Grand Ocean Advanced Resources Company Limited
弘海高新資源有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 65)

UNAUDITED INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

FINANCIAL HIGHLIGHTS

1) Revenue of the Group for the six months ended 30 June 2016 was approximately HK$80,493,000, representing a decrease of approximately 16.8% as compared to the corresponding period in 2015.

2) Gross profit for the six months ended 30 June 2016 amounted to approximately HK$24,323,000, representing a decrease of approximately 20.2% as compared to the corresponding period in 2015. Overall gross profit margin was approximately 30.2% as compared to approximately 31.5% for the last corresponding period.

3) The Group recorded an unaudited consolidated net loss attributable to the owners of the Company of approximately HK$118,823,000 for the six months ended 30 June 2016.

4) The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016.

RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Grand Ocean Advanced Resources Company Limited (the "**Company**") announces the unaudited interim results of the Company and its subsidiaries (collectively, referred hereafter as the "**Group**") for the six months ended 30 June 2016 together with the relevant comparative figures as follows. These unaudited interim results have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 June	
		2016	2015
HK$'000	*Notes*	**(Unaudited)**	(Unaudited)
Revenue	*4*	**80,493**	96,748
Cost of sales		**(56,170)**	(66,272)
Gross profit		**24,323**	30,476
Other income		**1,609**	1,219
Selling and distribution expenses		**(4,755)**	(10,017)
Administrative expenses		**(30,098)**	(46,141)
Impairment loss on intangible asset		**(17,818)**	–
Impairment loss on property, plant and equipment		**(126,645)**	–
Other operating expenses		**(2,480)**	(2,545)
Loss from operations		**(155,864)**	(27,008)
Finance costs	*5*	**(785)**	(2,527)
Loss before tax	*7*	**(156,649)**	(29,535)
Income tax expense	*6*	**(102)**	(107)
Loss for the period		**(156,751)**	(29,642)
Attributable to:			
Owners of the Company		**(118,823)**	(28,504)
Non-controlling interests		**(37,928)**	(1,138)
		(156,751)	(29,642)
Loss per share			
Basic	*9*	**HK$(23.60) cents**	HK$(6.15) cents
Diluted		**HK$(23.60) cents**	HK$(6.15) cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended 30 June	
	2016	2015
HK$'000	**(Unaudited)**	(Unaudited)
Loss for the period	**(156,751)**	(29,642)
Other comprehensive income after tax:		
Item that may be reclassified to profit or loss:		
Exchange difference on translating foreign operations	**(515)**	(767)
Other comprehensive income and total comprehensive income for the period, net of tax	**(157,266)**	(30,409)
Attributable to:		
Owners of the Company	**(119,463)**	(29,144)
Non-controlling interests	**(37,803)**	(1,265)
	(157,266)	(30,409)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

HK$'000	*Notes*	**As at 30 June 2016 (Unaudited)**	As at 31 December 2015 (Audited)
Non-current assets			
Property, plant and equipment	*10*	**355,637**	493,093
Prepaid land lease payments		**2,383**	2,481
Goodwill		**2,907**	2,907
Intangible asset		**40,590**	60,146
Deferred tax assets		**17,733**	17,842
Deposits		**1,219**	1,226
Total non-current assets		**420,469**	577,695
Current assets			
Prepaid land lease payments		**66**	67
Inventories		**15,798**	17,723
Trade and bills receivables	*11*	**24,045**	56,939
Deposits, prepayments and other receivables		**15,126**	15,779
Restricted bank deposits		**4,686**	7,493
Bank and cash balances		**17,037**	48,189
Total current assets		**76,758**	146,190
Current liabilities			
Due to a director	*12*	**7,708**	9,338
Due to non-controlling shareholders	*13*	**9,955**	24,866
Trade payables	*14*	**2,022**	3,346
Accrued charges and other payables		**205,611**	236,549
Current tax liabilities		**31**	32
Total current liabilities		**225,327**	274,131
Net current liabilities		**(148,569)**	(127,941)
Total assets less current liabilities		**271,900**	449,754

HK$'000	*Notes*	**As at 30 June 2016 (Unaudited)**	As at 31 December 2015 (Audited)
Non-current liabilities			
Due to a director	*12*	**29,957**	29,888
Due to non-controlling shareholders	*13*	**–**	3,508
Other loans		**33,571**	50,845
Deferred tax liabilities		**1,429**	1,429
Total non-current liabilities		**64,957**	85,670
NET ASSETS		**206,943**	364,084
Capital and reserves			
Share capital		**251,739**	251,739
Other reserves		**401,213**	402,382
Accumulated losses		**(461,211)**	(343,042)
Equity attributable to owners of the Company		**191,741**	311,079
Non-controlling interests		**15,202**	53,005
TOTAL EQUITY		**206,943**	364,084

Notes:

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 7 April 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its business office is Suite 3103, Sino Plaza, 255-257 Gloucester Road, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Company is an investment holding company. The principal activities of its subsidiaries are: (i) production and sale of coal (the "**Coal Mining Business**"); and (ii) provision of low-rank coal upgrading services (the "**Coal Upgrading Business**"). The operations of the manufacture and sale of plastic woven bags, paper bags and plastic barrels (the "**Bags Business**") has suspended since May 2015.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with the applicable disclosures required by Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

These condensed consolidated financial statements should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2015 (the "**2015 Annual Report**").

