



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

2019/2020
INTERIM REPORT

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CORPORATE INFORMATION

Ares Asia Limited

(Incorporated in Bermuda with limited liability)

DIRECTORS

Executive Directors

Ms. RUAYRUNGRUANG Woraphanit
(Chairlady and Chief Executive Officer)
Mr. LAI Yi-Chun

Independent Non-executive Directors

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

COMPANY SECRETARY

Ms. LEUNG Pui Ki

AUTHORISED REPRESENTATIVES

Ms. RUAYRUNGRUANG Woraphanit
Ms. LEUNG Pui Ki

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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4th Floor North
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41 Cedar Avenue
Hamilton HM 12
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services
Limited
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Hopewell Centre
183 Queen's Road East
Wanchai
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

AUDITOR

KPMG
Certified Public Accountants

LEGAL ADVISERS

As to Hong Kong Law
Reed Smith Richards Butler

As to Bermuda Law
Conyers Corporate Services (Bermuda) Limited

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Bank of China (Hong Kong) Limited

COMPANY WEBSITES

www.aresasiatd.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 condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2019 together with the comparative figures for the corresponding period in 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 September 2019

(Expressed in United States dollars)

| | | Unaudited Six months ended 30 September | |
|---|-------------|--|----------------|
| | <i>Note</i> | 2019 \$'000 | 2018 \$'000 |
| Revenue | 3 | 57,202 | 124,289 |
| Cost of sales | | (56,295) | (123,361) |
| Gross profit | | 907 | 928 |
| Other income | 4 | 8 | 29 |
| Selling expenses | | (115) | (57) |
| Administrative expenses | | (504) | (815) |
| Profit from operations | | 296 | 85 |
| Finance costs | | (388) | (462) |
| Loss before taxation | 5 | (92) | (377) |
| Income tax | 6 | — | — |
| Loss and total comprehensive income for the period | | (92) | (377) |
| Loss per share | 8 | | |
| Basic and diluted | | (0.03) cent | (0.11) cent |

The notes on pages 7 to 20 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 September 2019

(Expressed in United States dollars)

| | | Unaudited At 30 September 2019 \$'000 | Audited At 31 March 2019 \$'000 |
|--------------------------------|------|---|---|
| | Note | | |
| Non-current assets | | | |
| Property, plant and equipment | | 2 | 3 |
| Right-of-use assets | | 350 | — |
| | | 352 | 3 |
| Current assets | | | |
| Trade and other receivables | 9 | 42,390 | 22,276 |
| Cash and cash equivalents | | 2,665 | 3,848 |
| | | 45,055 | 26,124 |
| Non-current liabilities | | | |
| Lease liabilities | | 154 | — |
| Current liabilities | | | |
| Trade and other payables | 10 | 6,182 | 15,867 |
| Discounted bills with recourse | 11 | 31,661 | 2,956 |
| Lease liabilities | | 197 | — |
| | | 38,040 | 18,823 |
| Net current assets | | 7,015 | 7,301 |
| Net assets | | 7,213 | 7,304 |
| Capital and reserves | | | |
| Share capital | | 441 | 441 |
| Reserves | | 6,772 | 6,863 |
| Total equity | | 7,213 | 7,304 |

The notes on pages 7 to 20 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 September 2019

(Expressed in United States dollars)

For the six months ended 30 September 2019

| | Unaudited | | | | Total \$'000 |
|--|----------------------------|---------------------------------------|----------------------------------|---------------------------------|-----------------|
| | Share capital \$'000 | Share premium account \$'000 | Contributed surplus \$'000 | Accumulated losses \$'000 | |
| Balance at 1 April 2019, as previously stated | 441 | 172 | 15,088 | (8,397) | 7,304 |
| Impact on initial application of HKFRS 16 (Note 2) | — | — | — | 1 | 1 |
| Balance at 1 April 2019 (restated) | 441 | 172 | 15,088 | (8,396) | 7,305 |
| Loss and total comprehensive income for the period | — | — | — | (92) | (92) |
| Balance at 30 September 2019 | 441 | 172 | 15,088 | (8,488) | 7,213 |
| Balance at 1 April 2018 | 441 | 172 | 15,088 | (6,921) | 8,780 |
| Loss and total comprehensive income for the period | — | — | — | (377) | (377) |
| Balance at 30 September 2018 | 441 | 172 | 15,088 | (7,298) | 8,403 |

