ARES ASIA
安域亞洲

Ares Asia Limited
安域亞洲有限公司

(Incorporated in Bermuda with limited liability)
Stock Code: 645

INTERIM REPORT
2014/2015

CONTENTS

CORPORATE INFORMATION

Ares Asia Limited
(Incorporated in Bermuda with limited liability)

DIRECTORS

Executive Directors

Mr. ZHENG Yong Sheng *(Chairman)*
Mr. Junaidi YAP
Mr. RAN Dong
Mr. CHAN Tsang Mo

Independent Non-executive Directors

Mr. CHANG Tseng Hsi, Jesse
Mr. NGAN Hing Hon
Mr. YEUNG Kin Bond, Sydney

COMPANY SECRETARY

Ms. LAM Wai Yee, Sophie

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
17M Floor Hopewell Centre
183 Queen's Road East
Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 96, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

AUDITORS

KPMG
Certified Public Accountants

LEGAL ADVISER

As to Bermuda Law
Conyers, Dill & Pearman

PRINCIPAL BANKERS

Industrial and Commercial Bank of China (Asia) Limited
Societe Generale Corporate and Investment Banking
The Hongkong and Shanghai Banking Corporation Limited

COMPANY WEBSITES

www.aresasialtd.com
www.irasia.com/listco/hk/aresasia

STOCK CODE

645

The board (the "Board") of directors (the "Directors") of Ares Asia Limited (the "Company") is pleased to present the interim report and unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2014 together with the comparative figures for the corresponding period in 2013 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2014
(Expressed in United States dollars)

	Note	Unaudited Six months ended 30 September 2014 $'000	2013 $'000
Continuing operation			
Turnover	3	**75,082**	60,693
Cost of sales		**(73,667)**	(59,772)
Gross profit		**1,415**	921
Other revenue	4	**13**	10
Other net loss	4	**(1)**	—
Selling and distribution expenses		**(210)**	(153)
Administrative expenses		**(1,337)**	(1,434)
Finance costs		**(32)**	—
Loss from operations		**(152)**	(656)
Net unrealised loss on financial asset designated at fair value through profit or loss	10	**—**	(6,014)
Loss before taxation	5	**(152)**	(6,670)
Income tax	6	**(90)**	—
Loss from continuing operation		**(242)**	(6,670)
Discontinued operation	7		
Profit/(loss) from discontinued operation		**3,203**	(82)
Profit/(loss) and total comprehensive income for the period		**2,961**	(6,752)
Earnings/(loss) per share			
Basic and diluted	9		
— Continuing operation		**(0.07) cent**	(1.96) cent
— Discontinued operation		**0.94 cent**	(0.02) cent
		0.87 cent	(1.98) cent

The notes on pages 7 to 26 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2014
(Expressed in United States dollars)

	Note	**Unaudited At 30 September 2014 *$'000***	Audited At 31 March 2014 *$'000*
Non-current assets			
Property, plant and equipment		**125**	188
Intangible asset		**357**	357
Prepayments	*11*	**7,200**	8,740
		7,682	9,285
Current assets			
Financial asset designated at fair value through profit or loss	*10*	**—**	—
Trade and other receivables	*11*	**48,068**	10,730
Cash and cash equivalents	*12*	**12,483**	9,363
		60,551	20,093
Current liabilities			
Trade and other payables	*13*	**9,547**	6,581
Current taxation		**90**	—
Discounted bills with recourse	*14*	**32,838**	—
		42,475	6,581
Net current assets		**18,076**	13,512
Net assets		**25,758**	22,797
Capital and reserves			
Share capital		**440**	440
Reserves		**25,318**	22,357
Total equity		**25,758**	22,797

The notes on pages 7 to 26 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2014
(Expressed in United States dollars)

For the six months ended 30 September 2014

	Unaudited				
	Share Capital *$'000*	Contributed surplus *$'000*	Share option reserve *$'000*	Retained profits *$'000*	Total *$'000*
Balance at 1 April 2014	**440**	**15,088**	**51**	**7,218**	**22,797**
Profit and total comprehensive income for the period	**–**	**–**	**–**	**2,961**	**2,961**
Balance at 30 September 2014	**440**	**15,088**	**51**	**10,179**	**25,758**