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements for the six months ended 30 June 2016 are consistent with those used in the Group's annual financial statements for the year ended 31 December 2015 except as stated in note 3 below.

Going concern

In preparing the consolidated financial statements, the Directors of the Company have given careful consideration to the future liquidity of the Group notwithstanding that the Group's net current liabilities amounted to approximately HK$148,569,000 as at 30 June 2016 and the Group incurred an unaudited consolidated net loss attributable to owners of the Company of approximately HK$118,823,000 for the six months ended 30 June 2016.

The Directors of the Company are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future, after taking into consideration of the followings:

(i) The Directors have implemented certain production and sales strategies of the Coal Mining Business in order to generate sufficient operating cash flows for this segment's operations;

(ii) The Directors will strengthen to implement measures aiming at improving the working capital and cash flows of the Group including closely monitoring the general administrative expenses and operating costs;

(iii) The Directors will procure the disposal of the land and buildings located in Changchun City, the People's Republic of China (the "**PRC**") to finance the working capital requirement of the Group;

(iv) The Group has entered into agreements with major constructors of the Coal Upgrading Business to extend the repayment periods up to 3 years in respect of other payables of approximately HK$8,445,000 which are presented in current liabilities as at 30 June 2016;

(v) The substantial shareholder, Mr. Xu Bin, who is the chairman and an executive Director of the Company, has agreed not to demand for repayment of the loans and advance due a director as at 30 June 2016 of approximately HK$37,665,000 in aggregate until such time as the Group has sufficient funds to repay its other financial obligations, including the loans and advance due to a non-controlling shareholder and other third parties; and

(vi) The substantial shareholder has further provided an undertaking for an unsecured financial facility with maximum amount of HK$100 million to the Company for the period from 30 March 2016 to 31 December 2017, in the event of a shortage in working capital of the Company or its subsidiaries and at request of the Company. Up to the date of this announcement, such facility has not yet been used by the Group.

The Directors have carried out a detailed review of the cashflows forecast of the Group for the next twelve months from the reporting date. Taking into account the impact of above measures, the Directors of the Company are of the view that the Group should be able to satisfy its future working capital and other financing requirements as and when they fall due in the next twelve months from the reporting date, and accordingly, are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") that are relevant to its operations and effective for its accounting period beginning on 1 January 2016. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position. The Group does not plan to adopt these standards prior to their mandatory effective date.

4. SEGMENT INFORMATION

The Group has three reportable segments as follows:

Bags Business – Manufacture and sale of plastic woven bags, paper bags and plastic barrels;

Coal Mining Business – Production and sale of coal; and

Coal Upgrading Business – Provision of low-rank coal upgrading services.

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

4. SEGMENT INFORMATION (CONTINUED)

Segment profit or loss represents the profit earned by each segment without allocation of corporate income and expense and central administration costs. Segment assets excluded goodwill, corporate assets and deferred tax assets. Segment liabilities excluded corporate liabilities and deferred tax liabilities.

HK$'000	**Bags Business (unaudited)**	**Coal Mining Business (unaudited)**	**Coal Upgrading Business (unaudited)**	**Total (unaudited)**
Six months ended 30 June 2016				
Revenue from external customers	**–**	**80,493**	**–**	**80,493**
Segment loss	**(52,031)**	**(84,803)**	**(6,899)**	**(143,733)**
Interest revenue	**–**	**11**	**–**	**11**
Interest expense	**–**	**–**	**(168)**	**(168)**
Income tax expense	**–**	**(102)**	**–**	**(102)**
Depreciation and amortisation	**(742)**	**(13,034)**	**(273)**	**(14,049)**
Impairment loss on property, plant and equipment	**(52,197)**	**(74,448)**	**–**	**(126,645)**
Impairment loss on intangible assets	**–**	**(17,818)**	**–**	**(17,818)**
Additions to segment non-current assets	**–**	**(2,903)**	**–**	**(2,903)**
As at 30 June 2016				
Segment assets	**4,045**	**319,329**	**190,773**	**514,147**
Segment liabilities	**(15,683)**	**(298,084)**	**(146,677)**	**(460,444)**

