discounts and value added taxes and other sales taxes.

(b) Segment reporting

The Group operates in a single business segment of coal trading business during the current and prior periods.

Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, and non-current portion of prepayments ("specified non-current assets"). The geographical location of customers is based on the location at which the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, in the case of non-current portion of prepayments.

	Revenue from external customers		**Specified non-current assets**	
	Six months ended 30 September		**At 30 September**	At 31 March
	2016	2015	**2016**	2016
	$'000	*$'000*	***$'000***	*$'000*
Mainland China	**98,837**	9,189	**—**	—
Hong Kong	**—**	—	**33**	56
	98,837	9,189	**33**	56

4 Other income

	Six months ended 30 September	
	2016	2015
	$'000	*$'000*
Bank interest income	**2**	21
Net foreign exchange gain	**—**	2
Others	**—**	2
Total	**2**	25

5 Loss before taxation

Loss before taxation is arrived at after charging:

	Six months ended 30 September	
	2016	2015
	$'000	*$'000*
Depreciation	**23**	37
Staff costs	**465**	466
Cost of inventories	**88,375**	9,114
Finance costs	**388**	—

6 Income tax expense

	Six months ended 30 September	
	2016	2015
	$'000	*$'000*
Current tax — Hong Kong Profits Tax	**—**	—

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% to the profit before taxation for the six months ended 30 September 2016 and 2015. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

7 Dividend

The Directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 September 2016 (six months ended 30 September 2015: Nil).

8 Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of $338,000 (six months ended 30 September 2015: $879,000) and the weighted average of 342,116,934 ordinary shares (six months ended 30 September 2015: 342,116,934 ordinary shares) in issue during the period.

(b) Diluted loss per share

The calculation of diluted loss per share for the six months ended 30 September 2016 and 2015 is the same as that of basic loss per share as there were no dilutive potential ordinary shares during the period.

9 Trade and other receivables

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date (or date of revenue recognition, if earlier), is as follows:

	At 30 September 2016 *$'000*	At 31 March 2016 *$'000*
Within 1 month	**28,294**	20,224
More than 1 month but within 3 months	**33,633**	5,036
Trade debtors and bills receivable	**61,927**	25,260
Prepayments and other receivables	**11,778**	11,788
Less: Impairment on prepayment and other receivables	**(11,704)**	(11,704)
	62,001	25,344

The credit terms offered to customers of coal trading business are negotiated on a case-by-case basis. Irrevocable letters of credit, up to a tenor of 170 days after the receipt of the required documents by nominated banks, are usually required not later than 14 days prior to the expected date of vessel's arrival at loading port as stipulated in the sales agreements.

Based on past experience, management believes that no impairment allowance is necessary in respect of trade debtors and bills receivable as there has not been a significant change in credit quality and the balances are still considered fully recoverable. No impairment loss was recognised by the Group at 30 September 2016 and 31 March 2016.

During the year ended 31 March 2014, the Group entered into coal sale and purchase agreements ("the Agreements") with a marketing agent ("the Original Supplier") of two top coal miners in Indonesia. Under the Agreements, the Group made prepayments in the aggregate amount of $13,000,000 to the Original Supplier to secure long-term supply of thermal coal from the relevant coal miners. The prepayments are recoverable by deducting a pre-agreed amount from the unit cost of coal purchased by the Group.

On 22 July 2015, the Group, the Original Supplier and another agent of the two top coal miners in Indonesia ("the New Supplier") entered into a deed of transfer and amendment ("the Deed"), pursuant to which the Original Supplier transferred certain of its rights, titles and interest in and to the Agreements to the New Supplier, and amended certain terms of the Agreements, details of which were disclosed in the announcement of the Company dated 22 July 2015. Under the Agreements as amended by the Deed, the New Supplier shall deliver up to approximately 11.6 million metric tonnes of thermal coal to the Group by the end of 2017 at prices to be agreed between the parties in purchase contracts. The Original Supplier will also be entitled to half of the profit margin ("the Original Seller's Entitlement") earned by the Group on the sale of the thermal coal in consideration of its facilitating the entering into the Deed among the parties and referral of potential end customers to the Group. As at the date of the Deed, the unutilised balance of prepayments made to the Original Supplier was approximately $11.6 million and the Original Seller's Entitlements will be deducted from such balance of prepayments. Save for the amendments made to the Agreements, the other terms of the Agreements shall remain in full force and effect.

As at 31 March 2016, the unutilised prepayments amounted to $11,565,000. The directors reassessed the recoverability of the unutilised prepayments based on all relevant information available to the Group. Due to the continuing downturn of the coal market, the low demand of coal and hence minimal utilisation of the prepayments during that year, and the Group's efforts in negotiation with the Original Supplier and New Supplier for execution of the terms of the Agreements as amended by the Deed as well as demand for repayment which are in vain, the directors consider that there is significant uncertainty on the ability of the Group to recover the balance of the prepayments through either utilisation from future purchases or repayment of the prepayments. Accordingly, full impairment was made for the balance as at 31 March 2016.

