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ARES ASIA LIMITED
安域亞洲有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 645)

FULFILLMENT OF RESUMPTION GUIDANCE AND RESUMPTION OF TRADING

This announcement is made by Ares Asia Limited (the "**Company**" together with its subsidiaries the "**Group**") pursuant to Rule 13.09 and 13.24A of the Listing Rules and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong).

References are made to the announcements (the "**Announcements**") of the Company dated 30 June 2021, 13 August 2021, 28 September 2021, 30 September 2021, 5 October 2021, 19 October 2021, 30 November 2021, 31 December 2021, 31 March 2022, 13 June 2022, 20 June 2022, 30 June 2022, 18 August 2022, 22 August 2022, 1 September 2022, 8 September 2022, 14 September 2022, 15 September 2022, 28 September 2022, 15 December 2022, 30 December 2022 and 20 January 2023 in relation to, among others, (i) the suspension of trading in the Shares on the Stock Exchange, (ii) the delay in publication of the 2020/2021 Annual Results, (iii) the resignation of the auditor, (iv) the Resumption Guidance, (v) the appointment of independent reviewer, (vi) the quarterly updates on suspension of trading, (vii) the delay in publication of the 2021 Interim Results, (viii) the appointment of auditor, (ix) the date of the Board meeting, (x) the delay in publication of the 2021/2022 Annual Results and the postponement of the Board Meeting, (xi) the results of the Independent Review, (xii) the publication of the 2020/2021 Annual Results, (xiii) the publication of the 2021 Interim Results, (xiv) the Additional Resumption Guidance, (xv) the publication of the 2021/2022 Annual Results, and (xvi) the findings of internal control review. Unless otherwise defined, capitalised terms used herein shall have the same meanings as defined in the Announcements.

BACKGROUND

Suspension of trading in the Shares

Reference is made to the announcements of the Company dated 2 July 2021 and 13 August 2021, the Company failed to publish the annual results of the Group for the year ended 31 March 2021 within the prescribed time limit under the Listing Rules as a result of the Significant Matters alleged by the former auditors of the Group, Mazars CPA Limited, and its resignation. In accordance with Rule 13.50 of the Listing Rules, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 2 July 2021.

Independent Review

Reference is made to the announcements of the Company dated 19 October 2021, 18 August 2022 and 15 September 2022. On its own initiative, the Company engaged PwC Consulting, which issued a report on its observations on 2 August 2022 on the Significant Matters, to strengthen the governance and internal control of the Group.

(i) Transactions between the Group and the Supplier

As raised by the former auditors of the Group as a Significant Matter, as at 31 March 2021, a prepayment in relation to purchase of coal made by ARL to the Supplier amounted to approximately US$1.4 million and a substantial portion of which was aged over one year. While the Previous Prepayment was not fully utilised as at 31 March 2021, the New Prepayment amounted to US$2.5 million was made by AAR.

The relevant observations of PwC Consulting are as follows:—

Transactions of ARL

As at 31 March 2020, ARL had utilised approximately US$3.04 million out of the prepayments made to the Supplier, leaving approximately US$2.46 million outstanding. Thereafter, demurrage charges and compensation due from the Supplier of approximately US$1.26 million arose from three shipments cancelled due to bad weather. As a result, the unutilised prepayment of approximately US$2.46 million, demurrages charges and compensation of approximately US$1.26 million due from the Supplier to ARL, amounted to total of approximately US$3.72 million as at 31 March 2020.

In July 2020, ARL entered into the July 2020 Contract to partially utilise the prepayments made to the Supplier as well as the unutilised coal purchase contained in the Third Purchase Contract. This trade resulted in the decrease of unutilised prepayments to US$809,000 but there was an additional net demurrage charges due from the Supplier of US$84,941. In addition, the trade resulted in a net loss of approximately US$445,000. Nonetheless, the Board was of the view that the US$300,000 margin compensation from the Supplier, which was agreed to be provided by the Supplier to ARL on 3 June 2020 as margin compensation for the months of April and May 2020, should reduce the losses on the July 2020 Contract from approximately US$445,000 to approximately US$145,000.

Furthermore, in September 2020, ARL subsequently received a waiver of compensation of approximately US$162,000 from the customer of the January 2020 Contract for not being able to nominate a new vessel. Even though these were different contracts, the management of the Company was of the view that the wavier of compensation of approximately US$162,000 offset the losses incurred for the July 2020 Contract.