For the six months ended 30 September 2013

	Unaudited				
	Share Capital *$'000*	Contributed surplus *$'000*	Share option reserve *$'000*	Retained profits *$'000*	Total *$'000*
Balance at 1 April 2013	440	15,088	51	15,382	30,961
Loss and total comprehensive income for the period	–	–	–	(6,752)	(6,752)
Balance at 30 September 2013	440	15,088	51	8,630	24,209

The notes on pages 7 to 26 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2014
(Expressed in United States dollars)

		Unaudited Six months ended 30 September	
	Note	**2014** **$'000**	2013 $'000
Operating activities			
(Increase)/decrease in trade and other receivables		**(35,798)**	442
Other cash flows arising from operating activities		**2,876**	(1,456)
Net cash used in operating activities		**(32,922)**	(1,014)
Investing activities			
Proceeds from disposal of discontinued operation (net of cash disposed)		**3,192**	—
Other cash flows arising from investing activities		**12**	(350)
Net cash generated from/(used in) investing activities		**3,204**	(350)
Financing activities			
Increase in discounted bills with recourse		**32,838**	—
Net cash generated from financing activities		**32,838**	—
Net increase/(decrease) in cash and cash equivalents		**3,120**	(1,364)
Cash and cash equivalents at 1 April	*12*	**9,363**	25,047
Cash and cash equivalents at 30 September	*12*	**12,483**	23,683

The notes on pages 7 to 26 form part of this interim financial report.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in United States dollars)

1 BASIS OF PREPARATION

This interim financial report 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 28 November 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013/14 annual financial statements, except for (i) the discounted bills with recourse during the current period are recognised initially at fair value less attributable transaction costs and subsequent to initial recognition stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method; and (ii) the accounting policy changes that are expected to be reflected in the 2014/15 annual financial statements, details of which are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2013/14 annual financial statements. The unaudited condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 March 2014 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 March 2014 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 30 June 2014.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company:

— Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*

— Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*

— Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*

— Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*

— HK(IFRIC) 21, *Levies*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on the Group's interim financial report as the Company does not qualify to be an investment entity.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in United States dollars)

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

Amendments to HKAS 32, Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on the Group's interim financial report as they are consistent with the policies already adopted by the Group.

Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash-generating unit whose recoverable amount is based on fair value less costs of disposal. The amendments does not have an impact on the Group's interim financial report as the Group has no impaired non-financial assets.

Amendments to HKAS 39, Novation of derivatives and continuation of hedge accounting

The amendments to HKAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on the Group's interim financial report as the Group has no derivatives.

HK(IFRIC) 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on the Group's interim financial report as the guidance is consistent with the Group's existing accounting policies.

3 TURNOVER AND SEGMENT REPORTING

(a) Turnover

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

(b) Segment reporting

The Group commenced the coal trading business in October 2012 and discontinued the footwear business in January 2013.

In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group had two reportable segments — coal trading and footwear business, which are classified as continuing operation and discontinued operation (see note 7) respectively. No operating segments have been aggregated to form the reportable segments.

Continuing operation

— Coal trading : Sale of coal

Discontinued operation

— Footwear business : Manufacturing and sale of footwear products

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in United States dollars)

3 TURNOVER AND SEGMENT REPORTING *(Continued)*

(b) ***Segment reporting*** *(Continued)*

(i) Information about profit or loss, assets and liabilities

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	For the six months ended 30 September					
	2014			2013		
	Continuing operation	Discontinued operation		Continuing operation	Discontinued operation	
	Coal trading	Footwear business	Total	Coal trading	Footwear business	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Revenue						
Reportable segment revenue	75,082	–	75,082	60,693	–	60,693
Results						
Reportable segment results (EBIT)	583	3,203	3,786	259	(82)	177
Net unrealised loss on financial asset designated at fair value through profit or loss			–			(6,014)
Unallocated head office and corporate expenses			(703)			(915)
Finance costs			(32)			–
Consolidated profit/(loss) before taxation			3,051			(6,752)

