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ARES ASIA LIMITED

安域亞洲有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 645)

**SUPPLEMENTAL ANNOUNCEMENT
IN RELATION TO
RESULTS OF THE INDEPENDENT REVIEW**

This supplemental announcement is made by Ares Asia Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rules 13.09 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) 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 13 August 2021, 19 October 2021 and 18 August 2022 in relation to, among others, (i) the resignation of the auditor, (ii) the appointment of Independent Reviewer to conduct Independent Review on the Significant Matters, and (iii) results of the Independent Review (the “**Independent Review Result Announcement**”). Unless otherwise stated, the capitalised terms used herein shall have the same meaning as defined in the Announcements.

The Company would like to supplement the Independent Review Result Announcement with the information contained in this announcement, with respect to the key findings and observations of the Independent Review.

INDEPENDENT REVIEW

The Significant Matters

As disclosed in the announcement of the Company dated 13 August 2021, the Significant Matters noted by Mazars in its resignation letter are as follows:

1. As at 31 March 2021, the prepayment in relation to purchase of coal made by Ares Repco Limited (“**ARL**”), a wholly-owned subsidiary of the Company, to an Indonesian coal supplier (the “**Supplier**”) amounted to approximately US\$1.4 million and a substantial portion of which was aged over one year (the “**Previous Prepayment**”).
2. The management of the Group adopted an updated trading policy in July 2020 pursuant to which the Group should not make further prepayment for trading transactions (the “**2020 Trading Policy**”).
3. Ares Asia Resources Pte. Ltd. (“**AAR**”), a wholly-owned subsidiary of the Company incorporated in July 2020, entered into (a) two sales contracts in March 2021 with customer A and customer B (collectively, the “**Sales Contracts**”) for the sales of 100,000MT and 50,000MT of coal respectively which were originally scheduled for delivery between March and April 2021; and (b) a purchase contract in March 2021 with the Supplier for the purchase of 150,000MT of coal which was originally scheduled for delivery between March and April 2021 (the “**Purchase Contract**”).
4. As at 31 March 2021, customer A and customer B had made advance payments to AAR of US\$1.5 million and US\$1.0 million respectively in accordance with the Sales Contracts whilst AAR had made prepayment of US\$2.5 million (the “**New Prepayment**”) to the Supplier after the receipt of the advance payments from customer A and customer B in accordance with the Purchase Contract. Mazars indicated that they have continuously requested for detailed information and evidence on the recoverability of the Previous Prepayment and the New Prepayment. In June 2021, the Supplier arranged one shipment of 53,300MT of coal which utilised only approximately US\$0.25 million of the New Prepayment and approximately US\$1.25 million of the Previous Prepayment. Mazars further indicated that they have also requested for satisfactory explanation and evidence to support the business rationale and commercial substance of the New Prepayment as (a) the New Prepayment was not made in accordance with the 2020 Trading Policy; and (b) the Previous Prepayment had not been fully utilised when the New Prepayment was made.

APPOINTMENT OF INDEPENDENT REVIEWER

The Directors were of the view that the Significant Matters should be properly reviewed to assess and consider the circumstances of the Significant Matters. On its own initiative, the Company decided to engage an independent reviewer to look into the Significant Matters.

As disclosed in the Announcement in regards to the Significant Matters, PwC Consulting was engaged as the independent reviewer to conduct the Independent Review. On 2 August 2022, PwC Consulting issued a report on its observations.

Summary of key observations under the Independent Review

The Company started to purchase coal from the Supplier in September 2019. It is the Group's policy not to carry coal inventory. Therefore, the Group sources the required quantity of coal from suppliers which are able to match the customer's requirements on quantity and delivery period at the best available price.

During the period from 1 April 2019 to 31 March 2021, the Company had six purchase contracts with the Supplier through its wholly owned subsidiaries, ARL and AAR. Of the six purchase contracts, five were contracted directly with the Supplier and one purchase contract was with another supplier (the "**Second Supplier**"), for which the Supplier acted as the guarantor.

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 immediately before entering into the Novation Agreements (as defined below), prepayment of US\$2.25 million and compensation and demurrage of US\$ 2.2 million were due from the Supplier to AAR while balance of approximately US\$162,000 was due from the Supplier to ARL. Prepayment of US\$1 million and compensation and demurrage of US\$ 2.2 million were due from AAR to customer B while prepayment of US\$1.25 million was due from AAR to customer A.