HK$'000	Bags Business (unaudited)	Coal Mining Business (unaudited)	Coal Upgrading Business (unaudited)	Total (unaudited)
Six months ended 30 June 2015				
Revenue from external customers	5,780	90,968	–	96,748
Segment loss	(5,941)	(506)	(6,321)	(12,768)
Interest revenue	1	24	2	27
Interest expense	–	(477)	(269)	(746)
Income tax expense	–	(107)	–	(107)
Depreciation and amortisation	(3,706)	(24,783)	(2,148)	(30,637)
Gain on disposals of property, plant and equipment	–	845	–	845
Additions to segment non-current assets	–	(1,435)	(11,887)	(13,322)
As at 31 December 2015	(Audited)	(Audited)	(Audited)	(Audited)
Segment assets	171,000	469,724	202,491	843,215
Segment liabilities	(16,266)	(363,073)	(150,747)	(530,086)

4. SEGMENT INFORMATION (CONTINUED)

Reconciliations of reportable segment revenue, profit or loss, assets and liabilities:

	Six months ended 30 June	
	2016	2015
HK$'000	**(Unaudited)**	(Unaudited)
Revenue	**80,493**	96,748
Profit or loss		
Total loss of reportable segments	**(143,733)**	(12,768)
Unallocated corporate income	**2**	8
Unallocated corporate expenses	**(13,020)**	(16,882)
Consolidated loss for the period	**(156,751)**	(29,642)

	30 June	31 December
	2016	2015
HK$'000	**(Unaudited)**	(Audited)
Assets		
Total assets of reportable segments	**514,147**	843,215
Corporate assets	**11,928**	31,149
Deferred tax assets	**17,733**	17,842
Goodwill	**2,907**	2,907
Elimination of intersegment assets	**(49,488)**	(171,228)
Consolidated total assets	**497,227**	723,885
Liabilities		
Total liabilities of reportable segments	**460,444**	530,086
Corporate liabilities	**62,891**	73,424
Deferred tax liabilities	**1,429**	1,429
Elimination of intersegment liabilities	**(234,480)**	(245,138)
Consolidated total liabilities	**290,284**	359,801

5. FINANCE COSTS

HK$'000	Six months ended 30 June **2016** **(Unaudited)**	 2015 (Unaudited)
Interest on other loans-wholly repayable within five years	**345**	1,674
Interest on loan from non-controlling shareholders	**–**	477
Interest on loan from a director	**199**	198
Imputed interest expense	**417**	876
Bank charges	**–**	33
Total borrowing costs	**961**	3,258
Amount capitalised	**(176)**	(731)
	785	2,527

6. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2016 as the Group did not generate any assessable profits arising in Hong Kong during the period (six months ended 30 June 2015: Nil).

PRC Enterprise Income Tax has been provided at a rate of 25% (six months ended 30 June 2015: 25%).

According to the applicable PRC tax regulations, interest income arising from loan to a subsidiary established in the PRC is subject to a 7% withholding tax.

7. LOSS BEFORE TAX

The Group's loss for the period is stated after charging/(crediting) the following:

HK$'000	Six months ended 30 June **2016** **(Unaudited)**	 2015 (Unaudited)
Interest income	**(13)**	(36)
Amortisation of mining right	**1,600**	2,141
Cost of inventories sold	**56,170**	66,272
Depreciation of property, plant and equipment	**13,050**	28,973
Directors' emoluments	**5,202**	3,239
Gain on disposals of property, plant and equipment	**–**	(845)
Impairment loss on intangible asset	**17,818**	–
Impairment loss on property, plant and equipment	**126,645**	–
Government grant	**–**	(339)
Operating lease rentals in respect of land and buildings	**1,534**	1,756

8. DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

9. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the six months ended 30 June 2016 attributable to owners of the Company of approximately HK$118,823,000 (six months ended 30 June 2015: HK$28,504,000) and the weighted average number of ordinary shares of 503,477,166 (six months ended 30 June 2015: 463,623,935) in issue during the period.

Diluted loss per share

The effects of all potential ordinary shares are anti-dilutive for the period ended 30 June 2016 and 30 June 2015. The diluted loss per share equal the basic loss per share.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group had additions to property, plant and equipment of approximately HK$2,903,000 (six months ended 30 June 2015: HK$13,570,000).

11. TRADE AND BILLS RECEIVABLES

As at 30 June 2016, the ageing analysis of trade receivables of approximately HK$23,549,000 (as at 31 December 2015: HK$55,596,000), based on the invoice date and net of allowance, is as follows:

HK$'000	**30 June 2016 (Unaudited)**	31 December 2015 (Audited)
0 to 90 days	**1,425**	34,762
91 to 180 days	**3,324**	9,450
181 to 365 days	**11,302**	10,876
Over 365 days	**7,498**	508
	23,549	55,596

The general credit terms of the Bags Business and the Coal Upgrading Business are 30 days. For the Coal Mining Business, payment in advance is required but credit terms of 90 days are granted to certain key customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the senior management.

