CAA RESOURCES

# CAA Resources Limited
# 優庫資源有限公司*

*(Incorporated in the Cayman Islands with limited liability)*

Stock Code : 02112

**2014**

INTERIM REPORT

* For identification only

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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Li Yang *(Chairman and Chief Executive Officer)*
Ms. Li Xiaolan
Mr. Wang Er
Mr. Diao Dalin
Mr. Dong Jie

### Independent Non-Executive Directors

Mr. Kong Chi Mo
Dr. Li Zhongquan
Dr. Wang Ling

## AUDIT COMMITTEE

Mr. Kong Chi Mo *(Chairman)*
Dr. Wang Ling
Dr. Li Zhongquan

## REMUNERATION COMMITTEE

Dr. Wang Ling *(Chairman)*
Dr. Li Zhongquan
Ms. Li Xiaolan

## NOMINATION COMMITTEE

Mr. Li Yang *(Chairman)*
Dr. Wang Ling
Dr. Li Zhongquan

## AUTHORISED REPRESENTATIVES

Mr. Li Yang
Mr. Chu Lok Fung Barry

## COMPANY SECRETARY

Mr. Chu Lok Fung Barry, *CPA (Aust.), FCPA*

## AUDITORS

Ernst & Young
22/F., CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

## COMPLIANCE ADVISER

China Everbright Capital Limited

## REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN MALAYSIA

Lot 22, D&E
Level 22, Menara
Zenith, Putra Square
MSC Kuantan, 25200
Kuantan, Pahang
Malaysia

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 5602, 56th Floor,
The Center,
99 Queen's Road Central,
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

**Codan Trust Company (Cayman) Limited**
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

# Corporate Information

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

**Tricor Investor Services Limited**
22/F., Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## PRINCIPAL BANKER

**China Merchants Bank**
**Off-Shore Banking Department**
China Merchants Bank Tower
No. 7088 Shennan Boulevard
Shenzhen 518040
PR China

## COMPANY WEBSITE

www.caa-resources.com

## STOCK CODE

02112

# Management Discussion and Analysis

The board (the "Board") of directors (the "Director(s)") of CAA Resources Limited ("CAA Resources" or the "Company"), and together with its subsidiaries, the "Group") is pleased to present the interim report of the Group for the six months ended 30 June 2014 ("Period"). The consolidated interim financial information has not been audited nor reviewed by the Company's auditor, but has been reviewed by the Company's audit committee.

The Group is a Malaysian iron ore product supplier, which is primarily focused on the exploration, mining, crushing, beneficiation as well as the sale of iron ore products in the form of iron ore concentrates and iron ore fines. The Group mainly sells iron ore products to steel manufacturers and/or their respective purchase agents in China.

The primary production activities of the Group are from the Project Ibam in Ibam Mine, which is located in the State of Pahang, Malaysia. The total combined measured and inferred mineral reserve of the Ibam Mine is 151 million tonnes, which is mainly hematite, with an average iron grade of 46.5%. The Ibam Mine is open-pit, and has a mine life which is expected to be more than 26 years.

Since the beginning of 2014, the Chinese government has been imposing tough environmental protection measures on steel mills, raising standards for energy-saving and environmental protection. In response, Chinese steel mills are enhancing their steel-manufacturing technology. To keep abreast of these industry trends, and leveraging the Group's abundant iron ore resources in Malaysia, the Group is constructing a production line which will generate high-quality and environmentally friendly pelletizing iron concentrates. The production line has entered the test phase and is expected to be put into production by the end of September this year. These new products will help sustain the Group's strong competitive advantage in the medium and long term, and provide significant driving force for the Company's profitability.

## MARKET REVIEW

The Chinese economy has been undergoing rapid transformation since the beginning of 2014. Structural adjustment and the impact of various new policies have held back the development of the economy and further decelerated growth. The downturn in China's manufacturing and real estate industries since the beginning of this year also affected the economy, and inevitably suppressed the market's demand for steel products. Furthermore, overcapacity, high inventory levels, tougher environmental measures and tighter credit environment have curbed production and capacity expansion of Chinese steel mills. In May of this year, The Ministry of Industry and Information Technology raised its 2014 target for the closure of outdated steel smelting capacity by 28.7 million tonnes, the largest cut in four years, as it tries to reduce inefficient and polluting industries. In June this year, steel prices fell to their lowest level since September 2006 while the World Steel Association reported that China's crude steel production for the first half of this year rose by 5.9% to 411.9 million tonnes as compared to the same period last year.

The iron ore industry, which is closely correlated to the steel industry, has also faced significant challenges. Demand from the downstream market shrunk, while major Australian and Brazilian iron ore producers continued to expand their production capacity, bringing global iron ore output to an all-time high. Among these producers, BHP Billiton, Rio Tinto, FMG and Vale increased output 19%, 11%, 28% and 12.6% year-on-year respectively. The supply-demand imbalance has further driven down prices of imported iron ore since the beginning of the year, with prices decreased by more than 30% to a two year low in mid-June of 2014, the lowest since the global financial crisis. Separately, China's unprecedented efforts in environmental protection have caused the production and operation costs for domestic iron ore producers to rise continuously, forcing some high cost producers to shut down production. Local market share had been seized by imported iron ore producers. As the market relied increasingly on imported ores, China Customs recorded that iron ore imports to China for the first half of the year were up to 457.19 million tonnes, representing an increase of 19.1% from last year. Port inventories reached a historical high.

Based on the recorded increase in crude steel and iron ore production, the increase in crude steel production was far lower than the increase in iron ore production. The iron ore market having just entered a phase of structural surplus, the price of the commodity in the latter half of the year does not appear optimistic. Downward pressure is still significant, and the situation is unlikely to improve in the short run.

# Management Discussion and Analysis

## BUSINESS & OPERATIONS REVIEW

### (1) Operating Results

Even with and the significant increase in sales volume in the first half of 2014, the Group's financial performance has been negatively impacted under the impact of a backdrop of falling iron ore prices and difficult market conditions.

During the Period, the Group recorded a significant year-on-year increase of 104.0% in sales volume and sold 826 Kt iron ore products on dry basis (six months ended 30 June ("H1") 2013 H1: 405 Kt) with an average iron content of 60.3%. The increase was largely attributable to the fact that Chinese steel mills were increasing their procurement of imported ores which are more competitively priced and of higher iron content than domestic products. However, dragged by the falling market prices, the average selling price of the Group's products had dropped to USD106.3 per tonne on dry basis over the Period (2013 H1: USD114.2 per tonne). In the first half of 2014, the Group has reported sales revenue of USD87.8 million, representing an 86.4% increase compared to the same period last year.

The majority of the Group sales in the first half of 2014 were from the trading of iron ore products. However, the relatively high procurement cost of these products reduced the Group's gross profit by 66.3% to USD9.4 million (2013 H1: USD27.9 million). Gross profit margin fell to 10.7% (2013 H1: 59.3%). Profit for the Period decreased by 76.1% to USD4.2 million from USD17.6 million, and earnings per share was 0.28 US cents (2013 H1:1.57 US cents).

| | **For the six months ended 30 June 2014** | For the six months ended 30 June 2013 | Change |
|---|---|---|---|
| Sales Volume (dry basis) | **826 Kt** | 405 Kt | + 104.0% |
| Sales Revenue | **USD87.8 million** | USD47.1 million | + 86.4% |
| Gross Profit | **USD9.4 million** | USD27.9 million | - 66.3% |
| Gross Profit Margin | **10.7%** | 59.3% | -48.6% percentage point |
| Profit for the Period | **USD4.2 million** | USD17.6 million | - 76.1% |

### Project Ibam operation update

As at 30 June 2014, the Group owned and operated nine beneficiation lines, and also seven crushing lines, among which five were still under the process of installation as at the date of this interim report.

| | **For the six months ended 30 June 2014** | For the six months ended 30 June 2013 | Change |
|---|---|---|---|
| Mining volume | **199 Kt** | 272 Kt | - 26.8% |
| Production volume | **101 Kt** | 138 Kt | - 26.8% |

# Management Discussion and Analysis

## Business Review

### (1) Major operating results

In the first half of 2014, the Group's sales revenue reached USD87.8 million (2013 H1: USD47.1 million), up 86.4% from the same period last year. The rise in sales revenue was mainly attributable to the continued increasing demand from the Group's Chinese clients for the Group's iron ore products. In the first half of 2014, the Group's sales of iron ore products surged 104.0% year-on-year to 826 Kt on dry basis (2013 H1: 405 Kt), with an average iron content of 60.3% (2013 H1: 59.9%). In the first half of 2014, the average selling price of iron ore products on dry basis was USD106.3 per tonne (2013 H1: USD114.2 per tonne), which declined by 6.9% as compared to the same period last year.