Subsequent to the July 2020 Contract, the amount due from the Supplier to ARL as at 30 September 2020 was US$2.46 million (being the unutilised prepayments, net amount due for demurrage charges and net amount due for other compensations).

Transaction of AAR and further reduction of amounts

On 8 December 2020, AAR entered into the Fifth Purchase Contract with the Supplier where the Supplier required a US$2.775 million prepayment even though at this point in time, there was a net amount due from the Supplier to ARL of approximately US$2.46 million. AAR collected US$2 million prepayments from its customer and paid the same amount to the Supplier. The remaining prepayments of US$775,000 were settled via offset agreements dated 6 February 2021 and 26 March 2021 of US$475,000 and US$300,000 respectively, after the fulfilment of shipments.

As at 31 March 2021, after utilisation of prepayments and the offset agreements, the net amount due from the Supplier to ARL was reduced to approximately US$1.4 million, which appears to be the Previous Prepayment referred to by the former auditors of the Group.

The Board explained that such amount of approximately US$1.4 million was not prepayments in relation to purchase of coal aged over one year as it comprised accumulated demurrage and compensation due from the Supplier due to bad weather, flood and COVID-19, instead of unutilised prepayment which arose from the prepayments made after contract signed and yet to be executed. The Board wishes to further bring to the attention of the shareholders of the Company that, as disclosed in the annual report of the Group for the year ended 31 March 2021, subsequently, an additional amount of demurrage and compensation due from the Supplier of approximately US$0.25 million arose from the shipment under the Fifth Purchase Contract, even though billed after 31 March 2021, was also classified together with such amount of approximately US$1.4 million and included in "other receivables" of the Group.

Subsequent events and the Novation Agreements

Subsequently, in September 2021, AAR and the Assignee (an independent third party) entered into novation agreements with customer A and customer B respectively, under which the Assignee replaced AAR as the seller in the respective Sales Contract. In addition, AAR, ARL, the Supplier and the Assignee entered into a novation agreement under which the Assignee replaced AAR as the party in the Sixth Purchase Contract with the Supplier. As at the date of this announcement, as a result of the Novation Agreements, there was no longer any amount due from the Supplier to the Group.

PwC Consulting performed research into the history of the Supplier, customer A, customer B and the Assignee and confirmed that they have not identified any corporate affiliation between the management of the Company and the Directors with these parties.

PwC Consulting noted that the management of the Company explained that (i) part of the outstanding balance was demurrage and compensation arose from cancelled shipment; (ii) the Group continued to maintain an outstanding balance due from the Supplier as the Supplier had absolute bargaining power in the negotiation of contract and (iii) the balance due from the Supplier was reduced with subsequent fulfilment of shipments by the Supplier through new purchase and sales contracts; and (iv) the balance due from the Supplier was nil after the Novation Agreements.

(ii) The 2020 Trading Policy

As raised by the former auditors of the Group as a Significant Matter, pursuant to the 2020 Trading Policy, the Group should not make further prepayment for trading transactions. PwC Consulting reported that while the 2020 Trading Policy did not allow prepayment, the management of the Company explained that, in its collective view, as the Company's customers provided the same amount of prepayments, it was deemed to be a low risk transaction as it was a "back-to-back" prepayment. It appeared to PwC Consulting that there was a lack of understanding as to the intent of the 2020 Trading Policy.

PwC Consulting recommended the Company to review the trading policy and provide more explicit guidance on the policy for prepayments to suppliers as well as its risk assessment requirements. Any deviation should be documented and be reported to the Board on a timely basis. The recommendation was subsequently implemented. For details, please refer to the section headed "Internal Control Review" below.

The Audit Committee and the Board reviewed the key findings and observations of the Independent Review, and, subject to the limitation of scope and procedures of the Independent Review in particular its limitation on procedures to identify fraud, they were not aware of any fraud or misconduct on the part of any person being identified in the Independent Review.

With reference to its observations, PwC Consulting had made certain recommendations on the internal control weaknesses of the Group. With the recommendations of the Audit Committee, the Board (among other remedial actions) engaged Crowe to conduct the Internal Control Review. For details of the Independent Review, please refer to the announcements of the Company dated 18 August 2022 and 15 September 2022.