3 TURNOVER AND SEGMENT REPORTING *(Continued)*

(b) ***Segment reporting*** *(Continued)*

(i) Information about profit or loss, assets and liabilities (continued)

	As at 30 September 2014			As at 31 March 2014		
	Continuing operation	Discontinued operation		Continuing operation	Discontinued operation	
	Coal trading *$'000*	Footwear business *$'000*	Total *$'000*	Coal trading *$'000*	Footwear business *$'000*	Total *$'000*
Assets						
Segment assets	68,168	–	68,168	29,304	8	29,312
Unallocated head office and corporate assets			65			66
Consolidated total assets			68,233			29,378
Liabilities						
Segment liabilities	42,321	–	42,321	6,097	187	6,284
Unallocated head office and corporate liabilities			154			297
Consolidated total liabilities			42,475			6,581

The measure used for reporting segment result is "EBIT" i.e. "adjusted earnings before interest and taxes" of individual segment. To arrive at EBIT the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' and auditors' remuneration and other head office or corporate administration costs.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in United States dollars)

3 TURNOVER AND SEGMENT REPORTING *(Continued)*

(b) ***Segment reporting*** *(Continued)*

(ii) *Geographical information*

All of the Group's revenue from external customers was derived from customers based in the PRC (excluding Hong Kong), i.e. the location at which the goods delivered.

All of the Group's property, plant and equipment are physically located in Hong Kong. The intangible asset and the non-current portion of prepayments were allocated also to Hong Kong which is the location of operation of the Group.

4 OTHER REVENUE AND NET LOSS

	Six months ended 30 September	
	2014	2013
	$'000	*$'000*
Other revenue		
Continuing operation		
Bank interest income	**13**	10
Other net loss		
Continuing operation		
Net foreign exchange loss	**(1)**	–

5 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	Six months ended 30 September	
	2014	2013
	$'000	*$'000*
Continuing operation		
Depreciation	**64**	62
Staff costs	**924**	982
Cost of inventories	**68,340**	58,893
Discontinued operation		
Staff costs	**—**	29

6 INCOME TAX EXPENSE

	Six months ended 30 September	
	2014	2013
	$'000	*$'000*
Current tax — Hong Kong Profits Tax	**90**	—

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 2014. No provision for Hong Kong Profits Tax has been made for the six months ended 30 September 2013 as the Group's operations in Hong Kong sustained a loss for Hong Kong Profits Tax purpose. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in United States dollars)

7 DISCONTINUED OPERATION

The Group ceased the operation of its footwear business in January 2013. Accordingly, the operating results of the footwear business are presented as discontinued operation. Further, as disclosed in the Company's announcement dated 26 February 2014, the Company entered into a sale and purchase agreement with Landway Investments Limited, 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 $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.

Results of the discontinued operation:

	Period from 1 April 2014 to 10 April 2014 *$'000*	Six months ended 30 September 2013 *$'000*
Administrative expenses	**–**	(82)
Loss before taxation	**–**	(82)
Income tax	**–**	–
Loss from operation	**–**	(82)
Gain on disposal of discontinued operation	**3,203**	–
Profit/(loss) for the period	**3,203**	(82)

8 DIVIDEND

The Directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 September 2014 (six months ended 30 September 2013: Nil).

9 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to ordinary equity shareholders of the Company of $2,961,000 (six months ended 30 September 2013: loss of $6,752,000) and the weighted average of 340,616,934 ordinary shares (six months ended 30 September 2013: 340,616,934 ordinary shares) in issue during the period.

(b) Diluted earnings/(loss) per share

The calculation of diluted earnings per share for the six months ended 30 September 2014 is based on the profit attributable to ordinary equity shareholders of the Company of $2,961,000 and the weighted average number of 341,407,268 ordinary shares after adjusting of all dilutive potential ordinary shares under the Company's share option scheme.

