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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 2017

FINANCIAL HIGHLIGHTS

- 1) Revenue of the Group for the six months ended 30 June 2017 was approximately HK\$46,513,000, representing a decrease of approximately 42.2% as compared to the corresponding period in 2016.
- 2) Gross profit for the six months ended 30 June 2017 amounted to approximately HK\$5,687,000, representing a decrease of approximately 76.6% as compared to the corresponding period in 2016. Overall gross profit margin was approximately 12.2% as compared to approximately 30.2% for the last corresponding period.
- 3) The Group recorded an unaudited consolidated net loss attributable to the owners of the Company of approximately HK\$12,798,000 for the six months ended 30 June 2017.
- 4) The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2017.

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 2017 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

HK\$'000	Notes	Six months ended 30 June 2017 (Unaudited)	2016 (Unaudited) (Represented)
Continuing operations:			
Revenue	4	46,513	80,493
Cost of sales		(40,826)	(56,170)
Gross profit		5,687	24,323
Other income		3,170	39
Selling and distribution expenses		(1,856)	(4,755)
Administrative expenses		(22,920)	(26,189)
Impairment loss on intangible asset		–	(17,818)
Impairment loss on property, plant and equipment		–	(74,448)
Other operating expenses		(958)	(2,073)
Loss from operations		(16,877)	(100,921)
Finance costs	5	(567)	(785)
Loss before tax	7	(17,444)	(101,706)
Income tax expense	6	–	(102)
Loss for the period from continuing operations		(17,444)	(101,808)
Discontinued operation			
Loss for the period from discontinued operation	15	–	(54,943)
Loss for the period		(17,444)	(156,751)
Attributable to:			
Owners of the Company			
Loss from continuing operations		(12,798)	(63,880)
Loss from discontinued operation		–	(54,943)
Loss attributable to owners of the Company		(12,798)	(118,823)
Non-controlling interests		(4,646)	(37,928)
		(17,444)	(156,751)
Loss per share			
From continuing and discontinued operations			
Basic	9(a)	HK(2.5) cents	HK(23.6) cents
Diluted	9(a)	N/A	N/A
From continuing operations			
Basic	9(b)	HK(2.5) cents	HK(12.7) cents
Diluted	9(b)	N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

<i>HK\$'000</i>	Six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Loss for the period	(17,444)	(156,751)
Other comprehensive income after tax:		
<i>Item that may be reclassified to profit or loss:</i>		
Exchange difference on translating foreign operations	<u>5,742</u>	<u>(390)</u>
Other comprehensive income and total comprehensive income for the period, net of tax	<u>(11,702)</u>	<u>(157,141)</u>
Attributable to:		
Owners of the Company	(8,310)	(119,338)
Non-controlling interests	<u>(3,392)</u>	<u>(37,803)</u>
	<u>(11,702)</u>	<u>(157,141)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>HK\$'000</i>	<i>Notes</i>	As at 30 June 2017 (Unaudited)	As at 31 December 2016 (Audited)
Non-current assets			
Property, plant and equipment	10	297,860	296,991
Intangible asset		37,502	36,918
Deferred tax assets		13,402	13,013
Deposits		879	854
Total non-current assets		349,643	347,776
Current assets			
Inventories		12,181	7,391
Trade and bills receivables	11	4,786	7,655
Deposits, prepayments and other receivables		13,902	9,173
Restricted bank deposits		7,395	7,134
Bank and cash balances		11,555	93,238
Total current assets		49,819	124,591
Current liabilities			
Due to a non-controlling shareholder	12	7,079	6,874
Other loans	13	–	25,228
Accrued charges and other payables		139,965	177,218
Total current liabilities		147,044	209,320
Net current liabilities		(97,225)	(84,729)
Total assets less current liabilities		252,418	263,047

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

<i>HK\$'000</i>	<i>Notes</i>	As at 30 June 2017 (Unaudited)	As at 31 December 2016 (Audited)
Non-current liabilities			
Due to a director	14	19,772	20,230
Other loans	13	9,794	9,150
Deferred revenue		2,300	2,233
Deferred tax liabilities		29,366	28,546
Total non-current liabilities		61,232	60,159
NET ASSETS		191,186	202,888
Capital and reserves			
Share capital		5,035	251,739
Other reserves		228,755	88,236
Accumulated losses		(84,471)	(182,346)
Equity attributable to owners of the Company		149,319	157,629
Non-controlling interests		41,867	45,259
TOTAL EQUITY		191,186	202,888

Notes:

1. GENERAL INFORMATION

Grand Ocean Advanced Resources Company Limited 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**") have been disposed in November 2016. The results of the Group has reclassified the Bags Business to discontinued operation in the financial period ending 30 June 2016.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements for the six months ended 30 June 2017 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 2016 (the "**2016 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 2017 are consistent with those used in the Group's annual financial statements for the year ended 31 December 2016 except as stated in note 3 below.

