ARES ASIA
安域亞洲

ARES ASIA LIMITED

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

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

INTERIM RESULTS

The board of directors (the "Board") of Ares Asia Limited (the "Company") is pleased to present the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2012 together with the comparative figures for the corresponding period in 2011 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2012

		Six months ended 30 September	
		2012	2011
	Notes	***US$'000***	*US$'000*
		Unaudited	Unaudited
Turnover	*3*	**10,995**	14,702
Cost of sales		**(11,251)**	(14,003)
Gross (loss) profit		**(256)**	699
Other income	*4*	**168**	192
Distribution costs		**(84)**	(107)
Administrative expenses		**(2,263)**	(558)
Restructuring costs	*5*	**(2,255)**	—
(Loss) profit before tax	*6*	**(4,690)**	226
Income tax expense	*7*	**—**	(25)
(Loss) profit and total comprehensive (expense) income for the period attributable to owners of the Company		**(4,690)**	201
		US cents	*US cents*
(Loss) earnings per share — Basic and diluted	*9*	**(1.38)**	0.06

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2012

	Notes	30 September 2012 US$'000 Unaudited	31 March 2012 US$'000 Audited
Non-current assets			
Property, plant and equipment		**613**	581
Current assets			
Inventories		**1,624**	4,153
Trade receivables	*10*	**1,747**	3,318
Deposits, prepayments and other receivables		**233**	5,314
Convertible instrument designated as financial assets at fair value through profit or loss		**5,000**	—
Bank balances and cash		**23,744**	25,826
		32,348	38,611
Current liabilities			
Trade payables	*11*	**1,246**	1,208
Accruals and other payables		**1,191**	2,770
Tax payable		**48**	48
		2,485	4,026
Net current assets		**29,863**	34,585
Total assets less current liabilities		**30,476**	35,166
Capital and reserves			
Share capital		**440**	440
Reserves		**30,036**	34,726
Total equity		**30,476**	35,166

Notes:

1. Basis of preparation

The unaudited condensed consolidated interim financial statements for the six months ended 30 September 2012 ("Interim Financial Statements") has been prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. Summary of significant accounting policies

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Finance Reporting Standards ("HKFRSs") issued by the HKICPA.

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendments)	Financial Instruments: Disclosures — Transfers of Financial Assets
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets

The adoption of the above amendments to HKFRSs in current interim period has had no material effect on how the Interim Financial Statements of the Group are prepared and presented for the current or prior accounting periods.

3. Turnover and segment information

Turnover represents revenue arising on gross invoiced sales of athletic and sports leisure footwear products, net of returns, discounts and sales related taxes.

(a) Segment revenues, results, assets and liabilities

The Group's operating segment based on information reported to the chief operating decision makers, who have been identified as the directors of the Company, for the purpose of resources allocation and performance assessment.

The Group's revenues, results, assets and liabilities are primarily attributable to the sales of athletic and sports leisure footwear products. The directors of the Company consider that there is only one operating and reportable segment for the Group.

(b) Geographical information

The Group's revenues from external customers by geographical location of the customers are detailed as below:

	Revenues from external customers Six months ended 30 September	
	2012	2011
	US$'000	*US$'000*
	Unaudited	Unaudited
The PRC	**10,793**	14,097
Asia (other than the PRC)	**202**	605
	10,995	14,702

4. Other income

	Six months ended 30 September	
	2012	2011
	US$'000	*US$'000*
	Unaudited	Unaudited
Bank interest income	**4**	7
Gain on disposal of property, plant and equipment	**2**	—
Others	**162**	185
	168	192

5. Restructuring costs

	Six months ended 30 September	
	2012	2011
	US$'000	*US$'000*
	Unaudited	Unaudited
Severance and termination costs	**1,955**	—
Allowance on inventories	**300**	—
	2,255	—

The restructuring costs in an aggregate amount of US$2,255,000, representing severance and termination costs of US$1,955,000 and allowance on inventories of US$300,000 associated with the restructuring of the Group's PRC manufacturing operation recognised during the six months ended 30 September 2012.

6. Loss (profit) before tax

(Loss) profit before tax has been arrived at after charging:

	Six months ended 30 September	
	2012	2011
	US$'000	*US$'000*
	Unaudited	Unaudited
Depreciation of property, plant and equipment	**78**	47
Cost of inventories recognised as expenses	**11,251**	14,003
Staff costs (including directors' emoluments)	**3,784**	3,065
Net exchange loss	**2**	87

7. Income tax expense

	Six months ended 30 September	
	2012	2011
	US$'000	*US$'000*
	Unaudited	Unaudited
Current tax — Hong Kong	**—**	25

No provision for Hong Kong Profits Tax had been provided as the Group has no assessable profit arising in Hong Kong for the six months ended 30 September 2012. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the six months ended 30 September 2011.