The calculation of diluted loss per share for the six months ended 30 September 2013 is the same as basic loss per share as there were no dilutive potential ordinary shares during that period.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in United States dollars)

10 FINANCIAL ASSET DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 30 September 2014	At 31 March 2014
	$'000	*$'000*
At fair value:		
Overseas unlisted exchangeable bond	**–**	–

As disclosed in the Company's announcements dated 30 May 2012 and 22 March 2013, Able Point Corporation Limited ("Able Point"), an indirectly wholly-owned subsidiary of the Company, entered into a subscription agreement ("Subscription Agreement") and a supplemental agreement ("Supplemental Agreement") on 30 May 2012 and 22 March 2013 respectively with PT Langit Timur Energy ("LTE"), PT Mandiri Arya Persada ("MAP", a non-wholly owned subsidiary of LTE which holds certain coal concessions in Indonesia) and PT Lintas Sanjaya, the non-controlling shareholder of LTE, to subscribe for a one year zero coupon secured exchangeable bond in a principal amount of $5,000,000 issued by LTE ("Exchangeable Bond"). The Exchangeable Bond could be extended for one year if mutually agreed by LTE and Able Point.

Subject to certain conditions as stipulated in the Subscription Agreement (as amended and supplemented by the Supplemental Agreement), Able Point can exercise the right to exchange the Exchangeable Bond into shares of MAP (the "Underlying Shares"). The equity interests of the Underlying Shares in MAP have been increased from 5% to 70% of the total issued and paid up capital of MAP on a fully diluted basis as agreed in the Supplemental Agreement.

10 FINANCIAL ASSET DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS *(continued)*

LTE can redeem the Exchangeable Bond at any time prior to the maturity and the redemption price is fixed at approximately $6,084,000, representing a redemption premium of 21.6888% throughout the one-year period. In the case of the maturity date being extended for one year, the redemption price will be calculated based on a redemption premium of 41% on an accrual basis on the total outstanding principal amount of the Exchangeable Bond, starting from the first anniversary of the date of the issue of the Exchangeable Bond. Unless previously redeemed or converted, LTE shall redeem the Exchangeable Bond at 100% principal amount plus the redemption premium at maturity.

On 29 May 2013, LTE and Able Point agreed to extend the maturity date of the Exchangeable Bond to 29 May 2014 pursuant to the Subscription Agreement (as amended and supplemented by the Supplemental Agreement).

During the six months ended 30 September 2013, it was reported that the exploration results of MAP's coal concessions were not satisfactory. As a consequence, LTE and MAP faced significant financial difficulties and all the exploration activities of the underlying coal concessions were suspended. Given there was no further funding made available to MAP to support further exploration and evaluation activities, it was the intention of MAP to return the coal concessions to the relevant government authorities. As a result, it casted significant doubt on the going concern of LTE and MAP, and the ability of LTE to redeem the Exchangeable Bond when it reached the maturity date. The Group recognised net unrealised loss on financial asset designated at fair value through profit or loss of $6,014,000 during the six months ended 30 September 2013 and the Exchangeable Bond was stated at nil since then.

During the six months ended 30 September 2014, the Exchangeable Bond matured and LTE has issued a notice to the Group informing its financial inability to redeem the Exchangeable Bond and seeking for the Group's consent to exchange the Exchangeable Bond into the equity interest in MAP. Given the significant doubt on the going concern of LTE and MAP and the financial inability of LTE, the Exchangeable Bond continued to be stated at nil at 30 September 2014.

The Group has decided that it would not exercise the aforesaid right to exchange and is currently assessing other options to recover the Group's investment in the Exchangeable Bond.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in United States dollars)

11 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 2014 *$'000*	At 31 March 2014 *$'000*
Within 1 month	**13,371**	6,316
More than 1 month but within 2 months	**17,855**	—
More than 2 months but within 3 months	**11,243**	—
Trade debtors and bills receivable	**42,469**	6,316
Prepayments and other receivables	**12,799**	13,154
	55,268	19,470
Less: Non-current portion of prepayments	**(7,200)**	(8,740)
	48,068	10,730

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 90 days 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 at 30 September 2014 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 2014 (31 March 2014: Nil).