Going concern

In preparing the unaudited condensed consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group notwithstanding that the Group's net current liabilities amounted to approximately HK\$97,225,000 as at 30 June 2017 and the Group incurred an unaudited consolidated net loss attributable to owners of the Company of approximately HK\$12,798,000 for the six months ended 30 June 2017.

The Directors 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) following the completion of the placing new shares on 31 July 2017, the Directors consider that the net proceeds from placing of approximately HK\$106.8 million will be able to satisfy the Group's funding needs for the next 12 months; and

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Going concern (Continued)

- (iv) the substantial shareholder has provided an undertaking for an unsecured financial facility with maximum amount of HK\$100 million to the Company up to 31 December 2018, in the event of a shortage in working capital of the Company or its subsidiaries and at request of the Company which would be financed by a self-owned property of the substantial shareholder. Up to the date of this announcement, no formal agreement has been entered into between the substantial shareholder and the Company to utilise such facility.

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 2017. 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 (the “ Discontinued Operation ”); |
| 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 profits or losses represents the profit or loss 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.

<i>HK\$'000</i>	Bags Business (Discontinued Operation) (Unaudited)	Coal Mining Business (Unaudited)	Coal Upgrading Business (Unaudited)	Total (Unaudited)
Six months ended 30 June 2017				
Revenue from external customers	<u>N/A</u>	<u>46,513</u>	<u>–</u>	<u>46,513</u>
Segment loss	<u>N/A</u>	<u>(9,731)</u>	<u>(2,315)</u>	<u>(12,046)</u>
Interest revenue	N/A	26	–	26
Interest expense	N/A	–	(74)	(74)
Income tax expense	N/A	–	–	–
Depreciation and amortisation	N/A	(8,668)	(986)	(9,654)
Impairment loss on property, plant and equipment	N/A	–	–	–
Impairment loss on intangible assets	N/A	–	–	–
Additions to segment non-current assets	N/A	(797)	–	(797)
As at 30 June 2017	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment assets	<u>N/A</u>	<u>287,059</u>	<u>140,301</u>	<u>427,360</u>
Segment liabilities	<u>N/A</u>	<u>(197,335)</u>	<u>(159,220)</u>	<u>(356,555)</u>
<i>HK\$'000</i>	Bags Business (Discontinued Operation) (Unaudited)	Coal Mining Business (Unaudited)	Coal Upgrading Business (Unaudited)	Total (Unaudited)
Six months ended 30 June 2016				
Revenue from external customers	<u>–</u>	<u>80,493</u>	<u>–</u>	<u>80,493</u>
Segment loss	<u>(52,031)</u>	<u>(84,803)</u>	<u>(6,899)</u>	<u>(143,733)</u>
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 31 December 2016	(Audited)	(Audited)	(Audited)	(Audited)
Segment assets	<u>–</u>	<u>324,102</u>	<u>137,553</u>	<u>461,655</u>
Segment liabilities	<u>–</u>	<u>(227,349)</u>	<u>(153,630)</u>	<u>(380,979)</u>

4. SEGMENT INFORMATION (CONTINUED)

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

<i>HK\$'000</i>	Six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Revenue	46,513	80,493
Profit or loss		
Total loss of reportable segments	(12,046)	(143,733)
Unallocated corporate income	3,899	2
Unallocated corporate expenses	(9,297)	(13,020)
Discontinued Operation	–	54,943
Consolidated loss for the period from continuing operations	(17,444)	(101,808)
<i>HK\$'000</i>	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Assets		
Total assets of reportable segments	427,360	461,655
Corporate assets	5,510	43,541
Deferred tax assets	13,402	13,013
Elimination of intersegment assets	(46,810)	(45,842)
Consolidated total assets	399,462	472,367
Liabilities		
Total liabilities of reportable segments	356,555	380,979
Corporate liabilities	25,969	50,893
Deferred tax liabilities	29,366	28,546
Elimination of intersegment liabilities	(203,614)	(190,939)
Consolidated total liabilities	208,276	269,479

5. FINANCE COSTS

<i>HK\$'000</i>	Six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Interest on other loans-wholly repayable within five years	74	345
Interest on loan from a director	165	199
Imputed interest expense	402	417
Total borrowing costs	641	961
Amount capitalised	(74)	(176)
	567	785
Representing:		
Continuing operations	567	785
Discontinued Operation	–	–
	567	785

6. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2017 as the Group did not generate any assessable profits arising in Hong Kong during the period (six months ended 30 June 2016: Nil).