With a view to adapting to market changes, the Group adjusted the proportion of sales volume of trading and self-production of iron ore products in the first half of 2014. Revenue from the trading of iron ore products accounted for a significant proportion of the Group's revenue. However, the relatively higher procurement cost of trading iron ore products reduced the Group's profit margin from 59.3% to 10.7% when compared to the same period last year.

For the six months ended 30 June 2014, the total comprehensive income for the period attributable to owners of the Company was approximately USD4.8 million, representing a significant drop of 71.4% when compared to the USD16.8 million recorded in the same period last year.

### (2) Production capability expansion

Increasingly stringent environmental policies in China are shaping demand for iron ore products. Therefore, the Group is actively pursuing technological changes: the production line for the pelletizing iron concentrates is under construction, which will bring one million tonnes of high-quality and environmental friendly iron ore products per annum. It has already entered the test phase and it is expected to be put into production by the end of September this year. The Group anticipates that the products generated from this new production line will have strong competitiveness in the market and start to bring profits to the Group in the fourth quarter this year.

As at 30 June 2014, the Group owned and operated nine beneficiation lines, and also seven crushing lines, among which five were still under the process of installation as at the date of this interim report.

## Business Diversification Strategy

The Group announced on 16 May 2014 that it has entered into an equity transfer agreement with Spread Wealth Investments Limited ("Spread Wealth Investments"), pursuant to which the Group conditionally agreed to acquire and Spread Wealth Investments conditionally agreed to dispose of 10 million ordinary share with par value of USD1 each, being approximately 14.2857% interest in the issued and paid-up capital of Fortune Union Financial Holdings (Asia Pacific) Limited ("Fortune Union (Asia Pacific)") for a consideration of US$10 million (equivalent to approximately HK$77.5 million). Fortune Union (Asia Pacific), whose indirect wholly-owned subsidiaries are currently engaged in the equipment leasing business in Chongqing, China, and has a certain market share in the micro credit market in Chongqing. The Group considers that expansion of its business into the micro credit sector in Chongqing by way of entering into the Equity Transfer Agreement could achieve an active capturing of the opportunities arising from the deepening reform of the national financial sector and accordingly a diversification of its revenue sources.

# Management Discussion and Analysis

## OUTLOOK

The World Bank forecasted in June that despite early weak performance, the growth momentum of the global economy is expected to pick up in the remainder of 2014, and China is projected to grow in line with the government's target. China is expected to see continued rebalancing of its economy and could make further adjustments when necessary, following earlier stimuli such as increasing investment in railways to steady growth. Measures such as these are expected to positively influence domestic steel prices and long term demand for crude steel and iron ore, although growth in steel output is also expected to be restrained by the tightening of China's environmental measures. In respect of iron ore, supply pressure from Australian miners continues as a result of their new production capacity. The Australian Bureau of Resources and Energy Economics estimates the total shipments from Australia to China will rise 19% to a record 680 million tonnes this year. Although the China Metallurgical Mining Enterprise Association's June data indicated that 20% to 30% of domestic mines have already been idled under the current price fall, there is still concern as to whether this will be sufficient to offset the supply surplus. On the other hand, the increased dependency of Chinese steel mills on foreign ore, as opposed to less competitive domestic products from high cost local miners, could provide a cushioning to the downside, which may in turn stabilise the iron ore price and narrow the chance of a further substantial drop in the second half of 2014.

The Group always stays abreast of market changes, and is adopting strategies to effectively address challenges and ensure opportunities are well leveraged. Looking forward, the Group will continue to pursue diversification in its business and income streams by exploring opportunities with exciting prospects which could complement or create potential synergies to its existing core operations. Apart from tapping into the micro credit sector in May this year, where the Group sought to capture the increased demand for financing in China, CAA Resources will also consider other industry related businesses which could boost profitability in the future.

Meanwhile, managing its iron ore business prudently and expanding our customer base will be the Group's priority. Outside China, we have established longstanding relationships with a number of reputable Malaysian steel manufacturers and are seeking to further leverage on the expected rise in iron ore demand in ASEAN, as a number of large steel manufacturers have long announced plans for new steel mills in the region, one of which has recently announced commencement of construction in Malaysia.

China policy risk remains the industry's main challenge in the imminent future. The Group believes that demand for high value-added, superior quality and low pollution pelletizing iron ore concentrates will be high in the long term, under the country's pledge for a cleaner environment. Hence, the technology innovation initiatives carried out at the Ibam Mine will be carefully paced, and ensure our pelletizing iron ore concentrates will be ready for launching to capture business opportunities. The Group is simultaneously proceeding with the desulphurisation upgrade at Ibam Mine to produce products in line with China's standards, with an aim to raise the sales of self-produced iron ore as a proportion of total sales to a higher level. We believe that our premium quality products will remain attractive in the current market conditions.

The Group is determined to continue to weather the challenges with flexibility through the implementation of our multi-pronged strategy: pursuing technological advancement; managing cost and tapping into new revenue sources at the same time. We have confidence in riding out the market downturn and achieving an improved performance for the rest of the year.

## REVENUE AND COST OF GOODS SOLD

### Revenue

During the six months ended 30 June 2014, the Group's revenue reached approximately USD87.8 million, about 86.4% higher than USD47.1 million recorded in the same period in 2013. The increase in revenue was mainly due to the fact that the PRC iron ore market relied more heavily on overseas iron ores facing great environmental pressure and the increased demand.

# Management Discussion and Analysis

## Cost of Sales

During the six months ended 30 June 2014, the Group's cost of sales reached approximately USD78.4 million, about 308.3% higher than approximately USD19.2 million recorded in the same period in 2013. The cost of sales comprises ore production cost, service fee to mining contractor, mining fee and service fee to processing contractors and purchase costs of iron ore products from trading activities. The increase in cost of sales was primarily due to the fact that the products sold by the Group during the Period were mainly ores obtained through trading, the cost of which is much higher than that of self-produced ores.

## Gross profit

During the six months ended 30 June 2014, the Group's gross profit reached approximately USD9.4 million, about 66.3% lower than approximately USD27.9 million recorded in the same period in 2013. The decrease in gross profit was due to the drop in international iron ore price and the lower gross profit margin of trading iron ore as compared to self-produced ores.

## SELLING AND DISTRIBUTION EXPENSE

During the six months ended 30 June 2014, the Group's selling and distribution expenses reached approximately USD3.3 million, about 135.7% higher than approximately USD1.4 million recorded in the same period in 2013. The increase was mainly due to increased marketing fee amounting to USD1.35 million. Other than the freight costs, the selling expense also included boarding expense, consulting fee and other miscellaneous expenses.

## ADMINISTRATIVE EXPENSE

During the six months ended 30 June 2014, the Group's administrative expenses reached approximately USD1.9 million, remained the same level as the same period in 2013.