11 TRADE AND OTHER RECEIVABLES *(continued)*

During the year ended 31 March 2014, the Group entered into coal sale and purchase agreements with a marketing agent of certain top coal miners in Indonesia. Under the agreements, the Group made prepayments of $13,000,000 to the marketing agent to secure long-term supply of thermal coal from the relevant coal miners. The prepayment would be recovered by deducting a pre-agreed amount per metric tonne of coal purchased by the Group.

At 30 September 2014, the unutilised prepayment of $12,236,000 (31 March 2014: $12,923,000) was included in "Prepayments and other receivables". The directors estimated that the prepayment expected to be recovered or recognised as expense after more than one year is $7,200,000 (31 March 2014: $8,740,000) which is recognised as non-current asset accordingly. All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

12 CASH AND CASH EQUIVALENTS

	At 30 September 2014 **$'000**	At 31 March 2014 $'000
Deposits with banks	**7,294**	—
Cash at bank and in hand	**5,189**	9,363
	12,483	9,363

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in United States dollars)

13 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 2014	At 31 March 2014
	$'000	*$'000*
Within 1 month	**8,614**	5,935
Trade creditors	**8,614**	5,935
Other creditors and accrued charges	**933**	646
	9,547	6,581

14 DISCOUNTED BILLS WITH RECOURSE

Bills discounted with banks at an effective interest rate ranging from 1.48% to 1.73% per annum have maturity profiles of no more than 90 days.

15 FAIR VALUE MEASUREMENT OF FINANCIAL STATEMENTS

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

The fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis are categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

— Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

— Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

— Level 3 valuations: Fair value measured using significant unobservable inputs

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in United States dollars)

15 FAIR VALUE MEASUREMENT OF FINANCIAL STATEMENTS *(Continued)*

(a) Financial assets and liabilities measured at fair value (Continued)

(i) Fair value hierarchy (Continued)

The Group has a corporate finance team assessing the valuations for the financial asset designated at fair value through profit or loss which is categorised into Level 3 of the fair value hierarchy. Consultation with an independent valuer is carried out when appropriate in respect of the valuation assessment. The Group prepares analysis of changes in fair value measurement at each interim and annual reporting date.

At 30 September 2014 and 31 March 2014, the Group's financial asset designated at fair value through profit or loss stated at nil falls into Level 3 of the fair value hierarchy.

During the six months ended 30 September 2013 and 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Information about Level 3 fair value measurements

The fair value of the Exchangeable Bond is estimated using an appropriate combination of (1) effective interest method; (2) open market value by reference to comparable market transactions adjusted to reflect the specific circumstances of the underlying exchangeable equity interests of the bond; and (3) Black-Scholes model with Trinomial Tree method. The significant unobservable inputs of the fair value measurement include credit risk of the Exchangeable Bond, the expected cash flows from the Exchangeable Bond and risk adjustment to the specific circumstances of the underlying exchangeable equity interests of the bond. Due to the circumstances as discussed in note 10, no cash flows are expected to be received from the bond and it is anticipated that the equity conversion has no value due to the going concern issues.

15 FAIR VALUE MEASUREMENT OF FINANCIAL STATEMENTS *(Continued)*

(a) *Financial assets and liabilities measured at fair value* (Continued)

(ii) Information about Level 3 fair value measurements (Continued)

As the fair value of the Exchangeable Bond was nil as at 30 September 2014 and 31 March 2014, the Directors considered that it is not meaningful to present a sensitivity analysis on the changes in unobservable inputs used in the calculation of the fair value of the Exchangeable Bond.

During the six months ended 30 September 2014, there were no movements in the balance of Level 3 financial instruments.

The movement in the balance of Level 3 financial instruments during the six months ended 30 September 2013 is as follows:

	$'000
Financial asset designated at fair value through profit or loss:	
At 1 April 2013	6,014
Loss on fair value change recognised in profit or loss	(6,014)
At 30 September 2013	—

(b) *Fair value of financial assets and liabilities carried at other than fair value*

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 September 2014 and 31 March 2014 because of the immediate or short term maturity of the financial instruments.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in United States dollars)

16 OPERATING LEASE COMMITMENT

At 30 September 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 September 2014	At 31 March 2014
	$'000	*$'000*
Within 1 year	**36**	181

The Group is the lessee in respect of its office premise held under operating lease. 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.