The People's Republic of China (the "PRC") Enterprise Income Tax has been provided at a rate of 25% (six months ended 30 June 2016: 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:

<i>HK\$'000</i>	Discontinued Operation		Continuing operations		Total	
	Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June	
	2017 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2016 (Unaudited)
Interest income	–	–	(28)	(13)	(28)	(13)
Amortisation of mining right	–	–	510	1,600	510	1,600
Cost of inventories sold	–	–	40,826	56,170	40,826	56,170
Depreciation of property, plant and equipment	–	682	9,304	12,368	9,304	13,050
Directors' emoluments	–	–	2,741	5,202	2,741	5,202
Impairment loss on intangible asset	–	–	–	17,818	–	17,818
Impairment loss on property, plant and equipment	–	52,197	–	74,448	–	126,645
Operating lease rentals in respect of land and buildings	–	–	1,495	1,534	1,495	1,534

8. DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

9. LOSS PER SHARE

(a) From continuing and discontinued operations

Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss attributable to owners of the Company from continuing and discontinued operations for the six months ended 30 June 2017 of approximately HK\$12,798,000 (six months ended 30 June 2016: HK\$118,823,000) and the weighted average number of ordinary shares of 503,477,166 (six months ended 30 June 2016: 503,477,166) in issue during the period.

Diluted loss per share

No diluted loss per share from continuing and discontinued operations is presented as the Company did not have any dilutive potential ordinary shares during the six months ended 30 June 2017 and 30 June 2016.

(b) From continuing operations

Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss attributable to owners of the Company from continuing operations for the six months ended 30 June 2017 of approximately HK\$12,798,000 (six months ended 30 June 2016: HK\$63,880,000) and the denominator used is the same as that detailed above for basic loss per share from continuing and discontinued operations.

Diluted loss per share

No diluted loss per share from continuing operations is presented as the Company did not have any dilutive potential ordinary share during the six months ended 30 June 2017 and 30 June 2016.

(c) From Discontinued Operation

Basic loss per share from the Discontinued Operation is HK10.9 cents per share for the six months ended 30 June 2016, based on the loss from the period attributable to the owners of the Company from Discontinued Operation for the six months ended 30 June 2016 of approximately HK\$54,943,000 and the denominator used is the same as that detailed above for basic loss per share from continuing and discontinued operations.

No diluted loss per share from Discontinued Operation is presented as the Company did not have any dilutive potential ordinary share during the six months ended 30 June 2017 and 30 June 2016.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group had additions to property, plant and equipment of approximately HK\$797,000 (six months ended 30 June 2016: HK\$2,903,000).

11. TRADE AND BILLS RECEIVABLES

As at 30 June 2017, the ageing analysis of trade receivables of approximately HK\$4,786,000 (as at 31 December 2016: HK\$1,216,000), based on the invoice date and net of allowance, is as follows:

<i>HK\$'000</i>	30 June 2017 (Unaudited)	31 December 2016 (Audited)
0 to 90 days	4,191	1,100
91 to 180 days	219	–
181 to 365 days	376	116
Over 365 days	<u>–</u>	<u>–</u>
	<u>4,786</u>	<u>1,216</u>

The general credit terms of 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 NON-CONTROLLING SHAREHOLDER

The analysis of the carrying amount of the amount due to a non-controlling shareholder is as follows:

<i>HK\$'000</i>	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Current liabilities		
Other payables (<i>note</i>)	<u>7,079</u>	<u>6,874</u>
	<u>7,079</u>	<u>6,874</u>

Note:

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

13. OTHER LOANS

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
<i>HK\$'000</i>		
Within one year	–	25,228
In the second year	<u>9,794</u>	<u>9,150</u>
	9,794	34,378
Less: Amount due for settlement within 12 months	<u>–</u>	<u>(25,228)</u>
Amount due for settlement after 12 months	<u>9,794</u>	<u>9,150</u>

14. DUE TO A DIRECTOR

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
<i>HK\$'000</i>		
Non-current liabilities		
Loans (<i>note</i>)	<u>19,772</u>	<u>20,230</u>
	<u>19,772</u>	<u>20,230</u>

Note:

- (1) The loans from a Director are unsecured, bear interest at 0% to 5% per annum and are repayable on 31 December 2018.
- (2) The balances classified as non-current liabilities included interest payables of approximately HK\$1,158,000 (as at 31 December 2016: HK\$1,021,000), which are unsecured, interest-free and repayable on 31 December 2018.