As at the date of this announcement, as a result of the Novation Agreements, there is no longer any amount due from the Supplier to the Group.

Transactions between ARL and the Supplier

For the first and second purchases from the Supplier, ARL made prepayments and these amounts were fully utilised within two months after signing of the purchase contracts.

In December 2019, the Supplier and ARL entered into a third purchase contract to purchase coal valued at US\$5.78 million (the "**Third Purchase Contract**"). The Third Purchase Contract was intended to fulfil orders from three customers. Prepayments of US\$5.5 million were made to the Supplier. Two of the three customers made prepayments totalling US\$1.0 million each for the purchase of coal.

The shipments to these two customers were fulfilled in February 2020. However, there was an increase in demurrage charges and the cancellation of the shipment by the Supplier.

As at 31 March 2020, ARL had utilised US\$3.04 million out of the prepayment made to the Supplier, leaving US\$2.46 million outstanding. The shipment to the third customer under a contract entered into in January 2020 (the “**January 2020 Contract**”) was cancelled by the Supplier due to bad weather. As a result of the cancellation of the shipment, there was demurrage charges and a further margin compensation charged by ARL to the Supplier. The demurrage charges and compensation due from the Supplier arising from the three shipments amounted to US\$1.26 million. As a result, the unutilised prepayment of US\$2.46 million, demurrage charges and compensation of US\$1.26 million due from the Supplier to ARL, amounted to total of US\$3.72 million as at 31 March 2020.

On 26 June 2020, during the Audit Committee meeting, Mazars raised concerns over the unutilised prepayments, demurrage charges and compensation due from the Supplier as at 31 March 2020.

In July 2020, ARL entered into a sales contract with another customer for the delivery of coal in the same month (the “**July 2020 Contract**”). This shipment was 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, this trade resulted in a net loss of approximately US\$445,000. On 3 June 2020, the Supplier agreed to provide US\$300,000 to ARL as margin compensation for the months of April and May. The Board was of the view that the US\$300,000 margin compensation from the Supplier 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 customer of the January 2020 Contract for not being able to nominate a new vessel. Even though these are different contracts, the management of the Company was of the view that the waiver 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 is US\$2.46 million (being the unutilised prepayments, net amount due for demurrage charges and net amount due for other compensations). The amounts due from the Supplier was reduced through four offset agreements with the Supplier and AAR, details of which are set out below.

On 21 July 2020, the Audit Committee approved and adopted the 2020 Trading Policy which sets out the requirements needed to be complied with by the Group for all trading transactions, and, in particular, that prepayments to coal supplier are not allowed.

Transactions between AAR and the Supplier

In July 2020, AAR was incorporated in Singapore. The management of the Company reported that for the Group to utilise the amounts due to ARL from the Supplier, the Company negotiated with the Supplier to enter into additional purchase contracts with the Supplier pursuant to the sales to the customers.

From October 2020 to March 2021, AAR entered into three purchase contracts with the Supplier whereby one purchase contract is with the Second Supplier, with the Supplier acting as the guarantor and two more purchase contracts directly with the Supplier. At the same time, four offset agreements were entered into between ARL, AAR and the Supplier to utilise the net amount due from the Supplier to ARL. The amount due from the Supplier to ARL of US\$2.46 million as at 30 September 2020 was reduced to approximately US\$162,000 as at 30 June 2021 through these offset agreements.

While the purchases from the Supplier were partially settled using offset agreements, AAR also provided further prepayments and settled some amounts due in cash:

1. The fourth purchase was contracted with the Second Supplier (the “**Fourth Purchase Contract**”). The Second Supplier is a related company to the mining subcontractor of the Supplier. The outstanding balances due from the Supplier to ARL was reduced to US\$2.19 million.
2. The fifth purchase was contracted with the Supplier directly (the “**Fifth Purchase Contract**”). After the Fifth Purchase Contract, the balance due from the Supplier to ARL was reduced to US\$1.41 million.
3. AAR entered into the Sixth Purchase Contract with the Supplier to purchase 150,000 MT of coal with an estimated contract value of US\$5.6 million to fulfil three shipments from customer A and customer B. The Sixth Purchase Contract also stated that the prepayments to the Supplier, which comprised of US\$2.5 million in cash and US\$750,000 was supposed to be deducted from the amount due from the Supplier to ARL. AAR collected the same amount of cash prepayment, amounting to US\$2.5 million, from its customers, customer A and customer B.