Audit work conducted

Having being brought to its attention the Significant Matters, Moore Stephens CPA Limited (**"Moore Stephens**"), the current auditors of the Group, performed additional pin-point audit procedures in relation to the Significant Matters including but not limited to having:

- discussed and understood the Significant Matters with the management of the Company and interviewed the management of the Company to understand the background and reasons for arising the prepayments and how they were utilised or novated:

  (i) Previous Prepayment of approximately US$1.4 million was accumulated from the compensation of approximately US$537,000 and demurrage of approximately US$876,000, which was not prepayment in nature made to the Supplier. The majority of the amount of approximately US$1,238,000 was utilised in the shipment made in June 2021, and the remaining amount of approximately US$162,000 was paid by the Assignee under the Novation Agreements in March 2022.

  (ii) New Prepayment of approximately US$2.5 million made to the Supplier, were originated from the advance payment received from two customers of the Group. The source of funds was not from the funds of the Group itself. The amount of US$0.25 million was utilised subsequently in June 2021 and the Novation Agreements were entered into to fully discharge the remaining amount of approximately US$2.25 million.

- obtained and inspected the relevant documents (including but not limited to the sales agreements, purchase agreements, delivery documents, bills issuing and discounting documents, and payment records) on the sales and purchases of coal involved;

- obtained and reviewed the Independent Review report issued by PwC Consulting;

- discussed the scope, procedures performed and the key observations of the Independent Review with PwC Consulting;

- evaluated the competence, capabilities and objectivity of PwC Consulting;
- evaluated and assessed if any of the findings in the Independent Review is contradictory to the audit evidence obtained in relation to the Significant Matters;
- obtained and reviewed the Novation Agreements from the management of the Company and performed interview with the management of the Company on the reason for entering into the Novation Agreements;
- obtained and reviewed the legal opinion on the Novation Agreements about the enforceability of the Novation Agreements and understood from the legal opinion that no liability remained for the Group;
- performed company and background search independently on customers and suppliers for related parties' checking and arranged for confirmations which were independently sent to and received from the Supplier, customer A and customer B;
- checked for subsequent settlement status of the trade, bills receivables and understood from the accounting records that the amounts involved in the Significant Matters were all fully settled; and
- obtained and reviewed the old trading policies before July 2020 and obtained and reviewed the updated trading policy adopted in July 2020 and whether subsequent transactions follow the updated trading policy and assessed any further material financial impact to the consolidated financial statements of the Group for the year ended 31 March 2021 as a whole.

In order to evaluate the Significant Matters raised by the predecessor auditor and also to opine on the consolidated financial statements of the Group for the year ended 31 March 2021 as a whole, Moore Stephens has considered that whether the preparation of the consolidated financial statements give a true and fair view in accordance with Hong Kong Financial Reporting Standards (**"HKFRSs"**) issued by the Hong Kong Institute of Certified Public Accountants (**"HKICPA"**) and the disclosure requirements of the Companies Ordinance by the Directors, and to evaluate the audit evidence and audit work performed as a whole so as to provide the basis for their opinion on the consolidated financial statements of the Group for the year ended 31 March 2021 as a whole.

Moore Stephens' objectives have been to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes its opinion.

Moore Stephens did not solely rely on the results of the Independent Review performed by PwC Consulting to address the Significant Matters and arrive at their audit opinion, but also performed the additional pin-point audit procedures in respect of the Significant Matters as set out above.

Based on the result of their audit work, Moore Stephens has issued an unmodified audit opinion that the consolidated financial statements dated 1 September 2022 give a true and fair view of the financial position of the Group as at 31 March 2021 and of its financial performance and cash flows for the year then ended in accordance with HKFRSs issued by the HKICPA and have been properly prepared in compliance with the disclosure requirements of the Companies Ordinance.

Internal Control Review

As disclosed, with the recommendations of the Audit Committee, Crowe was engaged to conduct the Internal Control Review in respect of the implementation status of the remedial actions to address the internal control weaknesses identified from the Independent Review. On 13 January 2023, Crowe issued the Internal Control Review Report to summarise the result of the implementation status of the remedial actions. Details of the findings, remedial actions and implementation status in the Internal Control Review Report are summarised below:

1. Lack of guidance in 2020 Trading Policy and documentation	Implemented. Explicit guidance has been established is given under the revised trading policy. Prepayment is allowed under back-to-back basis. In the event that there is prepayment made to supplier by using company's own funding, additional preventive and detective controls procedures should be followed to mitigate the credit risk. The procedures have included (a) trading staff should conduct background search to ensure sufficient financial capability and acceptable shipment status/track records/inventory turnover day of supplier; (b) prepayment to the value exceeds 35% of total cargo value is required for approval from the Board and the audit committee; (c) the chief executive officer (the "**CEO**") (after the Head of Trading Department checks and reports to the CEO) is responsible for monitoring (with the aid of a trade approval form) new trade in compliance with the trading policy during approval of application for new trade. During the course of the Internal Control Review, there were no prepayments made to supplier by using company's own funding. The management of the Company is committed to follow the additional controls procedures in case of such prepayments in future.

