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CAA Resources Limited
優庫資源有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 02112)

ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014

FINANCIAL HIGHLIGHTS

- Group's revenue amounted to approximately USD87.8 million for the six months ended 30 June 2014 (the "Period") representing an increase of USD40.7 million or 86.4% as compared to approximately USD47.1 million for the six months ended 30 June 2013.
- The Group's gross profit reached approximately USD9.4 million for the Period, about USD18.5 million or 66.3% lower than the approximately USD27.9 million recorded in the same period in 2013.
- The profit for the Period was approximately USD4.2 million, representing a decrease of USD13.4 million or 76.1% as compared to approximately USD17.6 million for the six months ended 30 June 2013.
- Basic and diluted earnings per share attributable to ordinary equity holders of the Company amounted to approximately 0.28 US cents for the Period, representing a decrease of 1.29 US cents or 82.2% as compared to approximately 1.57 US cent for the six months ended 30 June 2013.
- The Board does not recommend the payment of an interim dividend for the Period.

INTERIM RESULTS

The board (the “Board”) of directors (the “Director(s)”) of CAA Resources Limited (“CAA Resources” or the “Company”, and together with its subsidiaries, the “Group”) hereby announces the unaudited consolidated interim results of the Group for the Period together with comparative figures for the corresponding period in 2013. This consolidated interim financial information has not been audited nor reviewed by the Company’s auditor, but has been reviewed by the Company’s audit committee.

I. FINANCIAL INFORMATION

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

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

		30 June 2014	31 December 2013
	<i>Notes</i>	<i>USD'000</i>	<i>USD'000</i>
		<i>(Unaudited)</i>	
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	12	495	692
Deferred tax liabilities		3,901	3,825
Provision for rehabilitation		<u>292</u>	<u>281</u>
Total non-current liabilities		<u>4,688</u>	<u>4,798</u>
Net assets		<u>99,050</u>	<u>104,154</u>
EQUITY			
Equity attributable to owners of the Company			
Issued capital		1,934	1,934
Reserves		97,116	92,362
Proposed final dividend	13	<u>—</u>	<u>9,858</u>
Total equity		<u>99,050</u>	<u>104,154</u>

II. Notes to Unaudited Interim Consolidated Financial Statements

1. CORPORATE INFORMATION

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

During the Period, the Group was principally engaged in the business of mining, ore processing, and exporting of iron ore products and the sale of those products to steel manufacturers and/or their respective purchase agents in Mainland China as well as investment holding. There were no significant changes in the nature of the Group's principal activities during the Period.

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

2.1 BASIS OF PREPARATION

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

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

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3. REVENUE AND OPERATING SEGMENT INFORMATION

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

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

Entity-wide disclosures

Information about products and services

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

	For the six months ended 30 June	
	2014	2013
	<i>USD'000</i>	<i>USD'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Sales of goods	87,765	46,258
Rendering of services	<u>—</u>	<u>872</u>
	<u><u>87,765</u></u>	<u><u>47,130</u></u>

Geographical information

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

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

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

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

Information about major customers

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

	For the six months ended 30 June	
	2014	2013
	<i>USD'000</i>	<i>USD'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Customer A	48,452	6,925
Customer B	<u>39,283</u>	<u>37,898</u>

4. FINANCE COSTS

An analysis of finance costs is as follows:

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

5. PROFIT BEFORE TAX

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

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

6. INCOME TAX

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

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

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

The major components of income tax expense are as follows:

	For the six months ended 30 June	
	2014	2013
	<i>USD'000</i>	<i>USD'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Current — Charge for the period		
Hong Kong	867	4,361
Malaysia	85	2,248
Deferred	<u>14</u>	<u>(219)</u>
Total tax charge for the period	<u>966</u>	<u>6,390</u>

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

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

	For the six months ended 30 June	
	2014	2013
	<i>USD'000</i>	<i>USD'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Profit attributable to owners of the Company	<u>4,243</u>	<u>17,645</u>

	Number of shares	
	2014	2013
	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares in issue during the period	<u>1,500,000</u>	<u>1,125,000</u>

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

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

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

8. AVAILABLE-FOR-SALE INVESTMENT

	30 June 2014	31 December 2013
	<i>USD'000</i>	<i>USD'000</i>
	<i>(Unaudited)</i>	
Unlisted equity investment, at cost	<u>10,000</u>	<u>—</u>

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

9. TRADE RECEIVABLES

	30 June 2014	31 December 2013
	<i>USD'000</i>	<i>USD'000</i>
	<i>(Unaudited)</i>	
Irrevocable letter of credit	30	4,289
Trade receivables	<u>17,494</u>	<u>8,097</u>
	<u>17,524</u>	<u>12,386</u>

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

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

10. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

11. TRADE PAYABLES

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

	30 June 2014	31 December 2013
	<i>USD'000</i>	<i>USD'000</i>
	<i>(Unaudited)</i>	
Within 3 months	4,391	2,654
Over 3 months but less than 6 months	<u>351</u>	<u>—</u>
	<u>4,742</u>	<u>2,654</u>

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

12. INTEREST-BEARING BANK AND OTHER BORROWINGS

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

Analysed into:

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

Notes:

- (a) As at 30 June 2014, the bank loans of the Group were secured by the pledged bank balances of USD478,000 (31 December 2013: USD989,000) and bore interest ranging from 3.72% to 3.73% per annum.
- (b) The Group acquired certain of its motor vehicles and machinery through hire purchase arrangements, which are classified as finance leases and have remaining lease terms ranging from one to six years. As at 30 June 2014, payables relating to the hire purchase arrangements were secured by the corresponding motor vehicles and machinery acquired with an aggregate carrying amount of USD1,571,000 (31 December 2013: USD1,025,000).
- (c) During the Period, the Group entered into hire purchase arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of USD78,000 (six months ended 30 June 2013: USD673,000).
- (d) As at 30 June 2014, bank loans of USD1,776,000 (31 December 2013: Not applicable) of China Bright Mining Limited, an indirect wholly-owned subsidiary of the Company, was guaranteed by the Company at nil consideration.