12. DUE TO A DIRECTOR

HK$'000	**30 June 2016 (Unaudited)**	31 December 2015 (Audited)
Current liabilities		
Other payables *(note a)*	**2,805**	2,822
Loans *(note b)*	**4,903**	6,516
	7,708	9,338
Non-current liabilities		
Loans and other payables *(note b)*	**29,957**	29,888
	37,665	39,226

Notes:

(a) The other payables, including licence fees payable of approximately HK$2,805,000 (as at 31 December 2015: HK$2,822,000), are unsecured, interest-free and repayable on demand.

(b) The loans from a Director are unsecured, bear interest at 0% to 5% per annum and are repayable on 31 December 2017.

The balance classified as non-current liabilities included interest payables of approximately HK$951,000 (as at 31 December 2015: HK$752,000), which are unsecured, interest-free and repayable on 31 December 2017.

13. DUE TO NON-CONTROLLING SHAREHOLDERS

The analysis of the carrying amount of the amounts due to non-controlling shareholders is as follows:

HK$'000	**30 June 2016 (Unaudited)**	31 December 2015 (Audited)
Current liabilities		
Advances *(note a)*	**5,221**	5,253
Other payables *(note b)*	**4,734**	10,792
Loans *(note c)*	**–**	8,821
	9,955	24,866
Non-current liabilities		
Loans *(note c)*	**–**	3,508
	9,955	28,374

Notes:

(a) The advances are unsecured, interest-free and repayable on demand.

(b) The other payables are unsecured, interest-free and repayable on normal business terms.

(c) The loans from non-controlling shareholders are unsecured, bear interest at 0% to 10.2% per annum and repaid during the period.

14. TRADE PAYABLES

As at 30 June 2016, the ageing analysis of trade payables, based on the date of receipt of goods, is as follows:

HK$'000	**30 June 2016 (Unaudited)**	31 December 2015 (Audited)
0 to 90 days	**–**	–
91 to 180 days	**–**	–
181 to 365 days	**–**	592
Over 365 days	**2,022**	2,754
	2,022	3,346

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

The Group recorded a revenue of approximately HK$80,493,000 for the six months ended 30 June 2016, representing a decrease of approximately 16.8% as compared to the six months ended 30 June 2015. The loss attributable to the owners of the Company for the six months ended 30 June 2016 increased by approximately HK$90,319,000 as compared to the corresponding period in 2015. The Group reported its interim results in three business segments, namely: (i) the Coal Mining Business; (ii) the Coal Upgrading Business; and (iii) the Bags Business.

The Coal Mining Business

The Group recognised revenue of approximately HK$80,493,000 from the Coal Mining Business during the six months ended 30 June 2016, accounting for 100.0% of the Group's total revenue in the period. The revenue from the Coal Mining Business recorded a decrease by approximately 16.8% as compared to the corresponding period in 2015. The operating profit of the Coal Mining Business (before the impairment on property, plant and equipment and intangible asset) was approximately HK$7,463,000 as compared to an operating loss of HK$506,000 from the corresponding period in 2015. The turnaround was mainly attributable to the decrease in depreciation charges for the period and lower logistic costs. Although the operating result of this segment has improved, affected by the recent policies of the compression of production capacity for the PRC's coal industry, this segment reported a loss of approximately HK$84,803,000 for the six months ended 30 June 2016 as compared to a segment loss of HK$506,000 for the corresponding period in 2015 as a result of: (i) the decrease in the sales volumes and the average selling price of coal with prevailing market conditions; and (ii) impairment loss on the property, plant and equipment and intangible asset. For further details on impairment loss on property, plant and equipment, please refer to "Impairment of property, plant and equipment and intangible asset".

During the six months ended 30 June 2016, approximately 528,000 tonnes (six months ended 30 June 2015: 795,000 tonnes) of coal were produced and approximately 689,000 tonnes (six months ended 30 June 2015: 786,000 tonnes) of coal were sold respectively. As set out in the 2015 Annual Report, Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Company Limited ("**Inner Mongolia Jinyuanli**"), the Group's indirect non-wholly owned subsidiary, has applied to relevant authorities to increase its production capacity to 1.8 million tonnes per year (the "**Application**"). Up to the date of this announcement, the Application is yet to be approved by the relevant government authorities. In view of this, management of Inner Mongolia Jinyuanli has decided to lower the annual coal output of Inner Mongolia Jinyuanli to around 1.4 million tonnes for the year of 2016. The Directors of the Company consider that this could avoid potential violation of the relevant new mining regulations in the PRC imposed in 2016 in relation to the compression of coal production capacity in the PRC. The annual production capacity of Inner Mongolia Jinyuanli will be tuned in accordance with the outcome of the Application.