The revised trading policy has been enhanced and stipulated that all transactions must conduct a background search to review and evaluate the credit status of customer and supplier annually. If supplier is unable to provide relevant information for background search, sufficient and appropriate evaluation should be provided to the Board for approval. The trading department has retained approved customer and supplier evaluation forms in the server, whereas the finance department is required to check the archive at least annually.

2. Incomplete or unsigned contracts

Implemented.

A trade list has been established by the trading department to monitor the status of each contract:

a) Contracts have been checked whether they were properly uploaded in cloud and centrally filed in cabinet; and

b) An executive Director is responsible for reviewing original contracts for signature and stamp to ensure that contracts are properly authorised and approved before execution.

Filing of important documents (including contracts, invoices, shipping documents) has been enhanced. Trading executive/ manager is required to file the respective documents in server and cloud upon completion of trade.

3. Payee was different from the contracting party	Implemented. The revised trading policy has required that the trading department should notify the finance department for any payments or receipts that are not made to/from contracting party. Preventive and detective control procedures for handling such payment and receipt are also stipulated inside the policy. The procedures have included (a) to request for confirmation of payments/receipts from contracting party through email or written instruction; (b) to request for declaration of relationship between contracting party and payee/payer. Finance department has checked the payee/payer against contracting party on the bank records. During the course of the Internal Control Review, there were no payments made to/from non-contracting party. The management of the Company is committed to follow the additional controls procedures in case of such payments in future. A training session has been conducted to provide the finance and trading department a guidance on the revised trading policy.

Crowe confirmed that the remediation actions of the findings identified in the Independent Review report have been satisfactorily implemented based on the abovementioned implementation status. The Audit Committee and the Board considered the Independent Review report and the Internal Control Review Report, and are of the view that all of the remedial actions recommended by PwC Consulting for findings identified in the Independent Review have been implemented as at the date of this announcement. For details, please refer to the announcements of the Company dated 15 December 2022 and 20 January 2023.

RESUMPTION GUIDANCE

As disclosed in the announcements of the Company dated 5 October 2021 and 8 September 2022, the Company must fulfil the following requirements to the satisfaction of the Listing Division of the Stock Exchange before the trading in the Shares can resume:

(i) publish all outstanding financial results required under the Listing Rules and address any audit modifications (**"Resumption Guidance 1**");

(ii) demonstrate the Company's compliance with Rule 13.24 (**"Resumption Guidance 2**");

(iii) inform the market of all material information for the Company's shareholders and other investors to appraise its position (**"Resumption Guidance 3**"); and

(iv) conduct an independent internal control review and demonstrate that the Company has in place adequate internal controls and procedures to meet obligations under the Listing Rules (**"Resumption Guidance 4"**).

FULFILLMENT OF RESUMPTION GUIDANCE

The Board is pleased to announce that the Company has fulfilled all the Resumption Guidance as at the date of this announcement, details of which are set out below:

(i) Resumption Guidance 1 — to publish all outstanding financial results required under the Listing Rules and address any audit modifications

The auditors of the Group, Moore Stephens CPA Limited, has completed the audit for the financial results for the years ended 31 March 2021 and 31 March 2022 and no audit modification was made.

The Company published (i) the audited annual results announcement for the year ended 31 March 2021 on 1 September 2022; (ii) the unaudited interim results announcement for the six months ended 30 September 2021 on 14 September 2022; and (iii) the audited annual results announcement for the year ended 31 March 2022 on 28 September 2022. The Company also published the annual report for the year ended 31 March 2021, the interim report for the six months ended 30 September 2021 and the annual report for the year ended 31 March 2022 on 7 September 2022, 23 September 2022 and 6 October 2022, respectively.