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

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

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

13. DIVIDENDS

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

MARKET REVIEW

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

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

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

BUSINESS & OPERATIONS REVIEW

(1) Operating Results

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

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

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

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

Project Ibam operation update

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

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

Business Review

(1) Major operating results

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

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

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

(2) Production capability expansion

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

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

Business Diversification Strategy

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

OUTLOOK

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

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

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

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

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

REVENUE AND COST OF GOODS SOLD

Revenue

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

Cost of Sales

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

Gross profit

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

SELLING AND DISTRIBUTION EXPENSE

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

ADMINISTRATIVE EXPENSE

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

PROPERTY, PLANT AND EQUIPMENT (“PPE”)

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

INTANGIBLE ASSETS

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

AVAILABLE-FOR-SALE INVESTMENT

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

INVENTORIES

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

TRADE RECEIVABLES

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

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

PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

TRADE PAYABLES

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

OTHER PAYABLES AND ACCRUALS

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

LIQUIDITY AND FINANCIAL RESOURCES REVIEW

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

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

CAPITAL STRUCTURE

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

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

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

CONTINGENT LIABILITIES

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

INTEREST RATE RISK

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

CHARGE ON ASSETS

Save for the vehicle registrations cards, machinery and bank balances pledged for bank loans as disclosed in note 12 to the unaudited condensed consolidated financial statements, the Group did not have any pledges on its assets as at 30 June 2014.

EMPLOYEES AND REMUNERATION POLICIES

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

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

OTHER INFORMATION

INFORMATION ON IBAM MINE

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

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

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

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

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

EXPLORATION, DEVELOPMENT AND MINING PRODUCTION ACTIVITIES

During the six months ended 30 June 2014, no exploration activities were carried out. As part of the Group's expansion plan, a total of two new beneficiation lines and one new crushing line were purchased during the first half of 2013, which amounted to approximately USD4.3 million. The mining volume and production volume of iron ore products produced from Ibam Mine during the six months ended 30 June 2014 are 199,000 tonnes and 101,000 tonnes respectively (2013 H1: 272,000 tonnes and 138,000 tonnes).

CAPITAL EXPENDITURE

During the Period, the Company incurred a total of USD4.5 million of capital expenditure primarily for the purchase or upgrade of PPE and payments in advance.

Purchase, sale or redemption of the company's listed securities

During the Period and up to the date of this interim financial information, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Corporate Governance

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

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

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

Model Code for Directors' Securities Transactions

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

Audit Committee

The Company has established the Audit Committee in compliance with Rule 3.21 of the Listing Rules and the Company has also complied with Rule 3.10(1) and 3.10(2) of the Listing Rules that three independent non-executive Directors including one with financial management expertise have been appointed. The primary duties of the Audit Committee are to review the financial reporting process and internal control system of the Group, and to make proposals to the Board as to the appointment, renewal and resignation of the Company's independent auditors and the related remuneration and appointment terms. The Audit Committee has held one meeting during the Period to discuss with the management about the internal control, results announcements and financial report for the year ended 31 December 2013, the related accounting principles and practices adopted by the Group and internal controls related matters; and recommendation of the re-appointment of the external auditor.

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

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

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

Remuneration Committee

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

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

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

Nomination Committee

The Company established a nomination committee pursuant to a resolution of our Directors passed at a Board meeting on 12 April 2013 with effect upon the Listing. The Nomination Committee comprises one executive Director, namely, Mr. Li Yang (chairman of the Nomination Committee), and two independent non-executive Directors, namely Dr. Wang Ling and Dr. Li Zhongquan. The primary duties of the Nomination Committee include identifying suitable candidates for the Directors and making recommendations to the Board, assessing the structure and composition of the Board, preparing, making recommendations to and supervising the execution of the nominating policy of the Company.

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

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

SHARE OPTION SCHEME

The share option scheme of the Company (the "Share Option Scheme") adopted by the Shareholders by way of written resolution was passed on 12 April 2013 for the purpose of attracting and retaining the best available personnel; providing additional incentive to employees (full-time and part-time), directors, consultants, advisors,

distributors, contractors, suppliers, agents, customers, business partners or service providers of our Group; and to promoting the success of the business of our Group. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

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

INTERIM DIVIDEND

The Board of Directors resolved not to distribute any interim dividend for the Period (2013: nil).

PUBLICATION OF INTERIM RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The 2014 Interim Report will be despatched to shareholders as well as made available on the website of the Stock Exchange at <http://www.hkexnews.hk> and the website of the Company at <http://www.caa-resources.com>. The 2014 interim financial information set out above does not constitute the Group's statutory financial statements for the six months ended 30 June 2014 and is extracted from the financial statements for the six months ended 30 June 2014 to be included in the 2014 Interim Report.

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

Hong Kong, 26 August 2014

As at the date of this announcement, the executive Directors are Mr. Li Yang, Ms. Li Xiaolan, Mr. Wang Er, Mr. Diao Dalin, Mr. Dong Jie, and the independent non-executive Directors are Mr. Kong Chi Mo, Dr. Li Zhongquan and Dr. Wang Ling.

** For identification only*