The Coal Upgrading Business

Further to completion of the construction of the first phase of designed annual production capacity of 500,000 tonnes of the Group's coal upgrading plant located at Xilinhaote City, Inner Mongolia, the PRC (the "**Xilinhaote Plant**"), the Xilinhaote Plant has commenced instrument calibrations and trial production since the first quarter of 2016. As at the date of this announcement, the Xilinhaote Plant is still in negotiations with some potential customers for business terms which would make this segment profitable. Amid unfavourable factors overcasting in the coal industry of the PRC, the management has postponed tentatively the commercial production of Xilinhaote Plant to the forth quarter of 2016. In this regard, the Company will assess the impairment of the Group's assets under the Coal Upgrading Business at the end of the financial year ending 31 December 2016.

No revenue recorded in this segment and reported a loss of approximately HK$6,899,000 mainly due to the wages costs and other administrative expenses.

The management of the Xilinhaote Plant has reduced certain level of labour power as one of the cost saving measures to reduce administrative expenses until the commencement of commercial production of Xilinhaote Plant.

The Bags Business

As set out in the 2015 Annual Report, there were no further orders from our customers since May 2015. Since then, in view of the business prospect of the Bags Business segment, the management has decided to suspend the operation of the Bags Business segment. Meanwhile, the management has been actively seeking for potential buyers to realise the assets in Bags Business segment to strengthen the Group's financial position.

Despite the fact that part of inventories were sold during the period, no solid offer has yet been received for our bags production plant in Changchun which accounted for most of the value of the Bags Business segment's assets. The market value of our bags production plant (including land and buildings) in Changchun provided by an independent qualified professional valuer is RMB33,300,000 (equivalent to approximately HK$38,924,000) as at 30 June 2016. The industrial development in the north-eastern region of the PRC has emerged to be declining in the past few years, resulting in the significant drop in the demand for industrial land. The management of the Company will consider other ways to expedite the realisation of this segment's assets.

The segment loss of HK$52,301,000 was mainly due to the impairment on property, plant and equipment made during the period. For further details on impairment loss on property, plant and equipment, please refer to "Impairment of property, plant and equipment and intangible asset".

Selling and distribution expenses

The selling and distribution expenses of the Group for the six months ended 30 June 2016 were mainly from the Coal Mining Business of approximately HK$4,755,000, representing a decrease of approximately 52.5% as compared to the corresponding period in 2015. The significant decrease in selling and distribution expenses mainly resulted from the lower logistic costs and generally in line with the decrease in the quantity of sale of coal.

Administrative expenses

The administrative expenses of the Group during the six months ended 30 June 2016 amounted to approximately HK$30,098,000, representing a decrease of approximately 34.8% from approximately HK$46,141,000 in the corresponding period in 2015. The decrease in administrative expenses was mainly attributable to the decrease in staff costs as result of measures implemented for improving the operating costs and depreciation charges due to the impairment of property, plant and equipment made for the year ended 31 December 2015 which led to the lower depreciable base of property, plant and equipment.

Impairment of property, plant and equipment and intangible asset

(i) The Coal Mining Business segment

Given the challenging market conditions in the mining industry, the Group continues to rigorously test its assets for impairment as part of its financial reporting process. The Group recorded total impairment losses of approximately HK$17,818,000 and HK$74,448,000 for intangible asset and property, plant and equipment, respectively as at 30 June 2016 in the Coal Mining Business segment.

In assessing the impairments of the Group's assets under the Coal Mining Business, the Company conducted valuation by adopting discounted cashflow method to derive the respective recoverable amounts of our assets, the assumptions of the valuation were made based on the current business conditions and project development progress. During the period of six months ended 30 June 2016, the coal production capacity has been adjusted due to the issue of relevant coal mining regulations by the State Council of the PRC in 2016 in relation to the compression of the coal production capacity in the PRC. In view of the current status of the Application, the Company reviewed and updated the assumptions adopted in the valuation. There has been no change in valuation methodology (i.e. discounted cashflow method) but the coal price and the annual production capacity have been decreased in the valuation to reflect (i) the sluggish demand of coal due to the economic downturn in the PRC; (ii) the recent tightening policies on the coal production capacity in the PRC; and (iii) the current market price level, resulting in substantial impairment loss made as at 30 June 2016.