As such, the Company has published all outstanding financial results as required under the Listing Rules in satisfaction of the Resumption Guidance 1.

(ii) Resumption Guidance 2 — demonstrate the Company's compliance with Rule 13.24

The principal issues leading to the suspension of trading in the Share were not directly related to the Group's daily business operations nor its operating results. Other than the suspension of bank credit lines of the Group, the daily business operations of the Group are not affected by the suspension of trading in the Shares.

The Group operates in the coal and other commodities trading business which encompasses supply chain management and risk management services. Leveraging the broad portfolio of supplier network of the Group and its expertise and technical knowhow, the Group provides solutions to its customers by sourcing and selling thermal coal mainly originated from Indonesia and Australia to customers in the PRC and South Asia. The business of the Group has been in operation and not materially changed since 2013. The Group has been providing value-added service to its customers utilising its market analysis, technical knowhow, broad supplier network and industry experience.

Value-added service — high entry barriers

The Board is of the view that the technical knowledge and expertise required in order to carry out the supply chain management and risk management services provided by the Group pose a high entry barrier for new market entrants in the following ways:

(i) solid understanding in coal types and specifications

- The Group has a solid understanding on the main products its customers require, i.e. coal. Coal comes in numerous types, characteristics and specifications which are typically categorized under industry standards such as the American Society for Testing and Materials Standard and/or the ISO standard, which categorize coal according to various parameters, such as its gross calorific value, net calorific value, total moisture, inherent moisture, ash content, volatile matter, ash fusion temperature, total sulphur, hardgrove grindability index (HCI) and its size.

- The Group analyses the needs of the customers and purpose of their request, recommends or checks on the suitable coal types, characteristics and specifications for its businesses and identifies suitable suppliers from the Group's board network of suppliers. With solid understanding in coal types, characteristics and specification, the Group is able to fulfil the needs of its various customers and provides value-added service to its customers.

- The Group attends to the quality inspection of the coal (i) as a part of ongoing due diligence on the coal supplier and (ii) to ensure the quality attributes for the blended coal is fit for customers' purposes. The Group conducts site visits when necessary and engages external independent surveyor and laboratory to perform inspection, sampling and analysis of coal samples. Staff of the Group have expertise in instructing the laboratories to conduct relevant tests and in understanding and interpreting these laboratory reports to act as a gatekeeper to ensure the products are of suitable quality. The Group is also familiar with the legal and regulatory requirements (including trade, customs and environmental regulations) in relevant jurisdictions and ensure such regulatory requirements in relevant jurisdictions are met with to guarantee timely delivery.

- The Group possesses comprehensive understanding in the landscape of the international coal market which enables the Group to better serve its customers. Knowledge in the macro environment is of high value to the customers of the Group and sets the Group apart from other new market entrants.

(ii) supply chain management service and risk management service in commodities trading

- Staff of the Group are proficient in attending to international trade matters such as contract negotiation, international laws and regulations, shipment arrangement and letters of credits applications and experienced in catering to the needs of its customers and are able to balance their needs against the delivery schedule of the coal suppliers to reach a mutually satisfactory agreement.

- The Group attends to the logistics arrangements and letters of credit applications for its customers. In terms of logistics arrangement, (i) specialised knowledge on the type of vessels, its capacity, storage condition, vessels condition, loading tooling etc; (ii) skillsets and knowledge on shipment terms in liaising with the departure port and the arrival port and; (iii) ensuring the vessel and the relevant port facilities and regulatory requirements are fit for transporting the coal is necessary for the conduct of the operation. Staff in the operation team of the Group has over 17 years of relevant experience in attending to the application of letters of credit and assisting in customs declaration which enables them to handle the complex procedures and deliver quality service.

The Group is led by an experienced management team which possesses academic qualifications in business administration and management and has accumulated abundant industry experience and knowhow in the coal and other commodities trading and supply chain management and risk management services to effectively manage the business of the Group, analyse market trends and help the Group establish a broad base of coal suppliers who are able to maintain stable supply of quality coal. The Group is also committed to invest in retaining employees with high calibre and expertise and to meet with the stern technical requirement in the industry and demonstrate its ability to fulfil customer demand.

As a whole, the expertise of the Group serves as a competitive advantage in procuring new sales orders and expanding the customer base of the Group as well as sets itself apart from other new market entrants.