The notes on pages 7 to 20 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 September 2019

(Expressed in United States dollars)

| | Unaudited Six months ended 30 September | |
|---|---|-----------------|
| | 2019 \$'000 | 2018 \$'000 |
| Operating activities | | |
| (Increase)/decrease in trade and other receivables | (20,114) | 9,587 |
| Decrease in trade and other payables | (9,685) | (4,877) |
| Other cash flows generated from operating activities | 298 | 89 |
| Net cash (used in)/generated from operating activities | (29,501) | 4,799 |
| Investing activities | | |
| Other cash flows generated from investing activities | 1 | 1 |
| Net cash generated from investing activities | 1 | 1 |
| Financing activities | | |
| Increase/(decrease) in discounted bills with recourse | 28,705 | (11,116) |
| Other cash flows used in financing activities | (388) | (462) |
| Net cash generated from/(used in) financing activities | 28,317 | (11,578) |
| Net decrease in cash and cash equivalents | (1,183) | (6,778) |
| Cash and cash equivalents at 1 April | 3,848 | 8,443 |
| Cash and cash equivalents at 30 September | 2,665 | 1,665 |

The notes on pages 7 to 20 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

(Expressed in United States dollars)

1 Basis of preparation

The unaudited condensed consolidated interim financial statements for the six months ended 30 September 2019 (the “Interim Financial Statements”) has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34 — “Interim financial reporting”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The Interim Financial Statements have been prepared in accordance with the same accounting policies adopted in the 2018/19 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019/20 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The financial information relating to the financial year ended 31 March 2019 that is included in the Interim Financial Statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. The auditors have expressed an unqualified opinion on those financial statements in their report dated 26 June 2019.

2 Changes in accounting policies

The HKICPA has issued several new standards, interpretations and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) that are first effective for the current accounting period of the Group:

| | |
|----------------------|---|
| HKFRS 16 | Leases |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015–2017 Cycle |

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

(Expressed in United States dollars)

2 Changes in accounting policies (Continued)

The accounting policies adopted in the preparation of the Interim Financial Statements are same as those applied in the preparation of the Group's annual financial statements for the year ended 31 March 2019, except for the new and revised HKFRSs and interpretations issued by HKICPA that are first effective for the current accounting period of the Group. There has been no significant change to the accounting policy applied in the Interim Financial Statements for the period presented as a result of adoption of these amendments, except for the adoption of HKFRS 16 "Leases".

HKFRS 16 Leases

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 April 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 April 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

(a) *Changes in the accounting policies*

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

(Expressed in United States dollars)

2 Changes in accounting policies (Continued)

HKFRS 16 Leases (Continued)

(a) Changes in the accounting policies (Continued)

(i) New definition of a lease (Continued)

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 April 2019. For contracts entered into before 1 April 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than leases of low-value assets. As far as the Group is concerned, the newly capitalised lease is in relation to property, plant and equipment.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

(Expressed in United States dollars)

2 Changes in accounting policies (Continued)

HKFRS 16 Leases (Continued)

(a) *Changes in the accounting policies (Continued)*

(ii) Lessee accounting (Continued)

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

(Expressed in United States dollars)

2 Changes in accounting policies (Continued)

HKFRS 16 Leases (Continued)

(b) Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 April 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 April 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 5%.

Consolidated Statement of Financial Position

| | Unaudited At 1 April 2019 \$'000 |
|---------------------------------|--|
| Increase in right-of-use assets | 447 |
| Increase in lease liabilities | (446) |
| Decrease in accumulated losses | (1) |

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

(Expressed in United States dollars)

3 Revenue and segment reporting

(a) Revenue

The Group is principally engaged in the coal trading business. All of the revenue for the six months ended 30 September 2019 is recognised in accordance with HKFRS 15. Revenue from contracts with customers, which is also the Group's turnover, mainly represents the sales value of coal in the ordinary course of businesses which are recognised at a point in time.