## PROPERTY, PLANT AND EQUIPMENT ("PPE")

Our PPE mainly consisted of machinery, mines properties and vehicles. As at 30 June 2014, the Group's PPE reached to approximately USD30.4 million, representing about 13.0% increase from USD26.9 million as at 31 December 2013. The increase was mainly due to the purchase and installation of machineries for technological upgrade for the production of pelletizing iron ore concentrates.

## INTANGIBLE ASSETS

As at 30 June 2014, the Group's intangible assets amounted to approximately USD16.3 million, representing a 1.9% increase from approximately USD16.0 million as at 31 December 2013. The increase was mainly due to foreign exchange alignment recorded offset by the amortization during the first half of 2014. The intangible assets comprised the mining rights and reserves of Ibam Mine.

## AVAILABLE-FOR-SALE INVESTMENT

The unlisted equity investment represented the Group's investment in Fortune Union (Asia Pacific), whose indirect wholly owned subsidiaries are currently engaged in the equipment lease business in Chongqing China, and has a certain market share in the micro credit market in Chongqing, details of which are set out in the Company's announcement dated 16 May 2014. It is stated at cost less impairment because the range of reasonable fair value estimates is so wide that the Directors are of the opinion that its fair value cannot be measured reliably. The Group does not intend to dispose of the investment in the near future.

# Management Discussion and Analysis

## INVENTORIES

Our inventory included raw materials, work in progress and finished goods. As at 30 June 2014, the Group's inventories amounted to approximately USD6.1 million, about 8.9% higher than approximately USD5.6 million as at 31 December 2013. The increase was mainly due to the Company's increased accumulation of products to be delivered to our customers as a result of the increase in sales volume.

## TRADE RECEIVABLES

Trade receivables included irrevocable letter of credit of USD0.03 million (31 December 2013: USD4.3 million) and trade receivables under credit sales of USD17.5 million (31 December 2013: USD8.1 million). The Group normally accepts settlement by way of irrevocable letter of credit or telegraphic transfer. The Group may sometimes request customers (including trading customers) to pay deposit upon signing sales contracts with the Group. During the Period, the balance of trade receivable increased by USD9.4 million or 116.1%. The increase was mainly due to the Group extended the credit period to three months for its major customers. Overdue balances are reviewed regularly by senior management. The Group does not have any collateral or other credit arrangements over its trade receivable balances. Trade receivables are non-interest-bearing.

Based on the invoice date, all trade receivables of the Group at the end of the reporting period were aged within three months and were neither past due nor impaired.

## PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

As at 30 June 2014, the Group's prepayments, deposits and other receivables amounted to approximately USD12.1 million (31 December 2013: approximately USD9.0 million). The increase was mainly due to prepayments to the Group's mining and processing subcontractors.

## TRADE PAYABLES

Trade payables mainly consisted of payables to suppliers for the freight and purchase of iron ore products for trading activities. As at 30 June 2014, the Group's trade payables reached to approximately USD4.7 million, representing about 74.1% increase from USD2.7 million as at 31 December 2013. The increase was mainly due to increased trading sales during the Period and payables to iron ore product suppliers increased accordingly.

## OTHER PAYABLES AND ACCRUALS

As at 30 June 2014, the Group's other payables and accruals amounted to approximately USD2.3 million, about 91.7% higher than approximately USD1.2 million as at 31 December 2013. The increase was mainly due to the unsettled marketing fee of USD0.7 million and transportation expenses.

## LIQUIDITY AND FINANCIAL RESOURCES REVIEW

The total equity of the Group as at 30 June 2014 was approximately USD99.1 million (31 December 2013: USD104.2 million). The Group generally finances its operation with internally generated cash flow and interest-bearing borrowings. Primary uses of funds during the Period included settlement of available-for-sale investment in Fortune Union (Asia Pacific), iron ore purchase, operating expenses, and purchase of PPE. As at 30 June 2014, current assets of approximately USD61.3 million comprised USD6.1 million in inventory, USD29.6 million in trade and other receivables, and USD25.2 million in cash and cash equivalents. Current liabilities of approximately USD40.3 million mainly comprised USD7.0 million in trade and other payables, USD19.7 million in interest-bearing bank and other borrowing, and USD7.4 million in tax payables. Current ratio, being total current assets to total current liabilities was 1.52 as at 30 June 2014 (31 December 2013: 3.26). As trading of iron ore products was the main business activity, a comparatively great amount of working capital were utilized.

# Management Discussion and Analysis

As at 30 June 2014, the Group had certain interest-bearing bank and other borrowings of USD20.2 million in total (31 December 2013: USD4.5 million). The increase in interest-bearing and other borrowings was mainly due to the fact that the subsidiaries of the Group obtained letter of credit loans of approximately USD17.3 million (31 December 2013: USD3.3 million) and a short one-year-term loan of approximately USD1.8 million (31 December 2013: Nil).

## CAPITAL STRUCTURE

The Group is currently funding its capital expenditure through internal by generated funds from its operations and new bank borrowings. The Group monitors capital by reference to gearing ratio, which is equal to net debt divided by total equity plus net debt. Net debt is defined as interest-bearing bank loans, net of cash and bank balances and it excludes liabilities incurred for working capital purposes. Equity includes equity attributable to the owners of the Company and non-controlling interests.

As at 30 June 2014, the Group's cash and bank balances exceeded the total interest-bearing bank and other loans and commercial notes. As such, no gearing ratio as at 30 June 2014 is presented (31 December 2013: N.A.).

The Group continuously conducted its operational business mainly in US dollars. The Group did not arrange any forward currency contracts for hedging purposes.

## COMMITMENTS

Please refer to note 19 to the interim condensed financial information for details of the Group's capital commitments and other commitments,

## CONTINGENT LIABILITIES

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities.

## INTEREST RATE RISK

The Group's income and operating cash flows were not substantially affected by changes in market interest rates. The Group has no significant interest-bearing assets, except for cash and cash equivalents. The Group had no significant interest rate exposure arising from all of its interest-bearing loans since the interest rate was fixed. In addition, the Group has not used any interest rate swap to hedge against interest rate risk.

## CHARGE ON ASSETS

Save for the vehicle registrations cards, machinery and bank balances pledged for bank loans as disclosed in note 13 to the unaudited condensed consolidated financial statements, the Group did not have any pledges on its assets as at 30 June 2014.

## EMPLOYEES AND REMUNERATION POLICIES

The Group values its human resources and recognizes the importance of attracting and retaining qualified staff for its continuing success. As at 30 June 2014, the Group had 47 employees (30 June 2013: 52). For the six months ended 30 June 2014, total staff cost including directors' emolument amounted to approximately USD0.9 million (six months ended 30 June 2013: USD0.4 million). The increase in total staff cost was mainly due to the Group's recruitment of two additional members of senior staff upon the listing and the increase in directors' fees.

The Group's remuneration policies are in line with prevailing market practices and are determined on the basis of the performance and experience of the individual. The Group has constantly been reviewing the staff remuneration package to ensure it is competitive as compared to other peers in the industry.

# Other Information

## INFORMATION ON IBAM MINE

### Mineral resources for ore with iron grade greater than or equal to 35% as at 30 June 2014

| Classification | Quantity (million tonnes) | Fe Grade (%) |
|---|---|---|
| Measured | 109 | 46.7 |
| Indicated | — | — |
| Inferred | 42 | 46.4 |
| Total | 151 | 46.5 |

### Ore reserves for ore with iron grade greater than or equal to 35% as at 30 June 2014

| Classification | Quantity (million tonnes) | Fe Grade (%) |
|---|---|---|
| Probable | 103 | 44.7 |
| Total | 103 | 44.7 |

Note: Information updated based on Ibam Updated Resource and Reserves as at 31 December 2013 by Geos Mining Minerals Consultants, Australia.