For the key changes in assumptions and parameters in the valuation conducted for assessing the impairments of the Group's assets under the Coal Mining Business as at 31 December 2015 and 30 June 2016 are set out as below:

	30 June 2016	31 December 2015
Key assumptions		
Projected annual coal production capacity	**1,400,000 tonnes**	1,800,000 tonnes
Unit coal price per tonne adopted (included value-added tax)	**2016 – 2018: RMB110** **2019 – 2021: RMB115** **2022 onwards: RMB120**	2016 – 2018: RMB115 2019 – 2021: RMB120 2022 onwards: RMB125

(ii) The Bags Business segment

As discussed in the section headed "Financial review", the operation of Bags Business segment has been suspended since May 2015. During the period, the management has made its best effort to realise the assets of Bags Business segment. Part of inventories has been sold which provided certain cashflow to the Group. However, for the production plant and the land on which it is situated, the Group has not received any solid offer from potential buyers up to the date of this announcement.

In assessing the impairments of the Group's assets under the Bags Business segment, the management of the Company assessed the recoverable amount of the assets as at 30 June 2016 and full impairment has been made on the carrying amount of the buildings of the bags production plant of approximately HK$52,197,000. It is considered that the buildings of the bags production plant was unused over a very long period of time and yet to be sold as at the date of this announcement.

Finance costs

The finance costs of the Group mainly represented interest expenses on the loan from a director and loans from third parties. For the six months ended 30 June 2016, finance costs recorded by the Group decreased to approximately HK$961,000, dropped by HK$2,297,000, mainly due to the certain repayments made to the non-controlling shareholders and third parties during the period.

Loss for the period

Net loss attributable to the owners of the Company for the six months ended 30 June 2016 increased to approximately HK$118,823,000 as compared to approximately HK$28,504,000 for the six months ended 30 June 2015. The increase was mainly due to the impairment loss on the property, plant and equipment of the Bags Business segment and the Coal Mining Business segment and impairment loss on the intangible assets of Coal Mining Business.

Loans from a director

On 2 January 2014, the Company as the borrower, entered into a loan agreement with Mr. Xu Bin ("**Mr. Xu**"), the chairman, an executive Director and a controlling shareholder (as defined under the Listing Rules) of the Company, as lender, pursuant to which Mr. Xu agreed to grant to the Company an unsecured loan of HK$4,000,000 at an interest rate of 5% per annum. This loan has been applied as general working capital of the Company. The repayment date of this loan had been extended to 31 December 2017.

On 24 March 2014, Beijing Guochuan New Energy Development Co., Ltd. ("**Beijing Guochuan**"), an indirect wholly-owned subsidiary of the Company, as borrower, entered into a loan agreement with Mr. Xu, as lender, pursuant to which Mr. Xu agreed to grant to Beijing Guochuan an unsecured and interest-free loan of RMB20,000,000 (approximately HK$24,000,000) as general working capital of the Group. The repayment date of this loan had been extended to 31 October 2017.

On 5 May 2014, the Company, as borrower, entered into a loan agreement with Mr. Xu, as lender, pursuant to which Mr. Xu agreed to grant to the Company an unsecured loan of HK$1,000,000 at an interest rate of 5% per annum. This loan, which had been applied as general working capital of the Company, was repayable on 30 June 2016. The repayment date of this loan had been extended to 31 December 2017.

On 7 May 2014, the Company, as borrower, entered into a loan agreement with Mr. Xu, as lender, pursuant to which Mr. Xu agreed to grant to the Company an unsecured loan of HK$3,000,000 at an interest rate of 5% per annum. This loan, which had been applied as general working capital of the Company, was repayable on 31 March 2016. The repayment date of this loan had been extended to 31 December 2017.

On 8 May 2014, the Company, as borrower, entered into a loan agreement (the "**Loan Agreement**") with Mr. Xu, as lender, pursuant to which Mr. Xu agreed to grant to the Company unsecured loans in up to 8 tranches with an aggregate principal amount of up to HK$200,000,000 during the availability period at an interest rate of 5% per annum. As at the date of this announcement, the Company has not made any drawdown under the Loan Agreement and the Loan Agreement expired on 7 May 2016.

Capital structure, liquidity and financial resources

There was no change in share capital during the six months ended 30 June 2016.

As at 30 June 2016,

(a) the Group's aggregate amount of (i) restricted bank deposits; and (ii) bank and cash balances was approximately HK$21,723,000 (as at 31 December 2015: approximately HK$55,682,000). The management will continue to closely monitor the financial position of the Group to maintain its financial capacity.

(b) the Group's total borrowings comprised (i) loans from non-controlling shareholders; (ii) loans from a director; and (iii) other loans, totaling approximately HK$81,191,000 (as at 31 December 2015: approximately HK$118,445,000).

(c) the Group's total gearing ratio was approximately 39.2% (as at 31 December 2015: approximately 32.5%). The gearing ratio was calculated as the Group's total borrowings divided by total equity.

(d) the current ratio of the Group was approximately 0.34 (as at 31 December 2015: approximately 0.53).