(b) Segment reporting

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

Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment. The geographical location of customers is based on the location at which the goods delivered. The geographical location of the property, plant and equipment is based on the physical location of the asset.

| | Revenue from external customers | | Property, plant and equipment | |
|----------------|---|----------------|---|---|
| | Unaudited Six months ended 30 September 2019 \$'000 | 2018 \$'000 | Unaudited At 30 September 2019 \$'000 | Audited At 31 March 2019 \$'000 |
| Mainland China | 57,202 | 124,289 | — | — |
| Hong Kong | — | — | 2 | 3 |
| | 57,202 | 124,289 | 2 | 3 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

(Expressed in United States dollars)

4 Other income

| | Unaudited | |
|---------------------------|------------------|--------|
| | Six months ended | |
| | 30 September | |
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Bank interest income | 1 | 1 |
| Net foreign exchange gain | 7 | 28 |
| Total | 8 | 29 |

5 Loss before taxation

Loss before taxation is arrived at after charging:

| | Unaudited | |
|---|------------------|---------|
| | Six months ended | |
| | 30 September | |
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Depreciation of property, plant and equipment | 1 | 5 |
| Depreciation of right-of-use assets | 97 | — |
| Staff costs | 370 | 337 |
| Cost of inventories | 49,687 | 111,622 |
| Finance costs | 388 | 462 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

(Expressed in United States dollars)

6 Income tax

No provision for Hong Kong Profits Tax has been made for the six months ended 30 September 2019 and 2018 as the Group's operations in Hong Kong sustained a loss for Hong Kong Profits Tax purpose.

7 Dividend

The Directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 September 2019 (six months ended 30 September 2018: Nil).

8 Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of \$92,000 (six months ended 30 September 2018: \$377,000) and the weighted average of 342,116,934 ordinary shares (six months ended 30 September 2018: 342,116,934 ordinary shares) in issue during the period.

(b) Diluted loss per share

The calculation of diluted loss per share for the six months ended 30 September 2019 and 2018 is the same as that of basic loss per share as there were no dilutive potential ordinary shares during the period.

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION
(Expressed in United States dollars)

9 Trade and other receivables

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

| | Unaudited | Audited |
|---|---------------------|----------|
| | At | At |
| | 30 September | 31 March |
| | 2019 | 2019 |
| | \$'000 | \$'000 |
| Within 1 month | 2,822 | 12,676 |
| More than 1 month but within 3 months | 19,914 | 4,045 |
| More than 3 months but within 6 months | 17,328 | 3,780 |
| More than 6 months | 144 | — |
| Trade debtors and bills receivable | 40,208 | 20,501 |
| Prepayments and other receivables | 13,246 | 12,839 |
| Less: Impairment on prepayments and other receivables | (11,064) | (11,064) |
| | 42,390 | 22,276 |

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 180 days after the receipt of required documents by nominated banks, are usually required not later than 14 days prior to the expected date of vessel's arrival at loading port as stipulated in the sales agreements.

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

(Expressed in United States dollars)

9 Trade and other receivables *(Continued)*

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

(Expressed in United States dollars)

9 Trade and other receivables *(Continued)*

As at 31 March 2016, the unutilised prepayments amounted to \$11,565,000. The directors reassessed the recoverability of the unutilised prepayments based on all relevant information available to the Group. Due to the continuing downturn of coal market, the low demand of coal and minimal utilisation of the prepayments, and the Group's efforts in negotiation with the Original Supplier and New Supplier to secure the delivery of thermal coal under the terms of the Original Agreements as amended by the Deed, as well as demands for repayment which were in vain, the directors considered that there was significant uncertainty as to the ability of the Group to recover the balance of the prepayments through either utilisation from future purchases or repayment of the prepayments. Accordingly, a full impairment loss was recognised in the consolidated statement of comprehensive income during the year ended 31 March 2016.

In December 2016, the Group restructured the rights and obligations under the Original Agreements as amended by the Deed, through a series of contracts signed and exchanged with the relevant parties (the "New Agreement"), details of which were disclosed in the announcement of the Company dated 12 December 2016. Under the New Agreement, the remainder of the unutilised prepayments are to be utilised on an agreed basis against each purchase, either through an application of the prepayment towards purchases or by cash payment to the Group from the Original Supplier, in each case with an annual minimum repayment of \$2,000,000. During the year ended 31 March 2017, unutilised prepayments and other receivables in total of \$640,000 were recovered from the Original Supplier. Accordingly, the impairment loss recognised in prior year was reversed and credited in the consolidated statement of comprehensive income for the year ended 31 March 2017 to the extent of the actual amount recovered.