## EXPLORATION, DEVELOPMENT AND MINING PRODUCTION ACTIVITIES

During the six months ended 30 June 2014, no exploration activities were carried out. As part of the Group's processing equipment upgrade, total expenses during the first half of 2014 amounted to approximately USD3.5 million. The mining volume and production volume of iron ore products produced from Ibam Mine during the six months ended 30 June 2014 were 199,000 tonnes and 101,000 tonnes, respectively (2013 H1: 272,000 tonnes and 138,000 tonnes).

## CAPITAL EXPENDITURE

During the six months ended 30 June 2014, the Company incurred a total of USD4.5 million of capital expenditure primarily for the purchase or upgrade of PPE and payments in advance.

# Other Information

## OTHER INFORMATION

### Purchase, sale or redemption of the Company's listed securities

During the Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the company's listed securities.

### Corporate Governance

The Company is committed to the establishment of good corporate governance practices and procedures. The Company has complied with the code provisions as set out in Corporate Governance Code and Corporate Governance Report to the Appendix 14 to the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange (the "CG Code") during the six months ended 30 June 2014 except the code provision A.2.1 of the CG Code as disclosed below:

According to the code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. Mr. Li Yang has been both the chairman of the Board (the "Chairman") and the chief executive officer of the Company (the "Chief Executive Officer"), therefore, the Group does not at present separate the roles of the Chairman and the Chief Executive Officer.

The Board considered that the structure currently operated by the Company does not undermine the balance of power and authority between the board of Directors and the management. The Board members have considerable experience and qualities which they bring to the Company and the Board, of which Mr. Li Yang can take advantage in fulfilling his duties, and the management is not impaired. The Board believed that having the same person performing the roles of both Chairman and Chief Executive Officer can provide the Group with strong and consistent leadership and that, operating in this manner allow for more effective and efficient overall strategic planning of the Group.

### Model Code for Directors' Securities Transactions

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific queries to the Directors, all Directors have confirmed that they have complied with the required standards as set out in the Model Code during the Period.

### Audit Committee and Review of Financial Statements

The Company has established the Audit Committee in compliance with Rule 3.21 of the Listing Rules and the Company has also complied with Rule 3.10(1) and 3.10(2) of the Listing Rules that three independent non-executive Directors including one with financial management expertise have been appointed. The primary duties of the Audit Committee are to review the financial reporting process and internal control system of the Group, and to make proposals to the Board as to the appointment, renewal and resignation of the Company's independent auditors and the related remuneration and appointment terms. The Audit Committee has reviewed the accounting standards and practices adopted by the Group and discussed with the management about the internal control and financial reporting matters, including the review of the unaudited interim results for the six months ended 30 June 2014.

# Other Information

The external auditor attended the above meeting to discuss with the Audit Committee on issues arising from the audit and financial reporting matters.

There is no disagreement between the Board and the Audit Committee regarding the appointment of external auditor.

The Audit Committee also reviewed the interim results for the six months ended 30 June 2014.

## Remuneration Committee

The Company established a remuneration committee pursuant to a resolution of our Directors passed at a Board meeting on 12 April 2013 with effect upon the Listing. The Remuneration Committee comprises two independent non-executive Directors, namely, Dr. Wang Ling (chairman of the Remuneration Committee), Dr. Li Zhongquan and one executive Director, namely Ms. Li Xiaolan.

The duties of the Remuneration Committee mainly include making recommendations on and approving the remuneration policy and structure and remuneration packages of all Directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions. The Remuneration Committee would make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy.

The Remuneration Committee has held one meeting during the Period to review and discuss the remuneration packages of management and directors to promote better managerial quality of the Group.

## Nomination Committee

The Company established a nomination committee pursuant to a resolution of our Directors passed at a Board meeting on 12 April 2013 with effect upon the Listing.

The Nomination Committee comprises one executive Director, namely, Mr. Li Yang (chairman of the Nomination Committee), and two independent non-executive Directors, namely Dr. Wang Ling and Dr. Li Zhongquan. The primary duties of the Nomination Committee include identifying suitable candidates for the Directors and making recommendations to the Board, assessing the structure and composition of the Board, preparing, making recommendations to and supervising the execution of the nominating policy of the Company.

The Nomination Committee has held two meetings during the Period to recommend the retirement of Mr. Gong Maoqing and the appointment of Mr. Diao Dalin. Besides, the Company has received from each of the independent non-executive Directors a confirmation of their independence as required under Rule 3.13 of the Listing Rules.

The Company considered all the independent non-executive Directors to be independent.

# Other Information

## CHANGE OF DIRECTORS

Mr. Gong Maoqing ("Mr. Gong"), an executive director, retired by rotation at the annual general meeting ("AGM") held on 30 April 2014 pursuant to the articles of association of the Company and did not offer himself for re-election as he would like to spend more time on his other personal commitments. Mr. Diao Dalin ("Mr. Diao") has been appointed as an executive director of the Company with effect from 30 April 2014. For further details of Mr. Diao and his term of appointment, please refer to our AGM poll results announcement dated 30 April 2014.

Save as disclosed above, there were no changes to the information required to be disclosed by the Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at the date of this interim report, so far as it is known to the Directors, the Directors and the chief executive of the Company had the following interests and short positions in the shares, underlying shares or the debentures of the Company or any of its associated corporations within the meaning of part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"), which would have to be notified to the Company and the Stock Exchange pursuant to the provision of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have under such provisions of the SFO) and/or required to be entered in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

### (i) Long position in shares of the Company:

| Name of Director | Nature of Interest | Number of Ordinary Shares | Approximate percentage of the Company's issued share caprital |
|---|---|---|---|
| Mr. Li Yang (note 2) | Interest in controlled corporation | 843,750,000 (L) | 56.25% |

Note:

1. The letter "L" denotes the shareholder's long position in the share capital while the letter "S" denotes the shareholder's short position.
2. Mr. Li beneficially owns the entire issued share capital of Cosmo Field Holdings Limited ("Cosmo Field"). Therefore, Mr. Li is deemed, or taken to be, interested in all the shares of the Company held by Cosmo Field for the purpose of the SFO. Mr. Li is the sole director of Cosmo Field.

# Other Information

### (ii) Long position in shares of the associated corporation:

| Name of Director | Name of associated corporation | Nature of Interest | Approximate percentage of interest in the share capital of the associated corporation |
|---|---|---|---|
| Mr. Li Yang | Cosmo Field Holdings Limited | Beneficial owner | 100% |

Save as disclosed above, as at the date of this interim report, none of the Directors nor the chief executives of the Company had any interests or short positions in any shares, underlying shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and/or short positions which were taken or deemed to have under such provisions of the SFO), or which were recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which would have to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at the date of this interim report, so far as it is known to the Directors, the persons (other than the Directors or chief executive of the Company) with interests or short positions 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 or which would be recorded in the register of the Company required to be kept under section 336 of the SFO during the Period and up to the date of the interim report or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstance at general meetings of any member of the Group were as follows:

| Name | Nature of Interest/ Capacity | Number of Ordinary Shares | Percentage of Shareholding |
|---|---|---|---|
| Cosmo Field | Beneficial owner | 843,750,000 (L) | 56.25% |
| Hua Heng Investments Limited | Beneficial owner | 93,125,000 (L) | 6.21% |
| Yang Jun (note 2) | Interest in controlled corporation | 93,125,000 (L) | 6.21% |
| Tang Lingyan (note 2) | Interests of a substantial shareholder's child under 18 or spouse | 93,125,000 (L) | 6.21% |
| Asia Equity Value Ltd | Beneficial owner | 74,972,000 (L) | 4.99% |
| | | 89,300,000 (S) | 5.95% |

Note:

1. The letter "L" denotes the shareholder's long position in the share capital while the letter "S" denotes the shareholder's short position.