Sufficient level of operations and assets of sufficient value

The turnover of the Group reached approximately US$200 million in 2017 to 2019 and was also maintained at approximately US$100 million in 2020 to 2022 despite the severe impact of the COVID-19 pandemic and the suspension. The amount of capital involved in the operation of the Group is substantial and its operation has been supported by genuine demand by the customers of the Group. Despite the COVID-19 pandemic and the suspension, the result of operations of the Group for the years ended 31 March 2020, 2021 and 2022 remained stable.

As at 31 March 2022, the Group's audited total assets was approximately US$24,620,000 while the unaudited total assets of the Group as at 30 September 2022 was approximately US$13,950,000. The Group has maintained sufficient level of assets to ensure a viable and sustainable business with a sufficient level of operation to generate revenue for the Group. The Directors are of the view that the Group's audited cash and cash equivalents of approximately US$8,781,000 as at 31 March 2022 and unaudited cash and cash equivalents of approximately US$10,120,000 as at 30 September 2022 are sufficient for the Group's operations. The Board is of the view that there is no material uncertainty for the Group to continue as a going concern and the Group has sufficient level of assets and funds to support its operations.

As at the date of this announcement, the business operations of the Group are continuing as usual in all material aspects. The Directors intend to continue to develop the Group's existing business as well as expand into new geographical locations including the South Asia and the Middle East. With the gradual alleviation of the impact from the COVID-19 pandemic, the expansion plan of the Group and its stable and established business model, the Company verily believed that it has a viable and sustainable business with prospect.

Based on the above, the Board is of the view that the Group has a viable and sustainable business with substance and with a sufficient level of operations and assets of sufficient value to support its operations to meet the requirements under Rule 13.24 of the Listing Rules and warrant the continued listing of the Shares on the Stock Exchange.

(iii) Resumption Guidance 3 — inform the market of all material information for the Company's shareholders and other investors to appraise its position

Since the Suspension, the Company has announced quarterly updates on the suspension of trading under Rule 13.24A of the Listing Rules and has published audited results for the years ended 31 March 2021 and 2022, in which disclosures in relation to the issues causing the Suspension and how the Company had addressed such issues were included. The Board believes that the Company has announced all material information it considers necessary and appropriate for the Company's shareholders and potential investors to appraise the Company's position.

(iv) Resumption Guidance 4 — conduct an independent internal control review and demonstrate that the Company has in place adequate internal controls and procedures to meet obligations under the Listing Rules

As disclosed in the announcement of the Company dated 18 August 2022, the Company appointed Crowe to conduct the Internal Control Review. On 13 January 2023, Crowe issued the Internal Control Review Report, the details of which are set out in the announcement of the Company dated 20 January 2023.

Among other key internal control findings under the Internal Control Review, the key internal control findings in relation to insurance, financial reporting as well as cash and treasury control are highlighted (adopting the numbering used in the Internal Control Review Report) as follows:

4. Insurance coverage for directors' and officers' ("D&O") liabilities (risk level: low)

Finding:

Due to the suspension in the trading of the Shares, the Company has been unable to extend the D&O insurance, which expired in February 2022.

Recommendation:

The Company should procure D&O insurance to cover potential legal actions against its directors and officers upon approval of the resumption of trading of the Shares.

Status of Remediation Implementation as at 13 January 2023:

In progress, subject to further follow-up action after resumption. D&O insurance will be procured upon approval of the resumption of trading of the Company's shares on the Stock Exchange.

6. Monitoring on cash flow and business performance (risk level: medium)

Findings:

At the beginning of each financial year, there is forecast of cash flow for the coming financial year based on management understanding on repatriation of capital and profit from trade or the occurrence of routine operating expenditure. Documentation of the cash flow forecasts with approval from the Board was not generally retained.

For monitoring the profitability of business, the annual financial budgets of the Group for the coming financial year should be prepared by the finance department in Hong Kong and Singapore respectively in each December, and they should be approved by the finance director. After that, a monthly financial analysis and evaluation of business profitability should be prepared with a detailed comparison to the result of same period of last year. An annual working summary should be prepared to provide (i) the variance analysis between budgeted and actual figures and (ii) the financial analysis of annual results. However, due to the extra work and limited capacity of finance department during the suspension of trading in the Shares, the finance department ceased to perform the monthly financial analysis.

Recommendation:

Annual cash flow forecast should be documented and approved by the Board. The practice of monthly financial analysis and evaluation of business profitability should be resumed.