10 Trade and other payables

As of the end of the reporting period, the ageing analysis of trade creditors (which are included in trade and other payables), based on the invoice date, is as follows:

	At 30 September 2016	At 31 March 2016
	$'000	*$'000*
Within 1 month	**6,583**	13,193
More than 1 month but within 3 months	**3,444**	—
Trade creditors	**10,027**	13,193
Other creditors and accrued charges	**804**	1,043
	10,831	14,236

11 Discounted bills with recourse

Bills discounted with banks at an effective interest rate ranging from 1.42% to 1.88% (31 March 2016: 1.49% to 2.25%) per annum as at 30 September 2016 have maturity profiles of no more than 170 days.

12 Operating lease commitment

	At 30 September 2016	At 31 March 2016
	$'000	*$'000*
Within 1 year	**374**	374
After 1 year but within 5 years	**20**	208
	394	582

The Group is the lessee in respect of its office premise held under operating lease from a fellow subsidiary. The lease runs for an initial period of three years with options to renew the lease when all terms are renegotiated. The lease does not include contingent rentals.

13 Contingent liabilities

The Group ceased the operation of its footwear business in January 2013. Further, as disclosed in the Company's announcement dated 26 February 2014, the Company entered into a sale and purchase agreement ("the agreement") with Landway Investments Limited ("Landway"), a company wholly-owned by a director of Brave Win Industries Limited ("Brave Win") to dispose of (i) 1 share of Brave Win, representing 0.0000033% of the total issued share capital of Brave Win; (ii) the 1,000 shares of China Compass Investments Limited ("China Compass"), representing the entire issued share capital of China Compass; and (iii) the unsecured and interest free shareholder's loan in the principal amount of approximately $1,579,000 owed by China Compass to the Company, at a consideration of $3,200,000 ("the Disposal"). The Disposal was completed on 10 April 2014. The directors reviewed the representations and warranties provided by the Company to Landway as set out in the agreement and based on the review and professional advice obtained, it was considered that there was no breach of any of the representations and warranties.

On 23 March 2016, Landway filed a claim against the Company, which alleged that a former director of the Company made certain misrepresentations in the Disposal and filed a claim of $700,000 plus interest against the Company in the High Court of Hong Kong. The Company filed its defence on 24 May 2016 which denied the allegations made by Landway.

On 7 September 2016, the Company issued a summons applying to strike out Landway's claim. The strike out application has been fixed to be heard by the High Court on 13 March 2017.

Based on the opinion from the Company's legal advisor, the legal proceedings are still at a very early stage. Whilst it is too early to assess the outcome of the litigation, the Company has been advised that the allegations made by Landway are vague and unparticularised, and therefore the Company will strenuously defend the claim. Based on latest available information, the directors of the Company are of the opinion that no provision in respect of the said claim is required to be made.

14 Material related party transactions

(a) Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended 30 September	
	2016	2015
	$'000	*$'000*
Salaries and other short-term employee benefits	**155**	155
Retirement scheme contributions	**1**	1
	156	156

(b) Transaction with fellow subsidiary

	Six months ended 30 September	
	2016	2015
	$'000	*$'000*
Rental expenses, building management fee and utility charges	**193**	198

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

The Group continues to operate its coal trading business during the six-month period from April 2016 to September 2016. The performance has improved significantly with revenue of US$98.84 million, representing a year-on-year increase of 976% or US$89.65 million. During the reporting period, the Group sold thermal and coking coals originated from Indonesia and Australia to China, with a total volume of approximately 2.18 million metric tonnes ("MT") as compared to approximately 98 thousand MT in the corresponding period of last year.

Selling and administrative expenses primarily consisted of employee benefits costs as well as rental and corporate expenses which amounted to approximately US$0.98 million for the current period, which is comparable to US$0.98 million in the corresponding reporting period of last year. Finance costs incurred during the period arose from the bills discounted as a result of the increase in trade volume.

Loss before taxation was approximately US$0.34 million for the six-month period ended 30 September 2016 as compared to a loss of US$0.88 million for the corresponding reporting period of last year. Loss before taxation of this reporting period reduced by US$0.54 million. The decrease was the reflection of the recovering coal trading business.

An impairment loss on unutilised prepayments of US$11,565,000 was recognised during the year ended 31 March 2016 in connection with coal sale and purchase agreements. The Company has been in discussions with the relevant parties with a view to restructure the coal trading arrangement. Such discussions are ongoing.

PROSPECT

During the first half of 2016, the global economic environment is still complicated and the world economy has not recovered as expected. Nevertheless, the PRC government implemented policies to expedite to dissolve overcapacity of coal and to promote the supply-side structural reform. As a result, the coal price gradually recovered. Despite all these challenges, the Group managed to achieve a record in coal trading volume of 2.18 million metric tonnes in the six months ended 30 September 2016.