17 MATERIAL RELATED PARTY TRANSACTIONS

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	
	2014	2013
	$'000	*$'000*
Salaries and other short-term employee benefits	**631**	584
Retirement scheme contributions	**4**	3
	635	587

18 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

As disclosed in the Company's announcement dated 17 October 2014, subsequent to the end of the reporting period, the Group entered into a lease agreement (the "Lease Agreement") with Reignwood International Investment (Group) Company Limited as a lessor in respect of the lease of the premises situated at Level 96, International Commerce Centre, 1 Austin Road West, Hong Kong with an area of approximately 3,100 square feets for a term of 3 years from 20 October 2014 to 19 October 2017 at a monthly rent of HK$241,800, exclusive of rates, air-conditioning charges and property management fee, subject to the terms and conditions of the Lease Agreement.

The transactions stipulated under the Lease Agreement constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Details of the Lease Agreement have been disclosed in an announcement of the Company dated 17 October 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

Continuing Operation

The Group continues to operate its coal trading business during the six months period from April 2014 to September 2014. The performance has continued to grow with a turnover of US$75.08 million, representing a year on year increase of 23.7% or US$14.39 million. During the period, the Group continued to sell thermal coals, with majority of the coal originated from Indonesia and Australia, to China, with a total volume of approximately 1.10 million metric tonnes ("MT") as compared with approximately 0.88 million MT in corresponding period last year.

Selling, distribution and administrative expenses primarily consisted of employee benefits costs, rental and corporate expenses which amounted to approximately US$1.55 million for the current period, which is comparable with US$1.59 million of last reporting period.

Loss before taxation from Continuing Operation was approximately US$0.15 million for the six months period ended 30 September 2014 as compared with a loss of US$6.67 million for the same reporting period last year. When excluding the fair value loss of approximately US$6.01 million in last year's reporting period, loss before taxation from the continuing operation of this reporting period would be significantly narrowed by 77.3% or US$0.51 million, as compared to US$0.66 million of the same reporting period last year as level of operation continued to increase while corporate overheads reached a stable level.

Discontinued Operation

The Group's footwear manufacturing business was discontinued in January 2013. The gain from Discontinued Operation of US$3.20 million mainly represented the gain on disposal of the Discontinued Operation (which is further discussed in the section "Disposal of Discontinued Operation" below).

PROSPECT

The year 2014 is a very challenging year; very low thermal coal price in China and regionally, massive oversupply from domestic producers and regional including Indonesia and Australia, very low demand from China's power plants due to low utilization and higher utilization of hydro and nuclear power plants. Despite all these challenges, the Company managed to trade 1.10 million MT of coal in the six months ended 30 September 2014 and recorded net profit from trading.

Looking ahead into next year, it looks like it would be another challenging year due to the lower than expected China's GDP growth which would translate into lower power plant utilization and hence lower demand for thermal coal. Considering the above factors plus the new import tariff for coal, the coal market in China is expected to stay on the weak side. The thermal coal price will continue to be under pressure and remain at its lows, given the slim possibility for a quick turnaround from the prolonged oversupply in the China coal market.

The Group will maintain its competitive advantage through the secured long-term supply of quality thermal coal originated from Indonesia's top coal mines at competitive pricing. This enables the Group to maintain the marginal contribution and minimize the adverse impact of market price fluctuations on the Group's profitability. We will further develop both our customer base and geographic business coverage to include Southeast Asia and North Asia and expand our overseas supplier network.

With the support of the new shareholder, Reignwood International Holdings Company Limited, the Group will continue to review the strategic directions of the Group with a view to enhance its future development.