Taxation arising in other jurisdictions is calculated as the rates prevailing in the relevant jurisdictions in which the Group operates. No taxation had been provided for both periods as the Group has no assessable profits arising in or deriving from the relevant jurisdictions.

There is no other material unprovided deferred tax for both periods.

8. Dividend

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 September 2012 (2011: Nil).

9. Loss (earnings) per share

(a) Basic

Basic (loss) earnings per share is calculated by dividing the (loss) profit for the period attributable to owners of the Company by the weighted average number of ordinary shares in issue during each of the six months ended 30 September 2012 and 2011.

	Six months ended 30 September	
	2012	2011
	Unaudited	Unaudited
(Loss) profit for the period attributable to owners of the Company *(US$)*	**(4,690,000)**	201,000
Weighted average number of ordinary shares in issue	**340,616,934**	340,616,934
Basic (loss) earnings per share *(US cents)*	**(1.38)**	0.06

(b) Diluted

Diluted (loss) earnings per share was the same as the basic (loss) earnings per share as there were no potential dilutive ordinary shares outstanding for the current and prior periods.

10. Trade receivables

The Group allows a credit period ranging from 30 to 90 days to its trade customers. Ageing analysis of the Group's trade receivables at the end of the reporting period presented based on the invoice date is as follows:

	30 September 2012	31 March 2012
	US$'000	*US$'000*
	Unaudited	Audited
Within 30 days	**1,035**	1,747
31 to 60 days	**674**	1,554
61 to 90 days	**34**	—
Over 90 days	**4**	17
	1,747	3,318

Included in the Group's trade receivables are debtors with aggregate carrying amount of US$38,000 (31 March 2012: US$150,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss as the sales are made with creditworthy customers and the amounts are still considered recoverable.

11. Trade payables

Ageing analysis of trade payables at the end of the reporting period presented based on the invoice date is as follows:

	30 September 2012	31 March 2012
	US$'000	*US$'000*
	Unaudited	Audited
Within 30 days	**560**	563
31 to 60 days	**595**	638
61 to 90 days	**91**	—
Over 90 days	**—**	7
	1,246	1,208

The credit period on purchases of goods ranges from 14 days to 90 days. The Group has financial risk management policies in the place to ensure that all payables are settled within the credit timeframe.

12. Operating lease commitment

At 30 September 2012, the Group had commitment for future minimum lease payment under non-cancellable operating lease which fall due as follows:

	30 September 2012	31 March 2012
	US$'000	*US$'000*
	Unaudited	Audited
Within one year	**307**	307
In second to fifth years, inclusive	**346**	499
	653	806

Operating lease payment represents rental payable by the Group for its office premise in Hong Kong. Lease is negotiated for a term of three years (31 March 2012: three years) with fixed rental. The operating lease contract contains market review clause in the event that the Group exercises its option to renew. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

13. Event after balance sheet date

Commencement of coal trading business

Reference is made to the Company's announcement dated 31 October 2012 (the "Announcement") regarding the development of new coal trading business. As disclosed in the Announcement, the Group successfully anchored certain coal suppliers from Indonesia and coal buyers from China on a long term basis. The Group's coal trading business has commenced in October 2012 starting with a monthly trading volume in the range of 50,000 to 180,000 metric tonnes. The coal trading business will become a new principal activity and revenue stream of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Review of operations

For the six months ended 30 September 2012, the Group's turnover decreased by 25.2% to US$11.0 million from US$14.7 million for the same period last year. Geographically, Asian countries were the primary market of the Group, contributing to 100% of the Group's turnover for the period under review. Loss for the period attributable to owners of the Company was US$4.7 million as compared with profit of US$0.2 million for the corresponding period last year.

Faced with increasing cost pressures and declining margins, the Group's manufacturing business in the PRC has been operating under a challenging business environment over the past few years. For the current interim period, our customers reduced orders as a result of weak global consumer demand. The combined effects of lower turnover and higher production costs resulted in a gross loss of US$0.3 million as compared to gross profit of US$0.7 million for the same period last year.

In response to the negative business environment and to mitigate the risk of overcapacity, the Group had taken pre-emptive steps to rationalise its manufacturing capacity and scale down underperforming divisions during the first half of the financial year 2012/2013. As a result, we incurred restructuring costs in an aggregate amount of US$2.3 million, which represented severance and termination costs of approximately US$2.0 million and allowance on inventories of US$0.3 million.

Other income was US$0.2 million for the period, similar to what was reported in the last corresponding period.