Looking ahead, it is expected to be another challenging year due to the supply and demand situation in the coal market because of the lower demand of thermal coal with the oversupply from domestic and foreign producers. However, the PRC government has indicated that it will continue to promote the supply-side structural reform and resolve the excess capacity of the coal industry. The implementation of such efforts is expected to gradually alleviate the pressure of coal industry decline.

The Group will continue to work to secure the supply of quality thermal coal originated from the top coal mines in Indonesia at a competitive price, to enable the Group to maintain the marginal contribution and minimize the adverse impact of the market price fluctuation. We will further develop our customer base. To mitigate the impact from coal demand imbalance, the Group will further explore new customers by allocating marketable types of coal according to the differentiated requirements of customers.

The Group will continue to review the strategic directions and maintain its operational steadiness for curbing the loss and alleviating operational pressure with a view to enhance its future development.

LIQUIDITY AND FINANCIAL RESOURCES

We continue our conservative positioning in managing the Group's working capital.

As at 30 September 2016, cash on hand and at banks for the Group amounted to approximately US$9.35 million as compared to US$9.05 million as at 31 March 2016. The increase in cash was primarily the result of the trade receipts as at September 2016.

As at 30 September 2016, the Group had discounted bills with recourse amounting to US$49.77 million as compared to US$9.08 million as at 31 March 2016. The increase was due to that all bills receivable discounted, with recourse, for matching the working capital requirement arising from the Group's trading activities had tenors ranging from 90 days to 170 days, which has not been matured nor settled by corresponding letters of credit as at 30 September 2016.

As at 30 September 2016, the gearing ratio, being net debt (total borrowings less cash on hand and at banks) to net assets attributable to owners of the Group was 375% (31 March 2016: approximately 0.33%).

The Group implements tight control on its credit and collection policies. As stipulated in the sale and purchase agreements for the coal trading business, irrevocable letters of credit up to a tenor of 170 days by reputable banks are usually required not later than 14 days prior to the expected date of vessels' arrival at loading port. So far, the Group has not experienced any bad debts from its coal trading business.

The Group generally relied on its internally generated cash flows and the existing trade facilities to finance its day to day operations. There is no present plan for material capital expenditures and we believe that the Group has adequate liquidity to meet its current and future working capital requirements.

RISK OF CURRENCY FLUCTUATIONS

The Group's assets and liabilities as well as the income and expenses derived from the continuing operation are mainly denominated in Hong Kong Dollars and United States Dollars (i.e. functional currency of the Company and its subsidiaries).

There is no significant exposure to the fluctuation of foreign exchange rates, but the Group is closely monitoring the financial market and would consider appropriate measures if required. Currently, the Group has no hedging arrangement for foreign currencies and has not entered into any financial derivatives arrangement.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

EMPLOYEES AND EMOLUMENT POLICY

As at 30 September 2016, the Group had a total of 8 (31 March 2016: 9) full time employees in Hong Kong. The Group's emolument policy is to pay wages and salaries that are competitive in the industry in a way that will be motivational, fair and equitable, and that are dependent on individual's and the Group's performance. Apart from salaries, the Group also provides other fringe benefits to employees, which include share option scheme, provident fund schemes and bonus on performance basis.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions (the "Code Provision(s)") as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Listing Rules during the six months ended 30 September 2016, except for the deviations from Code Provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. ZHENG Yong Sheng ("Mr. ZHENG") is the chairman of the Board and chief executive officer of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals and meets regularly to discuss issues affecting the operations of the Company. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board has full confidence in Mr. ZHENG and believes that his holding of the positions of the chairman of the Board and chief executive officer of the Company is beneficial to the business development of the Group. The Board will nevertheless regularly review the effectiveness of this structure to ensure that such structure is appropriate in view of the Group's prevailing circumstances.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. All the members of the Board have confirmed that, following specific enquiries made by the Company, they have complied with the required standard as set out in the Model Code throughout the six months ended 30 September 2016.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") under the Board comprises all the three independent non-executive Directors, namely Mr. NGAN Hing Hon (Committee Chairman), Mr. YEUNG Kin Bond, Sydney and Mr. CHANG Jesse.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited consolidated interim financial statements of the Group for the six months ended 30 September 2016.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published at the websites of the Company at www.aresasialtd.com and www.irasia.com/listco/hk/aresasia and the Stock Exchange at www.hkexnews.hk. The interim report of the Company for the six months ended 30 September 2016 containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and available on the above websites in due course.

By Order of the Board
ARES ASIA LIMITED
ZHENG Yong Sheng
Chairman

Hong Kong, 30 November 2016

As at the date of this announcement, the executive Directors are Mr. ZHENG Yong Sheng (Chairman) and Mr. RAN Dong and the independent non-executive Directors are Mr. CHANG Jesse, Mr. NGAN Hing Hon and Mr. YEUNG Kin Bond, Sydney.