In view of the recent financial performance and positions of the Group, the Company will consider possible and adequate fundraising opportunities in order to strengthen its capital base, to ease the Group's short-term financial stress and to enhance its financial position as and when necessary.

Pledge of assets

As at 30 June 2016, the Group had no pledge of assets (as at 31 December 2015 : Nil).

Foreign currency risk

The Group's sale and purchases are mainly transacted in Renminbi and the books are recorded in Hong Kong dollars. The management of the Group noted that the recent fluctuation in the exchange rate between Renminbi and Hong Kong dollar, and is of the opinion that it does not currently have a material adverse impact of the Group's financial position. The Group currently does not have a foreign currency hedging policy. The management will continue to monitor the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Significant investments

The Group did not purchase, sell or hold any significant investments during the six months period ended 30 June 2016 and as at 30 June 2016.

Acquisition and disposal of material subsidiaries and associates

The Group did not acquire or dispose of any material subsidiaries and associates during the six months period ended 30 June 2016.

Contingent liabilities

Saved as disclosed in note 36 to financial statements in the 2015 Annual Report, a contingent liability in the amount of RMB2,000,000 (approximately HK$2,338,000) which represents the maximum amount of penalty as a result of over-production of the Coal Mining Business, there was no significant change in contingent liabilities of the Group compared to the position stated in 2015 Annual Report.

Capital commitment

As at 30 June 2016, the Group had capital commitment relating to the construction agreements and prepaid land lease payments contracted for but not yet incurred in the amount of approximately HK$54,471,000 (as at 31 December 2015: approximately HK$58,220,000).

Employees

The Group employed 600 full-time employees as at 30 June 2016 (as at 31 December 2015: 630) in Hong Kong and the PRC. Remuneration of the staff comprised monthly salaries, provident fund contributions, medical benefits, training programs, housing allowances, discretionary bonus and discretionary options based on their contributions to the Group. Staff costs (including Directors' emoluments) for the six months ended 30 June 2016 were HK$31,588,000 (six months ended 30 June 2015: HK$41,508,000).

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

PROSPECTS

The management so far has not detected any signs of recovery in the PRC's coal industry, as its outlook is clouded by structural decline in coal demand and over-capacity with slim hope of being rectified in the short to medium term.

The structural decline in coal demand is caused by the PRC Government's policy of moving away from the energy-intensive development model. Moreover, the PRC Government has indicated to cut the use of coal as its primary energy source to 60% or below by 2020 from 64% this year.

The PRC's new coal mining capacity, either on the verge of entering the market or still under construction, is expected to weigh on the outlook for the PRC's coal industry. According to estimates from financial institutions, about 200 million tonnes of new coal mining capacity are expected to enter the market in the next one to two years. Another 1.5 billion tonnes of new mining capacity are under construction. Such new mining capacity, though mostly geared to replacing old coal mining capacity, would be armed with much lower production cost mechanism, thereby further intensifying the competitive landscape in the medium to long term. These developments are likely to depress the coal price in the PRC over the next few years.

Coal prices in the PRC stayed in doldrums in the first half of 2016. News about falling coal inventory in PRC triggered off a rebound in coal prices in the period from June to August. However, it is generally perceived that any rebound in coal price may invite an increase in imported coal and a surge in domestic supply, thus very likely to place a lid on coal prices in PRC.

As such, the Group's Coal Mining Business in Houlinguole City, Inner Mongolia is expected to succumb further to uninspiring coal prices in the short to medium term. The average selling price of the coal produced by the Group in the second half of 2016 is expected to continue with the easing trend of the first half, due to a drop in the output's calorific value. In order to comply with the PRC Government – stipulated production licence, the total sales volume of the coal mining operation in 2016 is expected to retreat to about 1.4 million tonnes from 2.21 million tonnes in 2015. Weakening average selling price and falling sales volume would continue to dent the performance of the Coal Mining Business for the rest of the current financial year.

Meanwhile, the bleak outlook for coal prices in the PRC is expected to overshadow the profit proposition and efficient operation of the commercial production for the low rank coal upgrading facilities in the Group's Xilinhaote Plant.

Against the backdrop of a challenging environment, the management will continue to tighten cost control on all fronts of the Group's major business segments.

Amid unfavourable factors overcasting the coal-related industries and the planned realisation of the assets of the Bags Business segment, the management plans to explore a wide spectrum of opportunities in higher growth industries with a view of broadening the Group's earnings base and safeguarding the Group's performance.

In order to improve the Group's weakening financial position, the management will consider possible and adequate fundraising opportunities as and when necessary. The management is of the view that strengthening the balance sheet would be of utmost importance in restoring Group's financial health and providing a solid foundation for embarking on high growth businesses.