General and administrative expenses were US$2.3 million or 20.6% of sales, an increase from US$0.6 million or 0.4% of sales reported for the last corresponding period. This increase was mainly due to a rise in employee benefits expenses as well as the legal and professional fees incurred for the proposed acquisition of a mining services company in Indonesia.

Acquisition of a mining services company

On 24 September 2012, Ares Access Limited ("Ares Access"), an indirect wholly-owned subsidiary of the Company and PT Berau Coal Energy Tbk (the "Vendor"), a public limited liability company established under the laws of Indonesia, entered into a conditional sale and purchase agreement (the "Agreement") regarding the proposed acquisition of 99.96% equity interests of PT Mutiara Tanjung Lestari ("MTL"), a limited liability company established under the laws of Indonesia from the Vendor by Ares Access at the consideration of US$13.4 million (the "Acquisition"). As part of the Acquisition, Ares Access shall provide funding to MTL to repay the outstanding amount due from MTL to the Vendor (the "Outstanding Amount") upon completion of the Agreement (the "Completion") but in any event the Outstanding Amount shall not exceed the sum of US$5.5 million.

On the same date of the Agreement, Mr. Kasymir Zaldi ("Mr. Zaldi") (an existing shareholder of MTL holding one share of MTL) entered into an agreement for the sale and purchase of 9,999 shares of MTL from the Vendor on 24 September 2012 (the "Zaldi Agreement"). The Zaldi Agreement is expected to complete at or about the same time as the completion of the Agreement. As such, MTL will be owned as to approximately 99.96% by Ares Access and approximately 0.04% by Mr. Zaldi upon Completion. In addition, Mr. Zaldi will issue to Ares Access a confirmation letter stating that the shares of MTL held by him from time to time are for the benefits of Ares Access and the books of MTL will be 100% consolidated into the consolidated financial statements of the Group after completion of the Agreement and the Zaldi Agreement.

MTL is engaged in the business of coal hauling and mining services in the area of Tanjung Redeb, Regency of Berau, East Kalimantan Province, Indonesia. The sole customer of MTL is PT Berau Coal, a subsidiary of the Vendor, which is operating a few coal mining sites in the area of Tanjung Redeb. In view of robust economic growth as well as accelerated industrialisation and urbanisation in many developing countries, including Indonesia, China and India, we believe the demand for energy resources will remain strong. Since coal is the key fuel in the energy mix of many developing countries, we consider that demand for Indonesian coal will maintain its growth momentum. The continued growth of Indonesia's coal mining industry may create opportunities for MTL and therefore we believe that MTL's business prospects are promising. Further details on the business and financial information of MTL have been set out in the Company's circular dated 30 October 2012.

The Acquisition is expected to be completed before 31 December 2012.

Prospect

Despite our ongoing efforts to streamline operations, the Group's manufacturing business will remain under pressure with the continuation of current trends of margin compression and lower order demand. Hence, we are expecting a significant decline in sales for the second half of the financial year 2012/2013 and are not optimistic that the financial performance of the Group's manufacturing business will turn around in the near future.

In light of the above, we will suspend the Group's production in the PRC in order to reassess the business prospects of the Group's manufacturing business. This will also allow us to reallocate the Group's resources and focus on seeking more other business investment opportunities, so as to broaden and diversify the Group's business and revenue streams.

Following the completion of the Acquisition, which is expected to take place before 31 December 2012, the Group shall expand its principal activities to the provision of mining services in Indonesia. In addition, the Group has been negotiating with several coal miners in Indonesia in order to establish our coal trading business. As disclosed in the Company's announcement dated 31 October 2012, the Group successfully anchored certain coal suppliers from Indonesia and coal buyers from China on a long term basis and commenced its coal trading business since October 2012 starting with a monthly trading volume in the range of 50,000 to 180,000 metric tonnes. The coal trading business will also become a new principal activity and revenue stream of the Group.

We believe that the Acquisition and the new coal trading business will diversify the Group's business scope and contribute stable revenue and cash flows to the Group's financial position. We also anticipate that the new businesses will bring to the Group potential business or investment opportunities in Indonesia's energy resources sector, and create further synergies for the Group's future development.

Liquidity and Financial Resources

The Group's financial resources and liquidity continued to be healthy, remaining debt-free as at 30 September 2012. The reported cash and bank balances were US$23.7 million, as compared to US$25.8 million as at 31 March 2012. Other than the Acquisition, there are no present plans for material capital expenditures and the Group has adequate liquidity to meet its current and future working capital requirements.

Subscription of exchangeable bond

For the year ended 31 March 2012, a refundable security deposit of US$5 million (the "Security Deposit") was placed by the Group with PT Langit Timur Energy ("LTE"), a limited liability company established under the laws of Indonesia for the possible acquisition of certain equity interests in the coal concessions in West Papua, Indonesia.