No further prepayments and other receivables have been utilised or recovered from the Original Supplier during the six months ended 30 September 2019. The Original Supplier is in breach of its minimum repayment obligations of \$2 million under the New Agreement. As at 30 September 2019, approximately \$11.1 million of the prepayments remains outstanding which has been fully impaired. The Directors will continue to negotiate with the Original Supplier to consider other available options whether through supply of coal or otherwise, including potential legal action, to recover the prepayments.

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

(Expressed in United States dollars)

10 Trade and other payables

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

| | Unaudited At 30 September 2019 \$'000 | Audited At 31 March 2019 \$'000 |
|---------------------------------------|--|---|
| Within 1 month | 181 | 15,111 |
| More than 1 month but within 3 months | 5,475 | — |
| Trade creditors | 5,656 | 15,111 |
| Other payables and accrued expenses | 526 | 756 |
| | 6,182 | 15,867 |

11 Discounted bills with recourse

Bills discounted with banks at an effective interest rate ranging from 2.82% to 3.42% (31 March 2019: 3.41% to 4.12%) per annum as at 30 September 2019 have maturity profiles of no more than 180 days.

12 Operating lease commitment

| | Audited At 31 March 2019 \$'000 |
|---------------------------------|---|
| Within 1 year | 210 |
| After 1 year but within 5 years | 271 |
| | 481 |

The Group is the lessee in respect of its office premise held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 April 2019 to recognise lease liabilities relating to the lease (see note 2). From 1 April 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in note 2.

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

(Expressed in United States dollars)

13 Contingent liabilities

At 30 September 2019, the Group is involved in a legal claim relating to the disposal of certain former subsidiaries the operation of which were discontinued.

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

On 23 March 2016, Landway filed a claim against the Company, which alleged that a former director of the Company made certain misrepresentations in the Disposal and filed a claim of \$700,000 plus interest against the Company in the High Court of Hong Kong. The Company filed its defence on 24 May 2016 which denied the allegations made by Landway. On 7 September 2016, the Company issued a summons applying to strike out Landway's claim. The strike out application was unsuccessful as Landway amended its statement of claim on 13 March 2017 in response to the strike out application. The Company filed an amended defence on 28 April 2017 accordingly. Landway and the Company filed and exchanged factual witness statements on 20 March 2018. Landway further amended its statement of claim on 8 November 2018.

The trial of the action is due to commence on 7 December 2020. Based on the available evidence and the advice received from the Company's legal advisor as to the merits of Landway's claim, the directors of the Company are of the opinion that no provision in respect of the said claim is required to be made.

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

(Expressed in United States dollars)

14 Material related party transactions

(a) Compensation of key management personnel

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

| | Unaudited Six months ended 30 September | |
|--|---|-----------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Salaries and other short-term employee benefits | 136 | 46 |
| Retirement scheme contributions | 2 | 1 |
| | 138 | 47 |

(b) Transaction with a fellow subsidiary

| | Unaudited Six months ended 30 September | |
|---|---|--------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Minimum lease payments (including rental fees, building management fees and utility charges) | 120 | 173 |

Details of continuing connected transaction is set out in the announcement of the Company dated 19 September 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

The Group continued to operate its coal trading business during the six-month period ended 30 September 2019. The customers of the Group are primarily state-owned and privately owned Chinese companies (or their offshore subsidiaries) whose businesses include trading or sales of commodities, including coal, and import and export operations. As a result of the Group supplying trading customers, the ultimate consumer of the supplies is commonly unknown to the Group.

The Company's policy is not to carry coal inventory. Accordingly, the Group utilises its knowledge of the specifications and quality of the commodity, its contacts both on the demand and supply sides of the market and its assessment of price/price trends to seek to meet its customers needs by sourcing the supplies at the required quantity, specification and delivery period at the best available price from the Group's suppliers, which include coal mine owners, operators or their agents and offering the same to the Group's customers at an appropriate mark up in price and other settlement terms.

During the six-month period ended 30 September 2019, the revenue generated from the coal trading business was approximately US\$57.20 million, representing the decrease of 53.98% or US\$67.09 million, as compared to the revenue of approximately US\$124.29 million in the corresponding period of last year. The Group sold thermal coal originated from Indonesia, Russia and Australia to Mainland China, with a total volume of approximately 1.00 million metric tonnes ("MT") as compared to approximately 1.63 million MT in the corresponding period of last year. The decrease in revenue was primarily due to unstable economic environment and unfavorable trading factors including trade wars, the slowdown of China's economy, China's coal import restrictions and decrease in market prices for coal from Australia and Indonesia (being the Group's primary supplying countries).