The management of the Company believes that these moves would help to create a new business model with sustainable growth for the Group. The management of the Company will strive to enhance the value of the Company and create higher returns for shareholders over the long term.

COMPETING INTEREST

None of the Directors or the controlling shareholders (as defined under the Listing Rules) of the Company had an interest in a business which competed or might compete with the business of the Group during the six months ended 30 June 2016.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") comprises three independent non-executive Directors (the "**INEDs**"), namely Mr. Kwok Chi Shing, Mr. Huang Shao Ru and Mr. Chang Xuejun. The primary duties of the Audit Committee are to review the financial information of the Group, to oversee the financial reporting system, risk management and internal control systems to ensure the integrity of the financial statements of the Group and the effectiveness of internal control and risk management systems of the Group. The Audit Committee has reviewed the unaudited interim financial statements and the interim report of the Company for the six months ended 30 June 2016.

CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules during the six months ended 30 June 2016 except for the following deviations:

Under the code provision E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting. The chairman of the Board, Mr. Xu Bin, attended the annual general meeting held on 17 June 2016 (the "**AGM**") by telephone conference call, but he was well informed by the Company in advance of the date and time of the AGM and was available to answer questions raised at the AGM by telephone. Mr. Zhang Fusheng, the chief executive officer of the Company, was elected as the chairman of the AGM.

Under the code provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Kwok Chi Shing ("**Mr. Kwok**"), an INED and the chairman of the Audit Committee, was not able to attend the AGM due to his personal business during the meeting time. Mr. Huang Shao Ru and Mr. Chang Xuejun, an INED and members of the Audit Committee, were present at the AGM to ensure an effective communication with the shareholders thereat.

Appointments, Re-election and Removal of Directors

Following the resignations of Mr. Tse Kam Fow as an executive Director and Mr. Kwok Siu Man as an INED being effective on 1 March 2016, (i) the number of INEDs fell below the minimum number required under Rule 3.10(1) of the Listing Rules, which prescribes that a listed issuer must have at least three INEDs; (ii) the number of the members of the Audit Committee fell below the minimum number required under Rule 3.21 of the Listing Rules, which prescribes that a listed issuer's audit committee must comprise a minimum of three members who should all be non-executive directors with at least one of whom is an INED; (iii) the number of the members of the remuneration committee of the Company (the "**Remuneration Committee**") fell below the minimum number required under Rule 3.25 of the Listing Rules, which stipulates that the remuneration committee shall comprise a majority of INEDs; and (iv) the number of the members of the nomination committee of the Company (the "**Nomination Committee**") fell below the minimum number required under code provision A.5.1 of the CG Code, which stipulates that the nomination committee shall comprise a majority of INEDs. Upon the appointment of Mr. Chang Xuejun as an INED and a member of each of the Audit Committee, Remuneration Committee and Nomination Committee on 17 March 2016, the relevant requirements under the Rules 3.10(1), 3.21 and 3.25 of the Listing Rules and code provision A.5.1 of the CG Code were then fulfilled.

Under the code provision A.4.3 of the CG Code, an independent non-executive director serves more than nine (9) years, his further appointment should be subject to a separate resolution to be approved by shareholders. Mr. Kwok is an INED serving the Company for more than nine years. The Board considered that Mr. Kwok continues to be independent as he has satisfied all the criteria for independence set out in Rule 3.13 of the Listing Rules. During his tenure as an INED, he has made positive contributions to the Company's strategies and policies with independent judgement from his areas of expertise. The Board considered that his continued tenure with the Company will continue to bring wide range of valuable insights and expertises to the Board. To comply with the code provision A.4.3 of the CG Code, Mr. Kwok's further appointment has been proposed and approved by the shareholders of the Company at the AGM, and any further appointment is subject to a separate resolution to be approved by the shareholders of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct governing Director's securities transactions. All Directors have confirmed, following specific enquiries by the Company, that they had complied with the required standards set out in the Model Code throughout the period under review.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares listed on the Stock Exchange during the six months ended 30 June 2016. Neither the Company nor any of its subsidiaries has purchased or sold any of such shares.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND 2016 INTERIM REPORT

This interim results announcement is published on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the Company's website at www.grandocean65.com. The 2016 interim report for the six months ended 30 June 2016 will be available on both websites and despatched to the shareholders of the Company in due course.

By order of the Board
Grand Ocean Advanced Resources Company Limited
Xu Bin
Chairman and Executive Director

Hong Kong, 22 August 2016

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Xu Bin (Chairman), Mr. Zhang Fusheng (Chief Executive Officer), Mr. Ng Ying Kit and Ms. Huo Lijie; and three independent non-executive Directors, namely Mr. Kwok Chi Shing, Mr. Huang Shao Ru and Mr. Chang Xuejun.