2. Tang Lingyan is the spouse of Mr. Yang Jun. Mr. Yang Jun beneficially owns the entire issued share capital of Hua Heng. Therefore, Tang Lingyan is deemed, or taken to be, interested in all the shares of the Company held by Hua Heng for the purpose of the SFO. Mr. Yang Jun is the sole director of Hua Heng.

# Other Information

## DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

As at the date of this interim report, there was no rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or of any other body corporate granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors, their respective spouse or children under 18 years of age to acquire such rights in the Company or any other body corporate.

## MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS

Save as disclosed otherwise herein, the Company has not made any material investments and acquisitions and disposals of subsidiaries and associated companies during the Period. The Company does not have future plans for material investments or capital assets as at the date of this interim report.

## SHARE OPTION SCHEME

The share option scheme of the Company (the "Share Option Scheme") adopted by the Shareholders by way of written resolution was passed on 12 April 2013 for the purpose of attracting and retaining the best available personnel; providing additional incentive to employees (full-time and part-time), directors, consultants, advisors, distributors, contractors, suppliers, agents, customers, business partners or service providers of our Group; and to promoting the success of the business of our Group. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

There is no option outstanding, granted, exercised, cancelled and lapsed during the six months ended 30 June 2014.

## INTERIM DIVIDEND

The Board of Directors does not recommend the payment of any interim dividend for the Period.

By order of the Board
**CAA Resources Limited**
**Li Yang**
*Chairman and Chief Executive Officer*

Hong Kong, 26 August 2014

# INTERIM CONDENSED FINANCIAL INFORMATION

## Interim Consolidated Statement of Profit or Loss and Comprehensive Income

For the six months ended 30 June 2014

| | Notes | For the six months ended 30 June 2014 USD'000 (Unaudited) | 2013 USD'000 (Unaudited) |
|---|---|---|---|
| **REVENUE** | 3 | **87,765** | 47,130 |
| Cost of sales | | **(78,379)** | (19,199) |
| **Gross profit** | | **9,386** | 27,931 |
| Other income and gains | | **1,555** | 83 |
| Selling and distribution expenses | | **(3,343)** | (1,431) |
| Administrative expenses | | **(1,895)** | (1,878) |
| Other expenses | | **(239)** | (652) |
| Finance costs | 4 | **(255)** | (18) |
| **PROFIT BEFORE TAX** | 5 | **5,209** | 24,035 |
| Income tax expense | 6 | **(966)** | (6,390) |
| **PROFIT FOR THE PERIOD** | | **4,243** | 17,645 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods: | | | |
| Exchange differences on translation of foreign operations | | **511** | (801) |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTIBUTABLE TO OWNERS OF THE COMPANY** | | **4,754** | 16,844 |
| Earnings per share attributable to ordinary equity holders of the Company: | | | |
| Basic and diluted (US cent) | 7 | **0.28** | 1.57 |

# INTERIM CONDENSED FINANCIAL INFORMATION (CONTINUED)

## Interim Consolidated Statement of Financial Position

30 June 2014

| | Notes | 30 June 2014 USD'000 (Unaudited) | 31 December 2013 USD'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 8 | **30,367** | 26,896 |
| Mining rights and reserves | 8 | **16,293** | 16,000 |
| Payments in advance | 9 | **17,235** | 16,713 |
| Available-for-sale investment | 10 | **10,000** | — |
| Goodwill | | **8,427** | 8,271 |
| Deferred tax assets | | **333** | 341 |
| **Total non-current assets** | | **82,655** | 68,221 |
| **CURRENT ASSETS** | | | |
| Inventories | | **6,110** | 5,583 |
| Trade receivables | 11 | **17,524** | 12,386 |
| Prepayments, deposits and other receivables | 12 | **12,061** | 9,033 |
| Pledged deposits | 13 | **478** | 989 |
| Cash and cash equivalents | 13 | **25,168** | 30,748 |
| **Total current assets** | | **61,341** | 58,739 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 14 | **4,742** | 2,654 |
| Other payables and accruals | 15 | **2,307** | 1,194 |
| Interest-bearing bank and other borrowings | 16 | **19,669** | 3,793 |
| Dividend payable | 17 | **6,156** | — |
| Tax payable | | **7,384** | 10,367 |
| **Total current liabilities** | | **40,258** | 18,008 |
| **NET CURRENT ASSETS** | | **21,083** | 40,731 |
| **Total assets less current liabilities** | | **103,738** | 108,952 |

# INTERIM CONDENSED FINANCIAL INFORMATION (CONTINUED)

## Interim Consolidated Statement of Financial Position

30 June 2014

| | Notes | 30 June 2014 USD'000 (Unaudited) | 31 December 2013 USD'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank and other borrowings | 16 | **495** | 692 |
| Deferred tax liabilities | | **3,901** | 3,825 |
| Provision for rehabilitation | | **292** | 281 |
| **Total non-current liabilities** | | **4,688** | 4,798 |
| **Net assets** | | **99,050** | 104,154 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Issued capital | | **1,934** | 1,934 |
| Reserves | | **97,116** | 92,362 |
| Proposed final dividend | 17 | **—** | 9,858 |
| **Total equity** | | **99,050** | 104,154 |

**Li Yang**
*Director*

**Li Xiaolan**
*Director*

# INTERIM CONDENSED FINANCIAL INFORMATION (CONTINUED)

## Interim Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

| | Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Issued capital USD'000 | Share premium USD'000 | Capital reserve USD'000 | Contributed surplus USD'000 | Exchange fluctuation reserve USD'000 | Retained earnings USD'000 | Proposed final dividend USD'000 | Total USD'000 |
| **At 1 January 2014** | **1,934** | **47,541*** | **13,825*** | **50*** | **(1,509)*** | **32,455*** | **9,858** | **104,154** |
| Profit for the period | — | — | — | — | — | **4,243** | — | **4,243** |
| Other comprehensive income for the period: | | | | | | | | |
| Exchange differences on translation of foreign operations | — | — | — | — | **511** | — | — | **511** |
| Total comprehensive income for the period | — | — | — | — | **511** | **4,243** | — | **4,754** |
| Final 2013 dividend declared (note 17) | — | — | — | — | — | — | **(9,858)** | **(9,858)** |
| At 30 June 2014 (Unaudited) | **1,934** | **47,541*** | **13,825*** | **50*** | **(998)*** | **36,698*** | — | **99,050** |
| At 1 January 2013 | — | — | 13,825 | 50 | 23 | 12,710 | — | 26,608 |
| Profit for the period | — | — | — | — | — | 17,645 | — | 17,645 |
| Other comprehensive loss for the period: | | | | | | | | |
| Exchange differences on translation of foreign operations | — | — | — | — | (801) | — | — | (801) |
| Total comprehensive income for the period | — | — | — | — | (801) | 17,645 | — | 16,844 |
| At 30 June 2013 (Unaudited) | — | — | 13,825 | 50 | (778) | 30,355 | — | 43,452 |

* These reserve accounts comprise the consolidated reserves of USD97,116,000 (31 December 2013: USD92,362,000) in the consolidated statement of financial position.