The gross profit of the Group amounted to approximately US\$0.91 million for the six-month period ended 30 September 2019. No significant fluctuation was noted as compared to US\$0.93 million in the corresponding reporting period of last year due to the net effect of (i) the decrease in sales volume as abovementioned; and (ii) the improvement of gross profit margin as the Group sought to bargain and achieve better gross profit in its coal trading transactions.

Selling and administrative expenses primarily consisted of employee benefits costs as well as rental and corporate expenses which amounted to approximately US\$0.62 million for the current period, which decreased by US\$0.25 million as compared to US\$0.87 million in the corresponding reporting period of last year. Finance costs incurred during the period arose from the bills discounted which amounted to approximately US\$0.39 million for the current period, which decreased by US\$0.07 million as compared to US\$0.46 million in the corresponding reporting period of last year. The decrease in selling and administrative expenses were mainly attributable to the combined effect of decrease in monthly rental expenses and legal and professional fees. The decrease in finance costs was mainly due to the decrease in sales volume.

The Group recorded a decrease in net losses attributable to the shareholders for the six-month period ended 30 September 2019 by about 75.60% as compared to that for the corresponding period in 2018 mainly due to the combined effect of (i) the decrease in sales volume but the improvement in gross profit margin; (ii) the decrease in selling and administrative expenses; and (iii) the decrease in finance costs.

PROSPECT

For the six-month period ended 30 September 2019, the Group focused more on improving gross profit margin for its coal trading transactions and better cost control in its daily operations in order to reduce its net losses. In view of the uncertainties in the business environment and the signs of a global economic slowdown, the Group expects that various external factors including the trade wars, the slowdown of China's economy, China's coal import restrictions and the fluctuation of coal market prices may continue adversely to affect its business and overall short-term performance. The Group will closely monitor the impact of macro issues and trade dispute on its performance. The Group will also continue to be cautious in managing its business risk; be prepared to respond to changes in such business environment. The Group will carefully plan and formulate strategies to manage these factors. In addition, the Group will continue to focus on its coal trading business, seeking reliable and quality coal supply sources that enable its clients to extract maximum value from the Group's coal trading engagements.

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 30 September 2019, cash on hand and at banks for the Group amounted to approximately US\$2.67 million as compared to US\$3.85 million as at 31 March 2019. The slight decrease in cash was primarily the result of the payment for daily operations and trade activities during the six months ended 30 September 2019.

As at 30 September 2019, the Group had discounted bills with recourse amounting to US\$31.66 million as compared to US\$2.96 million as at 31 March 2019. The discounting of bills receivable was a short term trade facility and the underlying bills receivable had maturity periods of 180 days after the receipt of required documents by nominated banks, or less and were covered by corresponding letters of credit.

As at 30 September 2019, the debt to equity ratio, being total debt to total equity was approximately 530% (31 March 2019: approximately 258%).

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 180 days by reputable banks are usually required not later than 14 days prior to the expected date of vessels' arrival at loading port. So far, the Group has not experienced any bad debts from its coal trading business.

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

RISK OF CURRENCY FLUCTUATIONS

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

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 September 2019 (for the six months ended 30 September 2018: Nil).

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

Upon specific enquiry by the Company and following confirmations from the Directors, there has no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules subsequent to the date of the Company's 2018/19 annual report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2019, none of the Directors and chief executive of the Company had any interests 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 are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