15. DISCONTINUED OPERATION

Pursuant to the sale and purchase agreement dated 27 October 2016 entered into between the Company and an independent third party as the purchaser, the Company agreed to sell to such purchaser 100% equity interests in East Harvest International Limited (“**EHI**”), an indirect wholly-owned subsidiary of the Company incorporated in the British Virgin Islands, at a consideration of HK\$22,800,000. EHI was an investment holding company, with its subsidiaries engaged in the manufacture and sale of plastic woven bags, paper bags and plastic barrels in the PRC. The disposal was completed on 24 November 2016 and the Group discontinued its manufacture and sale of plastic woven bags and plastic barrels business.

The results of the Discontinued Operation for the six months ended 30 June 2016 were analysed as follows:

	For the period from 1 January 2016 to 30 June 2016 HK\$'000
Revenue	–
Cost of sales	–
Gross profit	–
Other income	1,570
Administrative expenses	(3,909)
Impairment loss on property, plant and equipment	(52,197)
Other operating expenses	(407)
Loss from operation	(54,943)
Finance costs	–
Loss before tax	(54,943)
Income tax expense	–
Loss for the period from Discontinued Operation attributable to the owners of the Company	(54,943)

MANAGEMENT DISCUSSION AND ANALYSIS

Financial and business review

The Group recorded revenue from continuing operations of approximately HK\$46,513,000 for the six months ended 30 June 2017, representing a decrease of approximately HK\$33,980,000 or approximately 42.2% as compared to revenue from continuing operations for the six months ended 30 June 2016 of approximately HK\$80,493,000. The loss attributable to the owners of the Company from continuing operations for the six months ended 30 June 2017 of approximately HK\$12,798,000 as compared to the corresponding period in 2016 of approximately HK\$63,880,000. Since the disposal of the Bags Business had been completed in November 2016, the Group reported its interim results for the six months ended 30 June 2017 in two segments, namely: (i) the Coal Mining Business; and (ii) the Coal Upgrading Business, and reclassified the Bags Business to Discontinued Operation.

The Coal Mining Business

Over the past few years, there were changes in the policies of the PRC coal industry regarding the country's coal supply reform in resolving excess coal production capacities of the PRC. In 2016, there were two major policies released which affected the production capacities of coal production enterprises. On 3 May 2016, the Coal Industrial Bureau (煤炭工業局) of the PRC released the notice "Nei Mei Ju Zi (2016) No. 63" in relation to the reduction of the annual working days of the coal production enterprises from 330 days to 276 days effective from 1 May 2016, resulting in a decrease of approximately 16% in the production capacities of coal production enterprise. Thereafter, on 21 November 2016, the Inner Mongolia Autonomous Region Economic and Information Technology Commission (內蒙古自治區經濟和信息化委員會) released the notice "Nei Jing Xin Ban Zi (2016) No. 409", allowing the annual working days of the coal production enterprises to be temporarily resumed to 330 days during the period from 21 November 2016 to 30 May 2017. The coal production enterprises were therefore required to change their production plans accordingly in compliance with the changing policies.

In view of the tightening industry policies on coal production capacity, the potential impact to be brought by the changing policies of the PRC coal industry as mentioned above has come to the attention of the Board. In 2015, Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Company Limited (“**Inner Mongolia Jinyuanli**”), an indirect non-wholly owned subsidiary of the Company, applied to the Land and Resources Bureau of Huolinguole City (霍林郭勒市國土資源局) to increase its annual production capacity from 1.20 million tonnes to 1.80 million tonnes (the “**Application**”) when they fulfilled the requirements on the machineries and equipment for such increase in production capacity. However, based on the understandings of the management of Inner Mongolia Jinyuanli, currently the Land and Resources Bureau of Huolinguole City is still reluctant to grant the approval of the Application due to the changing industry policies and the country’s reform in coal supply. As a result, the Application has been pending for over 2 years.