Status of Remediation Implementation as at 13 January 2023:

Implemented. A cash flow forecast covering the period from October 2022 to March 2024 had been documented and approved by the Board in December 2022.

The practice of monthly financial analysis and evaluation of business profitability has been resumed. The analysis for the month ended 30 October 2022 had been approved by the Finance Director and circulated to the Board as reference on 2 December 2022.

7. Internet banking (risk level: medium)

Finding:

Limits on transaction amounts in internet banking under the subsidiaries of the Company have not been set up.

Recommendation:

An additional control shall be set up by establishing the transaction limits of internet banking, such as maximum transaction amount or daily withdrawal limits, with reference to the size of routine transactions, frequency of transaction and the use of bank account. The limits should be reviewed by the management on a regular and ongoing basis. Board approval should be obtained whenever there are changes for the limits.

Status of Remediation Implementation as at 13 January 2023:

In progress, only subject to the confirmation of the limit setting from the bank for AAR. With reference to the size of routine transactions, frequency of transaction and the use of bank account, the Company proposed transaction limit for internet banking to be US$20 million per transaction for each bank account. The limit had been stipulated in the written policy and had been approved by the Board on 13 December 2022.

Transaction limit for internet banking of each account in ARL had been set. AAR was applying to set the limit. Management was committed to set the transaction limit accordingly and review the appropriateness of the limit on a regular and ongoing basis.

8. Cash advance and reimbursement (risk level: low)

Finding:

Cash advances are issued to employees for travel expenses and purchase of miscellaneous items; however, no threshold of cash advance was set up to restrict usage of cash advance, and no limits nor restriction on reimbursement for travel expenses, including entertainment expenses, was determined.

Recommendation:

The Group should establish thresholds for the requisition and approval of the cash advance, and limits on reimbursement for travel expenses, including entertainment expenses, should be determined.

Status of Remediation Implementation as at 13 January 2023:

Implemented. Threshold of cash advance and limits on reimbursement for executive directors and senior management had been established and stipulated in the cash and cash advance policy.

Other key internal control findings stated in the Internal Control Review Report are set out in the announcement of the Company dated 20 January 2023.

Having considered (i) the Internal Control Review Report, (ii) the remedial actions taken by the Group, and, in particular, the key internal control deficiencies have been remedied based upon a follow-up review performed by Crowe with the exception of items 4 and 7 above, which was subject to the approval of the resumption or the confirmation of the bank and required no further action from the Company; and (iii) Crowe formed the view under the Internal Control Review Report that the Company had possessed adequate and reliable corporate governance, internal controls and financial reporting systems to meet the obligations under the Listing Rules as at the completion date of the follow-up review (i.e. 23 December 2022), the Audit Committee and the Board were of the view that the remedial measures implemented by the Company were adequate and sufficient to address the key findings of the Internal Control Review Report, and the Company had in place adequate internal controls and procedures to meet its obligations under the Listing Rules.

Status of subsequent remediation implementation

As at the date of the announcement, item 7 above has been fully implemented with the confirmation of limit setting from the bank for AAR. The transaction limit for internet banking of AAR has been set at US$20 million per transaction for each of its bank account in accordance with the recommendation of Crowe. The Board confirmed that item 4 above will be fully implemented upon the resumption of trading of the Shares. The Audit Committee and the Board will closely monitor the status of its implementation and the ongoing internal control system of the Group in the future to ensure it has in place adequate internal controls and procedures to meet its obligations under the Listing Rules.

RESUMPTION OF TRADING

Trading in the Shares has been suspended since 2 July 2021. Based on the reasons as disclosed above, the Board is of the view that all the Resumption Guidance has been fulfilled. Accordingly, the Company has made an application to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 28 February 2023.

Shareholders and potential investors of the Company should exercise caution when dealing in the shares of the Company.

By Order of the Board
ARES ASIA LIMITED
LAI Yi-Chun
(also known as Robert LAI)
Chairman

Hong Kong, 27 February 2023

As at the date of this announcement, the Board comprises two executive Directors, namely Mr. LAI Yi-Chun (also known as Mr. Robert LAI) (Chairman) and Mr. LUO Xiao; one non-executive Director, namely Ms. RUAYRUNGRUANG Woraphanit; and three independent non-executive Directors, namely Mr. CHANG Jesse, Mr. YEUNG Kin Bond, Sydney and Mr. LIU Ji.