SHARE OPTION SCHEME

The Company's existing share option scheme (the "Share Option Scheme") was adopted on 21 September 2012 (the "Date of Adoption"). The Share Option Scheme will remain in force for a period of 10 years commencing from the Date of Adoption (that is from 21 September 2012 to 20 September 2022). Pursuant to the Share Option Scheme, the Directors may grant options to eligible participants (including any executive directors, non-executive directors and independent non-executive directors, employees of the Group and any other persons who the Board considers, in its sole discretion, to have contributed to the Group) 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 Company may seek approval by the shareholders at general meeting to refresh the 10% limit (the "Option Scheme Limit"). 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. Any grant of options to a connected person (as defined in the Listing Rules) must be approved by all independent non-executive Directors (excluding any

independent non-executive Director who is the proposed grantee). Where options are proposed to be granted to a connected person who is also a substantial shareholder (as defined in the Listing Rules) of the Company or an independent non-executive Director or any of their respective associates, and the proposed grant of options, when aggregated the options already granted to such connected person in the past 12 months period, would entitle that person to receive more than 0.1% of the total issued shares of the Company for the time being and the value of which is in excess of HK\$5,000,000, then the proposed grant must be subject to the approval of the shareholders at the general meeting. Apart from the connected person involved, all other connected persons of the Company must abstain from voting in such general meeting (except where any connected person intends to vote against the proposed grant).

Based on 340,616,934 shares of the Company (the "Shares") in issue as at the Date of Adoption, the maximum number of Shares which may be issued upon the exercise of all the options granted or to be granted under the Share Option Scheme or any other share option schemes of the Company must not, in aggregate, exceed 34,061,693 Shares, being 10% of the Shares in issue as at the Date of Adoption. The Option Scheme Limit has not been previously refreshed since the Date of Adoption. The total number of Shares available for issue under the Share Option Scheme is 32,561,693 Shares, representing 9.52% of the total number of Shares in issue as at the date of this interim report.

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.

A nominal consideration of HK\$1 is payable by the grantee upon acceptance of an option. The acceptance of an offer of the grant of the option must be made within 15 days from the date of grant.

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.

There was no outstanding share option under the Share Option Scheme as at 1 April 2019 and 30 September 2019 respectively.

No share option was granted, exercised, lapsed or cancelled during the six months ended 30 September 2019.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than as disclosed under the sections "Share Option Scheme" above and "Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures" below, at no time during the period under review was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO") or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDER'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2019, to the best knowledge of the Directors, the following persons/corporations (other than the Directors or the chief executive of the Company) has interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of division 2 and 3 of Part XV of the SFO, or which were recorded in the register of substantial shareholder required to be kept by the Company under Section 336 of the SFO:

Long position in shares of the Company

| Name | Capacity/ Nature of Interest | Number of shares held | Approximate percentage of issued share capital |
|--|---|----------------------------------|---|
| Reignwood International Holdings Company Limited ("Reignwood") (Note) | Beneficial Owner | 182,459,527 | 53.33% |

Note:

Reignwood is wholly-owned by Dr. Chanchai RUAYRUNGRUANG.

Save as disclosed above, as at 30 September 2019, no person, including the Directors and chief executive of the Company, had interest or short position in the shares, underlying shares and debentures of the Company which was required to be recorded in the register required to be kept by the Company 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 under review.

EMPLOYEES AND EMOLUMENT POLICY

As at 30 September 2019, the Group had a total of 9 (31 March 2019: 9) full time employees in Hong Kong. The Group's emolument policy is to pay wages and salaries that are competitive in the industry in a way that will be motivational, fair and equitable, and that are dependent on individual's and the Group's performance. Apart from salaries, the Group also provides other fringe benefits to employees, which include share option scheme, provident fund schemes and bonus on performance basis.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions (the “Code Provision(s)”) as set out in the Corporate Governance Code and Corporate Governance Report (the “CG Code”) contained in Appendix 14 to the Listing Rules during the six months ended 30 September 2019, except for the deviation from Code Provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Ms. RUAYRUNGRUANG Woraphanit (“Ms. RUAYRUNGRUANG”) is the chairlady of the Board and chief executive officer of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals and meets regularly to discuss issues affecting the operations of the Company. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board has full confidence in Ms. RUAYRUNGRUANG and believes that her holding of the positions of the chairlady of the Board and chief executive officer of the Company is beneficial to the business development of the Group. The Board will nevertheless regularly review the effectiveness of this structure to ensure that such structure is appropriate in view of the Group’s prevailing circumstances.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors’ securities transactions. All the members of the Board have confirmed that, following specific enquiries made by the Company, they have complied with the required standard as set out in the Model Code throughout the six months ended 30 September 2019.

AUDIT COMMITTEE

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

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the Interim Financial Statements.

By Order of the Board
ARES ASIA LIMITED
RUAYRUNGRUANG Woraphanit
Chairlady

Hong Kong, 27 November 2019