# INTERIM CONDENSED FINANCIAL INFORMATION (CONTINUED)

## Interim Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

| | Notes | For the six months ended 30 June 2014 USD'000 (Unaudited) | 2013 USD'000 (Unaudited) |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | **5,209** | 24,035 |
| Adjustments for: | | | |
| Finance costs | 4 | **255** | 18 |
| Unrealised foreign exchange gains | | **(789)** | — |
| Interest income | 5 | **(750)** | — |
| Gain on disposal of items of property, plant and equipment | 5 | **(8)** | (37) |
| Depreciation | 8 | **977** | 623 |
| Amortisation of intangible assets | 8 | **17** | 59 |
| | | **4,911** | 24,698 |
| Decrease/(increase) in trade receivables | | **(5,138)** | 352 |
| Increase in inventories | | **(527)** | (821) |
| Increase in prepayments, deposits and other receivables | | **(3,028)** | (1,051) |
| Increase/(decrease) in trade payables | | **2,088** | (530) |
| Increase in other payables and accruals | | **706** | 1,201 |
| Decrease in amounts due to related parties | | **—** | (2,338) |
| Cash generated from/(used in) operations | | **(988)** | 21,511 |
| Income tax paid | | **(3,935)** | (8) |
| Net cash flows from/(used in) operating activities | | **(4,923)** | 21,503 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | | **750** | — |
| Purchase of items of property, plant and equipment | | **(4,060)** | (4,301) |
| Proceeds from disposal of items of property, plant and equipment | | **15** | — |
| Purchase of intangible assets | | **—** | (20,780) |
| Decrease in pledged deposits | | **511** | — |
| Purchase of available-for-sale investment | | **(10,000)** | — |
| Net cash flows used in investing activities | | **(12,784)** | (25,081) |

# INTERIM CONDENSED FINANCIAL INFORMATION (CONTINUED)

## Interim Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

| | | For the six months ended 30 June | |
|---|---|---|---|
| | | **2014** | 2013 |
| | Notes | **USD'000** | USD'000 |
| | | **(Unaudited)** | (Unaudited) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from other borrowings | | — | 2,000 |
| Repayment of hire purchase arrangements | | **(172)** | (190) |
| Proceeds from bank loans | | **57,806** | — |
| Repayment of bank loans | | **(42,054)** | — |
| Dividends paid | 17 | **(3,702)** | — |
| Interest paid | | **(175)** | (13) |
| Net cash flows from financing activities | | **11,703** | 1,797 |
| DECREASE IN CASH AND CASH EQUIVALENTS | | **(6,004)** | (1,781) |
| Cash and cash equivalents at beginning of period | | **30,748** | 1,861 |
| Effect of foreign exchange rate changes, net | | **424** | 96 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 13 | **25,168** | 176 |

# Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

## 1. CORPORATE INFORMATION

CAA Resources Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is located at Suite 5602, 56th Floor, The Centre, 99 Queen's Road Central, Hong Kong.

During the six months ended 30 June 2014 (the "Period"), the Company and its subsidiaries (together, the "Group") were principally engaged in the business of mining, ore processing, and exporting of iron ore products and the sale of those products to steel manufacturers and/or their respective purchase agents in Mainland China as well as investment holding. There were no significant changes in the nature of the Group's principal activities during the Period.

In the opinion of the directors of the Company (the "Directors"), the holding company and the ultimate holding company of the Company is Cosmo Field Holdings Limited ("Cosmo Field"), which was incorporated in the British Virgin Islands (the "BVI").

## 2.1 BASIS OF PREPARATION

The unaudited interim condensed financial information for the Period has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting".

The unaudited interim condensed financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2013.

## 2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

The accounting policies adopted in the preparation of this interim condensed financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013, except for the adoption of new and amendments to standards issued by the International Accounting Standards Board that are mandatory for annual periods beginning on or after 1 January 2014. The adoption of these new and amendments to standards has had no significant financial effect on the financial position or performance of the Group.

## 3. REVENUE AND OPERATING SEGMENT INFORMATION

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, and the values of service rendered.

The Group's revenue and contribution to profit are mainly derived from its sale of iron ore products, which is regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the Group's senior management for purposes of resource allocation and performance assessment. Accordingly, no segment analysis is presented other than entity-wide disclosures.

# Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

## 3. REVENUE AND OPERATING SEGMENT INFORMATION (CONTINUED)

### Entity-wide disclosures

#### Information about products and services

The following table sets forth the total revenue from external customers for sales of products and rendering of services during the Period:

| | For the six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | **USD'000** | USD'000 |
| | **(Unaudited)** | (Unaudited) |
| Sales of goods | **87,765** | 46,258 |
| Rendering of services | — | 872 |
| | **87,765** | 47,130 |

#### Geographical information

The following table sets out information about the geographical locations of the Group's revenue from external customers during the Period. The geographical locations of customers are determined based on the locations to which the goods were delivered designated by the customers or where services were rendered.

| | For the six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | **USD'000** | USD'000 |
| | **(Unaudited)** | (Unaudited) |
| Overseas – The People's Republic of China | **87,765** | 46,258 |
| Domestic – Malaysia* | — | 872 |
| | **87,765** | 47,130 |

* Place of domicile of the Group's principal subsidiary, Capture Advance Sdn. Bhd. ("Capture Advance").

At the end of the reporting period, except for the available-for-sale investment, all of the Group's non-current assets were located in Malaysia.

# Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

## 3. REVENUE AND OPERATING SEGMENT INFORMATION (CONTINUED)

### Entity-wide disclosures (CONTINUED)

Information about major customers

Revenue from each of the major customers, which amounted to 10% or more of the total revenue, is set out below:

| | For the six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | **USD'000** | USD'000 |
| | **(Unaudited)** | (Unaudited) |
| Customer A | **48,452** | 6,925 |
| Customer B | **39,283** | 37,898 |

## 4. FINANCE COSTS

An analysis of finance costs is as follows:

| | For the six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | **USD'000** | USD'000 |
| | **(Unaudited)** | (Unaudited) |
| Unwinding of discount on provision | **11** | 5 |
| Interest on hire purchase arrangements | **33** | 13 |
| Interest on bank loans | **211** | — |
| | **255** | 18 |

# Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

## 5. PROFIT BEFORE TAX

The Group's profit before tax was arrived at after charging/(crediting):

| | | For the six months ended 30 June | |
|---|---|---|---|
| | | **2014** | 2013 |
| | Notes | **USD'000** | USD'000 |
| | | **(Unaudited)** | (Unaudited) |
| Cost of inventories sold | | **78,379** | 18,331 |
| Cost of services provided | | — | 868 |
| Employee benefit expense (including Directors' and chief executive officer's remuneration) | | **911** | 438 |
| Depreciation | 8 | **977** | 623 |
| Amortisation of intangible assets | 8 | **17** | 59 |
| Minimum lease payments in respect of: | | | |
| Land | | **37** | 38 |
| Machinery | | **148** | 104 |
| Office | | **127** | 36 |
| Auditors' remuneration | | **83** | 277 |
| Gain on disposal of items of property, plant and equipment | | **(8)** | (37) |
| Listing fee expensed off | | — | 1,092 |
| Interest income | | **(750)** | — |
| Foreign currency losses/(gains), net | | **(795)** | 633 |

## 6. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group was not subject to any income tax in the Cayman Islands and BVI.

Pursuant to the income tax rules and regulations in Malaysia, the subsidiaries located in Malaysia were liable to Malaysia corporate income tax at a rate of 25% (six months ended 30 June 2013: 25%) on the assessable profits generated during the Period.

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2013: 16.5%) on the assessable profits arising in Hong Kong during the Period.

# Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

## 6. INCOME TAX (CONTINUED)

The major components of income tax expense are as follows:

| | For the six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | **USD'000** | USD'000 |
| | **(Unaudited)** | (Unaudited) |
| Current – Charge for the period | | |
| Hong Kong | **867** | 4,361 |
| Malaysia | **85** | 2,248 |
| Deferred | **14** | (219) |
| Total tax charge for the period | **966** | 6,390 |

## 7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The basic earnings per share attributable to ordinary equity owners of the Company are as follows:

| | For the six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | **USD'000** | USD'000 |
| | **(Unaudited)** | (Unaudited) |
| Profit attributable to owners of the Company | **4,243** | 17,645 |

| | Number of shares | |
|---|---|---|
| | **2014** | 2013 |
| | **'000** | '000 |
| Weighted average number of ordinary shares in issue during the period | **1,500,000** | 1,125,000 |

The calculation of basic earnings per share for the six months ended 30 June 2014 is based on the profit attributable to equity holders of the Company of USD4,243,000 and the 1,500,000,000 ordinary shares.