For the Sixth Purchase Contract, after the first shipment to customer A, the amount due from the Supplier to ARL was reduced to approximately US\$162,000. Customer B informed AAR that it was cancelling the shipment and sought US\$1.2 million as demurrage charges and US\$1 million as compensation for the cancelled shipment. The Supplier agreed to provide the compensation.

On 16 June 2021, Mazars informed the Audit Committee that the final audit would not be completed on time due to the concern over recoverability of the Prepayments to the Supplier. By this time, the US\$2.25 million of the New Prepayment paid approximately three months earlier, remained outstanding due to AAR. In addition, the balance due from the Supplier to ARL which comprised of prepayments, demurrage charges and compensation was reduced to approximately US\$162,000.

In September 2021, AAR and an independent third party (the “**Assignee**”) 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 a purchase contract with the Supplier (the “**Sixth Purchase Contract**”). The purpose of the entering of the novation agreements (the “**Novation Agreements**”) was to novate the rights, title, interests, duties and obligations of AAR and ARL to the Assignee, a wholly owned subsidiary of customer B. The effect of the Novation Agreements was to remove the Group from the relationship between its customers and the Supplier. As a result of the Novation Agreements, there is no longer any amount due from the Supplier to AAR and ARL. Instead, the Assignee owed ARL approximately US\$162,000 as at 30 September 2021. The Assignee repaid ARL this outstanding amount in full on 10 March 2022.

Overall observations of PwC Consulting

While there were five purchase contracts and total prepayments of US\$16 million made to the Supplier and one purchase contract with prepayment of US\$750,000 with the Second Supplier, PwC Consulting understood from the Audit Committee that they were only made aware of the two Prepayments made to the Supplier, being the Previous Prepayment of US\$5.5 million paid to the Supplier which relates to the Third Purchase Contract and the New Prepayment of US\$2.5 million which relates to the Sixth Purchase Contract. In one of the sales transactions, ARL entered into a loss-making transaction, at least in part, to show there was a subsequent utilisation of the Previous Prepayment. Furthermore, as disclosed above, in September 2020, ARL subsequently received a waiver of compensation of approximately US\$162,000 from customer of the January 2020 Contract for not being able to nominate a new vessel. Even though these are different contracts, the management of the Company was of the view that the waiver of approximately US\$162,000 offset the losses incurred in such loss-making transaction.

PwC Consulting also noted that prepayments made for undelivered goods were not refunded by the Supplier and other amounts due to ARL/AAR from the Supplier, as a result of demurrage charges and loss of margin compensation, were not paid even though ARL/AAR had paid its obligations to the customer. PwC Consulting had not seen any payments made by the Supplier to settle its debts during the period from 1 April 2019 to 31 March 2021. Furthermore, in instances where there were sufficient outstanding amounts due from the Supplier to settle a debt due from AAR, only a portion of the amount was used in an offset arrangement, always leaving a balance payable by AAR. From PwC Consulting's overall observation of the Fourth to the Sixth Purchase Contracts, it appears that additional payments and prepayments had to be made to the Supplier to make further purchases from the Supplier, which coincided with prepayments made from the customers.

In an email dated 4 March 2021, the Supplier had written to the Company that they have not received the intended prepayment for the Sixth Purchase Contract and has an alternative ready buyer for their "urgent cashflow solution". While there was also unutilised amount due from the Supplier, the purchase contract states that only part of the unutilised amount due from the Supplier will be used as prepayment. In response, the management of the Company explained that the Company were able to utilise the amount due from the Supplier to ARL through additional purchase contracts with the Supplier as they have already secured additional orders from customers.

The management of the Company also explained that the Company continued to maintain an outstanding balance due from the Supplier as the Supplier had absolute bargaining power in the negotiation of contract, in particular the request for prepayment, and to secure the future supplies of coal. The management of the Company further elaborated that the key priority at that point in time was to secure coal supply to meet customers' orders, and not the recovery of prepayments and receivables.