On 30 May 2012, Able Point Corporation Limited ("Able Point"), an indirect wholly-owned subsidiary of the Company, entered into a subscription agreement with LTE to subscribe for a one-year zero coupon secured exchangeable bond (the "Bond") with a principal amount of US$5,000,000 issued by LTE on the shares ("Underlying Shares") of PT Mandiri Arya Persada ("MAP") (a limited liability company established under the laws of Indonesia which holds certain coal concessions in West Papua, Indonesia through its subsidiaries and is legally and beneficially owned as to 99.9% by LTE) owned by LTE, representing 5% (7.5% in case of the maturity date being extended for one year under mutual agreement by Able Point and LTE) of the total issued and paid-up capital of MAP on a fully diluted basis on the date of the exchange rights are being exercised. The Bond can be converted into the Underlying Shares during the full period of the term of the Bond.

The Security Deposit was used to offset against the consideration of the subscription.

The Bond was classified as convertible instrument designated as financial assets at fair value through profit or loss on the consolidated financial statements.

Operating working capital

The Group follows a policy of prudence in managing its working capital. Trade receivables as at 30 September 2012 was US$1.7 million, as compared to US$3.3 million as at 31 March 2012. The average turnover days for both periods were around 50 days. The Group maintains tight control on its credit and collection policies and we have not experienced any significant bad debts in the past.

As the Group is expecting a significant decline in sales for the second half of the financial year 2012/2013, the balance of inventories as at 30 September 2012 decreased to US$1.6 million from US$4.2 million as at 31 March 2012.

Risk of Currency Fluctuations

The Group currently operates in the PRC. A significant portion of the Group's sales, purchases of raw materials and overhead expenses are denominated mostly in US dollar (i.e. functional currency of the Group), Hong Kong dollar and Renminbi. Since the Hong Kong dollar is pegged to US dollar, the foreign exchange exposure between US dollar and HK dollar is therefore limited.

Renminbi experienced certain appreciation in recent years and further appreciation of US dollar against Renminbi will affect the Group's financial position and results of operation.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 September 2012 (2011: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2012, the Group had a total of approximately 450 (2011: 1,300) full time employees (including contracted manufacturing workers) in Hong Kong and the PRC. 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 and the Group's performance. Apart from salaries, the Group also provides other fringe benefits to employees, which include provident fund schemes and bonus on performance basis.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

CORPORATE GOVERNANCE

During the period under review, the Company has complied with the provisions of the Corporate Governance Code and Corporate Governance Report (the "New CG Code") (effective from 1 April 2012) as set out in Appendix 14 of the Listing Rules, except for deviation from code provisions A.4.1 and A.6.7 of the New CG Code as explained below:

Code provision A.4.1 of the New CG Code

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

None of the independent non-executive directors of the Company is appointed for specific term. This constitutes a deviation from code provision A.4.1. However, as all the independent non-executive directors of the Company are subject to retirement by rotation at the annual general meetings of the Company in accordance with the Company's Bye-laws, in the opinion of the Board, this meets the objective of the New CG Code.

Code provision A.6.7 of the New CG Code

Code provision A.6.7 stipulates, among others, that independent non-executive directors and other non-executive directors should attend general meetings. Due to another business engagement, Mr. Yeung Kin Bond, Sydney, an independent non-executive director of the Company, was unable to attend the annual general meeting of the Company held on 21 September 2012.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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. Having made specific enquiry of all directors of the Company, the directors have confirmed their compliance with the required standard set out in the Model Code during the six months ended 30 September 2012.

AUDIT COMMITTEE

The audit committee comprises all the three independent non-executive directors of the Company, namely Mr. Ngan Hing Hon (Chairman), Mr. Lam Pun Yuen, Frank and Mr. Yeung, Kin Bond Sydney. Its terms of reference are in compliance with the provisions set out in the New CG Code.

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 for the six months ended 30 September 2012.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published at the website of the Company at www.aresasialtd.com and the websites of irasia.com at www.irasia.com/listco/hk/aresasia and the Stock Exchange at www.hkexnews.hk. The interim report of the Company for the six months ended 30 September 2012 containing all the information required by the Listing Rules will be despatched to shareholders and available on the same websites in due course.

By order of the Board
Ares Asia Limited
Junaidi YAP
Executive Director and Chief Executive Officer

Hong Kong, 30 November 2012

As at the date of this announcement, the Board of the Company comprises Mr. Adwin Haryanto SURYOHADIPROJO (Chairman), Mr. CHUA Chun Kay, Mr. Junaidi YAP (Chief Executive Officer) as executive directors of the Company and Mr. LAM Pun Yuen, Frank, Mr. NGAN Hing Hon and Mr. YEUNG Kin Bond, Sydney as independent non-executive directors of the Company.