The weighted average number of shares used to calculate the basic earnings per share for the six months ended 30 June 2013 is the pro forma number of issued shares of the Company of 1,125,000,000 shares, comprising: (i) number of issued shares as at 30 June 2013 of 50,000 shares; and (ii) the number of ordinary shares of 1,124,950,000 issued by way of capitalisation, as if the shares were outstanding throughout the six months ended 30 June 2013.

No adjustment has been made to the basic earnings per share amounts presented for the periods ended 30 June 2013 and 2014 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those periods.

# Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

## 8. PROPERTY, PLANT AND EQUIPMENT, AND MINING RIGHTS AND RESERVES

Movements in property, plant and equipment, and mining rights and reserves during the Period are as follows:

| | Property, plant and equipment USD'000 | Mining rights and reserves USD'000 |
|---|---|---|
| Carrying amounts at 1 January 2014 | 26,896 | 16,000 |
| Additions | 3,954 | — |
| Depreciation/amortisation charged for the Period (note 5) | (977) | (17) |
| Disposal during the Period | (7) | — |
| Exchange realignment | 501 | 310 |
| Carrying amounts at 30 June 2014 (unaudited) | 30,367 | 16,293 |

As at 30 June 2014, motor vehicles and machinery with an aggregate net carrying amount of approximately USD1,571,000 (31 December 2013: USD1,025,000) were held under hire purchase arrangements entered into by the Group (note 16(b)).

## 9. PAYMENTS IN ADVANCE

| | 30 June 2014 USD'000 (Unaudited) | 31 December 2013 USD'000 |
|---|---|---|
| Prepayments for acquisition of 60% equity interests in a company (note 19(e)) | 15,100 | 15,100 |
| Prepayments for purchase of property, plant and equipment | 2,135 | 1,613 |
| | 17,235 | 16,713 |

## 10. AVAILABLE-FOR-SALE INVESTMENT

| | 30 June 2014 USD'000 (Unaudited) | 31 December 2013 USD'000 |
|---|---|---|
| Unlisted equity investment, at cost | 10,000 | — |

The unlisted equity investment represented the Group's investment in Fortune Union Financial Holdings (Asia Pacific) Limited, particulars of which are set out in the Company's announcement dated 16 May 2014. It is stated at cost less impairment because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that its fair value cannot be measured reliably. The Group does not intend to dispose of the investment in the near future.

# Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

## 11. TRADE RECEIVABLES

| | 30 June 2014 USD'000 (Unaudited) | 31 December 2013 USD'000 |
|---|---|---|
| Irrevocable letter of credit | **30** | 4,289 |
| Trade receivables | **17,494** | 8,097 |
| | **17,524** | 12,386 |

The Group normally accept settlement by way of irrevocable letter of credit or telegraphic transfer. The Group may sometimes request customers, including its trading customers, to pay deposit upon signing sales contracts with the Group. During the Period, the Group granted credit period of three months to its major customers. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Based on the invoice date, all trade receivables of the Group at the end of the reporting period were aged within three months and were neither past due nor impaired.

## 12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 30 June 2014 USD'000 (Unaudited) | 31 December 2013 USD'000 |
|---|---|---|
| Other receivables | **344** | 213 |
| Prepayments to a mining subcontractor | **7,727** | 6,123 |
| Other prepayments and deposits | **3,990** | 2,697 |
| | **12,061** | 9,033 |

# Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

## 13. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | 30 June 2014 USD'000 (Unaudited) | 31 December 2013 USD'000 |
|---|---|---|
| Cash and bank balances | **25,646** | 31,737 |
| Less: Pledged deposits* | **(478)** | (989) |
| Cash and cash equivalents | **25,168** | 30,748 |

* As at 30 June 2014, bank deposits of USD478,000 (31 December 2013: USD989,000) were pledged to secure short-term bank loans granted to the Group (note 16(a)).

The Group's cash and bank balances at the end of each reporting period can be further analysed as follows:

| | 30 June 2014 USD'000 (Unaudited) | 31 December 2013 USD'000 |
|---|---|---|
| Cash and bank balances denominated in: | | |
| Hong Kong dollars ("HKD") | **16,597** | 17,583 |
| Ringgit Malaysia ("RM") | **228** | 623 |
| USD | **8,821** | 13,531 |
| | **25,646** | 31,737 |

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

## 14. TRADE PAYABLES

An aged analysis of trade payables as at the end of the reporting period, based on the invoice date, is as follows:

| | 30 June 2014 USD'000 (Unaudited) | 31 December 2013 USD'000 |
|---|---|---|
| Within 3 months | **4,391** | 2,654 |
| Over 3 months but less than 6 months | **351** | — |
| | **4,742** | 2,654 |

Trade payables are non-interest-bearing and are normally settled within 60 to 90 days.

# Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

## 15. OTHER PAYABLES AND ACCRUALS

| | 30 June 2014 USD'000 (Unaudited) | 31 December 2013 USD'000 |
|---|---|---|
| Other payables | 1,833 | 811 |
| Accruals | 356 | 241 |
| Payroll and welfare payable | 118 | 142 |
| | 2,307 | 1,194 |

All other payables of the Group are non-interest-bearing and unsecured.

## 16. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | 30 June 2014 | | | 31 December 2013 | | |
|---|---|---|---|---|---|---|
| | Effective interest rate (%) | Maturity | USD'000 | Effective interest rate (%) | Maturity | USD'000 |
| **Current** | | | | | | |
| Bank loans – secured (note (a)) | 3.72-3.73 | 2014 | 17,290 | 3.10-3.14 | 2014 | 3,314 |
| Bank loans – unsecured (note (d)) | 5 | 2015 | 1,776 | — | — | — |
| Hire purchase arrangements (note (b)) | 2.36-6.90 | 2015 | 603 | 2.36-6.90 | 2014 | 479 |
| | | | 19,669 | | | 3,793 |
| **Non-current** | | | | | | |
| Hire purchase arrangements (note (b)) | 2.36-6.90 | 2015 - 2020 | 495 | 2.36-6.90 | 2015 - 2019 | 692 |
| | | | 20,164 | | | 4,485 |

# Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

## 16. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

**Analysed into:**

| | 30 June 2014 USD'000 (Unaudited) | 31 December 2013 USD'000 |
|---|---|---|
| *Bank loans repayable:* | | |
| Within one year | **19,066** | 3,314 |
| *Hire purchase arrangements repayable:* | | |
| Within one year | **603** | 479 |
| In the second year | **329** | 403 |
| In the third to fifth years, inclusive | **143** | 283 |
| In the sixth year | **23** | 6 |
| | **1,098** | 1,171 |
| | **20,164** | 4,485 |

Notes:

(a) As at 30 June 2014, the bank loans of the Group were secured by the pledged bank balances of USD478,000 (31 December 2013: USD989,000) (note 13) and bore interest ranging from 3.72% to 3.73% per annum.

(b) The Group acquired certain of its motor vehicles and machinery through hire purchase arrangements, which are classified as finance leases and have remaining lease terms ranging from one to six years. As at 30 June 2014, payables relating to the hire purchase arrangements were secured by the corresponding motor vehicles and machinery acquired with an aggregate carrying amount of USD1,571,000 (31 December 2013:USD1,025,000) (note 8).

(c) During the Period, the Group entered into hire purchase arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of USD78,000 (six months ended 30 June 2013: USD673,000).

(d) As at 30 June 2014, bank loans of USD1,776,000 (31 December 2013: Not applicable) of China Bright Mining Limited, an indirect wholly-owned subsidiary of the Company, was guaranteed by the Company at nil consideration.

# Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

## 16. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

At 30 June 2014 and 31 December 2013, the total future minimum lease payments under hire purchase arrangements and their present values were as follows:

| | Minimum lease payments 2014 USD'000 | Minimum lease payments 2013 USD'000 | Present value of minimum lease payments 2014 USD'000 | Present value of minimum lease payments 2013 USD'000 |
|---|---|---|---|---|
| *Amounts payable:* | | | | |
| Within one year | **651** | 531 | **603** | 479 |
| In the second year | **346** | 430 | **329** | 403 |
| In the third to fifth years, inclusive | **151** | 298 | **143** | 283 |
| In the sixth year | **24** | 7 | **23** | 6 |
| Total minimum hire purchase payments | **1,172** | 1,266 | **1,098** | 1,171 |
| Future finance charges | **(74)** | (95) | | |
| Total net hire purchase payables | **1,098** | 1,171 | | |
| Portion classified as current liabilities | **(603)** | (479) | | |
| Non-current portion | **495** | 692 | | |

Management has assessed that the fair values of the above interest-bearing bank and other borrowings approximate to their carrying amounts. The fair value measurement hierarchy of the above interest-bearing bank and other borrowings requires significant observable inputs (Level 2).

## 17. DIVIDENDS

At a meeting of the board of directors held on 26 August 2014, the Directors resolved not to pay an interim dividend to shareholders (six months ended 30 June 2013: Nil).

The proposed final dividend of HK5.1 cents per ordinary share for the year ended 31 December 2013 (2012: Nil) was declared during the Period. Except for dividends declared to Cosmo Field and Hua Heng Investments Limited of USD5,500,000 and USD656,000, respectively, all remaining declared dividends of USD3,702,000 have been paid during the Period.

# Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

## 18. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its property, plant and equipment, and an office under operating lease arrangements, with leases negotiated for terms ranging from two to five years.

At the end of each of reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 30 June 2014 USD'000 (Unaudited) | 31 December 2013 USD'000 |
|---|---|---|
| Within one year | **213** | 192 |
| In the second to fifth years, inclusive | **514** | 353 |
| | **727** | 545 |

## 19. COMMITMENTS

In addition to the operating lease commitments detailed in note 18 above, the Group had the following commitments at the end of the reporting period:

### (a) Capital commitments

| | 30 June 2014 USD'000 (Unaudited) | 31 December 2013 USD'000 |
|---|---|---|
| Contracted, but not provided for | **9,484** | 9,297 |
| Authorised, but not contracted for | **57,945** | 62,906 |
| | **67,429** | 72,203 |

### (b) Other commitments – mining fee

The Group has agreed to pay Gema Impak Sdn. Bhd. ("Gema Impak") a mining fee of RM40 per tonne for iron ore products extracted from Ibam Mine and sold by Capture Advance, an indirect wholly-owned subsidiary of the Company.

# Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

## 19. COMMITMENTS (CONTINUED)

### (c) Other commitments – service fee

Pursuant to the mining sub-contract in relation to Ibam mine entered into between the Group and the mining contractor, a third party, which has become effective from 18 December 2010 and continues to be effective until the expiry of the mining lease or any renewal thereof, whichever is later unless otherwise determined by mutual consent of the parties to the mining sub-contract, the mining contractor shall mine and produce a minimum of 100 thousand tonnes of clean iron ore per month and shall crush the iron ore to a specified size before delivery to the Group. The service fee for the mining contractor is calculated based on (i) the volume of iron ore extracted multiplied by a fixed rate of RM36 per tonne; and (ii) the volume of crushing works multiplied by a fixed rate of RM14 per tonne. In the event that the Group provides the mining contractor with the necessary machinery or equipment for its works, the fixed rate of payment shall be reduced to RM25 per tonne of iron ore extracted and RM10.2 per tonne of crushing works.

### (d) Other commitments - monthly payable to original shareholders of Gema Impak

On 20 March 2013, Norhayati Binti Talib, Bazira Binti Bakar and Mohd Norhisham Bin Mohamed Hashim (the "Original Shareholders") of Gema Impak and the Company's subsidiary Pacific Mining Resources Sdn. Bhd. ("Pacific Mining"), have agreed an arrangement (the "Protection Enhancement Arrangement") which took effect from 20 March 2013, according to which Pacific Mining became the nominee holder of the 50% shareholding interest in Gema Impak and was entitled to exercise the voting rights in relation to matters related solely to Ibam Mine according to its own wish and shall not be bound to take instructions or take into account the views and interests of the Original Shareholders in exercising the voting rights.

The Original Shareholders shall make best endeavours in providing assistance and cooperation in respect of Gema Impak's renewal of the mining lease and the relevant licences and dealing with governmental authority, which are related to Ibam Mine.

Pacific Mining paid a monthly payment, being RM50,000 in total per month ("Monthly Payment"), to the Original Shareholders since March 2013 until the expiry of the term of the Protection Enhancement Arrangement, which shall mirror the term of the mining agreement entered into between Pacific Mining and Gema Impak dated 26 October 2009 or any extension thereof. The amount of the Monthly Payment shall not be revised without consent from each of the Original Shareholders and Pacific Mining.

### (e) Other commitments – proposed acquisition of 60% equity interests in a company

On 3 October 2013, Capture Bukit Besi Sdn. Bhd. ("Capture Bukit Besi"), an indirect wholly-owned subsidiary of the Company, entered into an a memorandum of understanding ("MOU") with independent third parties, Mr. Ng Chon Aik ("Mr. Ng") and Mr. Lin Siew Wan ("Mr. Lin"), in relation to the proposed acquisition of 60% equity interests in Red Sun Resources Sdn. Bhd. ("Red Sun"). Red Sun was incorporated in Malaysia and owned as to 50% by Mr. Ng and 50% by Mr. Lin as at the date hereof, and is principally engaged in property investment and owns certain parcels of land located at or surrounding Bukit Besi in the district of Dungun Terengganu, state of Terengganu Malaysia.

# Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

## 19. COMMITMENTS (CONTINUED)

### (e) Other commitments – proposed acquisition of 60% equity interests in a company (CONTINUED)

Pursuant to the MOU, Capture Bukit Besi agrees to (i) conduct the exploration and/or prospecting activities at Bukit Besi and to obtain a report based on the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves indicating the iron ore reserves at Bukit Besi. The aggregate costs to be incurred by Capture Bukit Besi in respect of these matters shall not exceed USD5.0 million; (ii) to repair roads, build dam(s) and construct pond(s) at Bukit Besi and the aggregate costs to be incurred by Capture Bukit Besi shall not exceed USD6.0 million; and (iii) upon execution of the MOU and subject to the terms and conditions thereof, Mr. Ng shall procure the approvals from the relevant authorities to be issued to Red Sun for the purpose of undertaking the project. In consideration of Mr. Ng procuring the approvals, Capture Bukit Besi agrees to pay to Mr. Ng or such other party as may be instructed by Mr. Ng the deposit, being an aggregate sum of USD10.0 million. The total consideration for the acquisition and/or subscription of shares of the 60% equity interests in Red Sun shall be an amount to be mutually agreed by the parties to the MOU. All costs and the deposit incurred pursuant to above clauses shall be deemed to be part of the consideration payable for the acquisition and/or subscription by Capture Bukit Besi of the 60% equity interest in Red Sun. As at the end of the reporting period, the Group has paid USD15,100,000 (note 9) regarding the proposed acquisition.

## 20. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

| | For the six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | **USD'000** | USD'000 |
| | **(Unaudited)** | (Unaudited) |
| Short term employee benefits | **226** | 108 |
| Total compensation paid to key management personnel | **226** | 108 |

## 21. EVENT AFTER THE REPORTING PERIOD

As at the date of approval of the interim condensed financial information, the Group has no event after the reporting period that needs to be disclosed.

## 22. APPROVAL OF THE FINANCIAL STATEMENTS

The unaudited interim condensed financial information was approved and authorised for issue by the board of directors on 26 August 2014.