MANAGEMENT DISCUSSION AND ANALYSIS

DISPOSAL OF DISCONTINUED OPERATION

As disclosed in the Company's annual report for the year ended 31 March 2014 and the announcement dated 26 February 2014, the Company entered into a sale and purchase agreement with Landway Investments Limited, 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 US$1.58 million owed by China Compass to the Company, at a consideration of US$3.20 million (the "Disposal"). The Disposal was completed in April 2014 after it was approved by the Company's independent shareholders (i.e. other than those Company's shareholders who have a material interest (as defined in the Listing Rules) in the Disposal) at a special general meeting of the Company held on 10 April 2014 and the Group recorded a gain on disposal of discontinued operation of US$3.20 million.

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 30 September 2014, cash on hand and at banks for the Group amounted to approximately US$12.48 million as compared to US$9.36 million as at 31 March 2014. The increase in cash was primarily the result of the consideration received from the disposal of China Compass and Brave Win during the six months ended 30 September 2014.

LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

As at 30 September 2014, the Group had no other borrowings except for the discounted bills with recourse amounting to US$32.84 million while the Group was debt-free as at 31 March 2014. The increase was due to bills receivable being discounted, with recourse, for matching the working capital requirement arising from the Group's trading activities. The discounting of bills receivable was a short term trade facility and the underlying bills receivable had maturity periods of 90 days or less and were covered by corresponding letters of credit. 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 approximately 79.0% (31 March 2014: nil).

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 90 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.

MANAGEMENT DISCUSSION AND ANALYSIS

RISK OF CURRENCY FLUCTUATIONS

The Group's assets and liabilities as well as the income and expenses derived from both the Continuing Operation and Discontinued 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.

EVENT AFTER THE REPORTING PERIOD

On 17 October 2014, Ares Repco Limited, an indirect wholly-owned subsidiary of the Company, as a lessee, has entered into a lease agreement (the "Lease Agreement") with Reignwood International Investment (Group) Company Limited as a lessor in respect of the lease of the premises situated at Level 96, International Commerce Centre, 1 Austin Road West, Hong Kong with an area of approximately 3,100 square feets for a term of 3 years from 20 October 2014 to 19 October 2017 at a monthly rent of HK$241,800, exclusive of rates, air-conditioning charges and property management fee, subject to the terms and conditions of the Lease Agreement.

The transactions stipulated under the Lease Agreement constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Details of the Lease Agreement have been disclosed in an announcement of the Company dated 17 October 2014.

CORPORATE GOVERNANCE AND OTHER INFORMATION

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 September 2014 (for the six months ended 30 September 2013: Nil).

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

A Director has been granted options under the share option scheme (the "Share Option Scheme") of the Company adopted on 21 September 2012, details of which are set out in the section headed "Share Option Scheme" below.

Save as disclosed above, as at 30 September 2014, none of the Directors, chief executives of the Company nor their associates had or was deemed to have any interest or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which has been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code.

UPDATE ON DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Mr. Junaidi YAP has resigned as the chief executive officer of the Company with effect from 11 November 2014 but will remain as the executive Director and the authorised representative of the Company for the purpose of the Listing Rules until 28 February 2015.

UPDATE ON DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES *(Continued)*

Mr. ZHENG Yong Sheng, the executive Director and the chairman of the Board, has been appointed as the chief executive officer of the Company with effect from 11 November 2014 to take up the overall management of the Group.

Mr. CHAN Tsang Mo, the executive Director, has been appointed as the authorised representative of the Company for the purpose of the Listing Rules with effect from 28 February 2015.

Mr. NGAN Hing Hon, the independent non-executive Director, has been appointed as a partner of ZHONGHUI ANDA CPA Limited during the period.

Mr. YEUNG Kin Bond, Sydney, the independent non-executive Director, has been appointed as the group chief executive director and re-designated from the non-executive and non-independent director to the executive director of Giken Sakata (S) Ltd. (listed on the Singapore Stock Exchange) with effect from 16 September 2014.

Save as disclosed above, upon specific enquiry by the Company and following confirmations from the Directors, there is no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the Company's 2013/14 annual report.

CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE OPTION SCHEME

The Share Option Scheme was adopted by the Company on 21 September 2012. Pursuant to the Share Option Scheme, the Directors may grant options to eligible persons to subscribe for the Company's shares subject to the terms and conditions as stipulated therein. The purpose of the Share Option Scheme is to provide eligible participants with an opportunity to acquire proprietary interests in the Company, which the Directors believe would help the Company to attract and retain high caliber personnel who have made contributions to the success of the Company, and would also help the building of common objective of the Group and the eligible participants for the betterment of business and profitability of the Group.

The number of share options which may be granted under the Share Option Scheme shall not exceed 10% of the issued share capital of the Company as at the date of shareholders' approval. The maximum number of unexercised share options under the Share Option Scheme and any other share option schemes shall not exceed 30% of the issued share capital of the Company at any time. The maximum number of options issued to each participant under the Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of options in excess of the limit is subject to the shareholders' approval in general meeting with such participant and his associates abstaining from voting.

The exercise price must be at least the higher of: (a) the closing price of the Company's shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a business day; (b) the average closing price of the Company's shares as stated in the daily quotation sheets of the Stock Exchange for five business days immediately preceding the date of grant; and (c) the nominal value of the Company's shares.

SHARE OPTION SCHEME *(Continued)*

A nominal consideration of HK$1 is payable by the grantee upon acceptance of an option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee of the option, which period may commence on a day after the date upon which the option is granted but shall and in any event be not later than ten years from the date of grant of the option. The Directors may at their sole discretion determine the minimum period for which the option has to be held or other restrictions before the exercise of the option.

As at 30 September 2014, the number of shares in respect of which options had been granted and remained outstanding under the Share Option Scheme was 1,500,000, representing approximately 0.44% of the shares of the Company in issue and details of which were as follows:

Name of participant	Grant date	Exercisable period	Exercise price per share *(HK$)*	Number of share options granted as at 30 September 2014
Mr. Junaidi YAP	25 October 2012	25 October 2012 to 23 October 2015	0.63	1,500,000

The vesting period of the share options granted is determined by the Directors at each time when the options are granted. The aforesaid shares options are beneficially owned by the Director concerned and are vested at the date of grant. The closing price of the Company's shares on 25 October 2012, the date of grant was HK$0.63.

CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE OPTION SCHEME *(Continued)*

No share option was granted, exercised, lapsed or cancelled during the six months ended 30 September 2014.

Save as disclosed above, at no time during the period was the Company or its subsidiary companies a party to any arrangement to enable the Directors or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2014, the following substantial shareholder of the Company, other than the Directors and chief executives of the Company, had the interests and short positions in the shares and underlying shares of the Company which have been disclosed to the Company pursuant to the provision of Divisions 2 and 3 of Part XV of the SFO, has been recorded in the register kept by the Company pursuant to section 336 of SFO:

Long position in shares of the Company

Name	Number of shares held/ interested	Approximate percentage of issued shares
Reignwood International Holdings Company Limited ("Reignwood") *(Note)*	182,459,527	53.57%

Note: Reignwood is wholly owned by Mr. Chanchai RUAYRUNGRUANG.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

Save as disclosed above, as at 30 September 2014, no person, other than the Directors or chief executives of the Company, whose interests are set out in the "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" section above, had registered a long or short position in the shares, underlying shares and debentures of the Company that was required to be recorded pursuant to section 336 of the SFO.

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.

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2014, the Group had a total of 13 (31 March 2014: 13) 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions (the "Code Provision(s)") of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 September 2014, except for the following deviation:

Pursuant to the Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. The term of the independent non-executive Directors is not fixed but they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws of the Company.

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 2014.

AUDIT COMMITTEE

The audit committee (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 Tseng Hsi, 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 interim financial statements of the Group for the six months ended 30 September 2014.

APPRECIATION

The Board would like to take this opportunity to express our sincere thanks to our shareholders and all other associates for their supports and to our staff for their commitment and diligence during the period.

On behalf of the Board

ZHENG Yong Sheng
Chairman

Hong Kong, 28 November 2014