While the 2020 Trading Policy does 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. However, PwC Consulting understood from the Audit Committee that when the 2020 Trading Policy was approved by Board, the intention was to disallow any prepayment to suppliers. It appears to PwC Consulting that there was a lack of understanding as to the intent of the 2020 Trading Policy. While the management of the Company deemed these additional prepayments to be of lower risk, part of the prepayments to the Supplier were secured using the amount due from the Supplier to ARL. Even though entering into new purchase contracts may have helped ARL to recover the balance due from the Supplier to ARL, it may also increase the risk of there being an unrecoverable balance due from the Supplier in the event the purchase contracts are not fulfilled. The management of the Company explained that the balance due from the Supplier was reduced with subsequent fulfilment of shipments by the Supplier through new purchase and sales contracts. The balance due from the Supplier is nil after the Novation Agreements.

Other observations of PwC Consulting

In addition to the transactions between ARL, AAR and the Supplier, PwC Consulting reviewed transactions between the ARL and AAR and other suppliers on a sample basis. PwC Consulting reviewed these sample trades with the Supplier and other suppliers against the 2020 Trading Policy to ascertain if there has been any non-compliance with the policy. The instances of non-compliance identified during PwC Consulting's work are as follows:

1. The three prepayments made to the Second Supplier and the Supplier respectively by AAR in the Fourth, Fifth and Sixth Purchase Contracts as set out above. There are no other instances of non-compliance as a result of prepayments made on or after 21 July 2020 noted in the samples reviewed;
2. One instance where a back-to-back trade involving the use of the Company's funds for freight charges did not meet the minimum required annualised rate even though the trade has a positive margin. The management of the Company explained that there was possibly an increase in the administrative time of processing the shipping documents by the bank and supplier resulting in a longer than usual funding period; and
3. The 2020 Trading Policy also requires customer and supplier evaluation forms to be prepared, but there were seven instances for which the supplier evaluation forms were not prepared as the management of the Company was of the view that the evaluation form is not required based on their assessment of the risk of trading with these suppliers. However, such assessment was not documented and there was no guidance within the 2020 Trading Policy that such an exemption could be applied. There was also one instance where the evaluation form was not provided to PwC Consulting for review as the management of the Company represented that the documents could not be found.

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.

It appears to PwC Consulting that ARL and AAR do not have proper document filing systems to achieve an organised and systematic record keeping of important documents which results in the observations below:

1. Amongst the sales and purchase contracts reviewed, there were instances which the contracts were not complete with a signature or a company stamp by the customers or suppliers. The management of the Company represented that the personnel in charge of these contracts had resigned from the relevant entities and are thus unable to find the finalised copies of these contracts; and

2. There was an instance where the payee was different from the contracting party. The management of the Company explained that there is no evidence of correspondence with the supplier, customer nor the payee for the payment arrangement. The trader in charge of this trade has resigned. There is also no correspondence available informing the Finance Department as to the payment arrangement.

PwC Consulting recommended that:

1. Contracts entered into by the Group should be reviewed by appropriate legal counsel before execution and the signed contracts should be administered centrally to ensure appropriate books and records are maintained; and
2. Guidance and training should be provided to the Finance Department to minimise such risk and ensure the payments and receipts are supported.

As disclosed in the Independent Review Result Announcement, with the recommendations of the Audit Committee, the Board will take or has taken the following remedial actions to address the concerns identified in the Independent Review:

1. to engage the internal control adviser to conduct an internal control review of the Company and selected subsidiaries of the Company;
2. to document and report to the Board on a timely basis any deviation from the trading policy;
3. to have all signed contracts administered centrally by the trading department to ensure appropriate books and records are maintained; and
4. to have the Audit Committee and the Board review the trading policy and provide more explicit guidance on the policy for prepayments to suppliers as well as its risk assessment requirements by way of giving regular trainings to relevant staff and management personnel.

CONTINUED SUSPENSION OF TRADING

In accordance with Rule 13.50 of the Listing Rules, trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 2 July 2021 and will remain suspended until further notice.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

By Order of the Board
ARES ASIA LIMITED
LAI Yi-Chun
Chairman

Hong Kong, 15 September 2022

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.

** Certain numerical figures contained in this announcement are subject to rounding and are rounded to the nearest thousand or million.*