As mentioned in the Group’s 2016 annual report for the year ended 31 December 2016 (“**2016 Annual Report**”) and the circular dated 24 June 2017, the management of Inner Mongolia Jinyuanli has decided to lower the projected annual coal output of Inner Mongolia Jinyuanli to 1.2 million tonnes for the year 2017 in order to comply with relevant policies of the PRC coal industry as the Application is still yet to be approved.

The revenue from the Coal Mining Business of approximately HK\$46,513,000 accounted for 100% of the Group’s total revenue for the six months ended 30 June 2017. The revenue from the Coal Mining Business recorded a decrease of approximately HK\$33,980,000 or 42.2% as compared to the corresponding period in 2016 of approximately HK\$80,493,000. During the six months ended 30 June 2017, approximately 333,000 tonnes were produced (six months ended 30 June 2016: 528,000 tonnes of coal were produced) and approximately 336,000 tonnes were sold (six months ended 30 June 2016: 689,000 tonnes were sold). The operating loss of the Coal Mining Business (segment loss excluding impairment on the property, plant and equipment, intangible assets and trade and other receivables) for the six months ended 30 June 2017 was approximately HK\$9,731,000 as compared to an operating profit of corresponding period in 2016 of approximately HK\$7,463,000, such turnaround from operating profit to operating loss in the first half of 2017 was mainly due to the adjustment of the production plan resulting in the decrease in the production output and revenue accordingly.

As disclosed in the 2016 Annual Report, contingent liabilities in the amount of RMB2 million (approximately HK\$2,300,000) was disclosed in the Group's consolidated financial statements for the financial year ended 31 December 2016, on a prudent basis, which represented the maximum amount of penalty as a result of over-production. As at the date of this announcement, Inner Mongolia Jinyuanli has not been notified for over-production penalty nor suspension of operations. Furthermore, the management of Inner Mongolia Jinyuanli has changed its production plan and capacity in order to comply with corresponding rules and regulations of the PRC coal industry. As a result, such reduction in coal production output would cause adverse impact to the Group's cashflow from operating activities.

In view of the circumstances, the Group had implemented various cost control measures in order to enhance the financial position and the cashflow performance, such as reducing labour costs, lowering the logistics costs and improving the effectiveness of the production operations. The effects of these measures are expected to be reflected in the second half of 2017.

In assessing the impairment of the Group's assets under the Coal Mining Business, the Company conducted a valuation by adopting discounted cash flow method to derive the respective recoverable amounts of our coal mining assets, the assumptions of the valuation were made based on the current business and financial conditions of Inner Mongolia Jinyuanli. The assumption of coal production capacity has been adjusted due to the issue of relevant coal mining regulations by the State Council of the PRC in relation to the compression of the coal production capacity and the current status of the Application. Subsequent to the Group's total recorded impairment losses of approximately of HK\$140,172,000 and HK\$33,312,000 for property, plant and equipment and intangible assets in the two financial years ended 31 December 2015 and 31 December 2016 respectively, no further impairment has been made for the financial period ending 30 June 2017 after assessment of impairment of the Group's coal mining assets.

The key assumptions and parameters in the valuation conducted for assessing the impairments of the Group's assets under the Coal Mining Business as at 30 June 2016, 31 December 2016 and 30 June 2017 are set out below:

Key assumptions	30 June 2016	31 December 2016	30 June 2017
Projected annual coal production capacity (<i>Note 1</i>)	1,400,000 tonnes	1,200,000 tonnes	1,200,000 tonnes
Unit coal price per tonne adopted (including value-added tax) (<i>Note 2</i>)	2016-2018: RMB110	2017-2019: RMB110	2017-2019: RMB110
	2019-2021: RMB115	2020-2022: RMB115	2020-2022: RMB115
	2022 onwards: RMB120	2023 onwards: RMB120	2023 onwards: RMB120

Note :

- (1) Due to the Application being yet to be granted and the recent coal industry policies of the compression of production capacity in the PRC, the projected annual coal production capacity was adjusted in accordance with the existing mining license.
- (2) The estimated unit coal price per tonne (average selling price) was determined by referencing to (i) the average unit selling price of coal for the six months ended 30 June 2017 of Inner Mongolia Jinyuanli; (ii) the prevailing market price of coal in the Inner Mongolia Region; (iii) fluctuation of market price of coal in the PRC; and (iv) the historical average unit selling price of coal over past few years of Inner Mongolia Jinyuanli.

Unlike the prices of coal of relatively high calorific value (5,000KJ/Kg or above) with a transparent index that could be quoted on <http://www.cqcoal.com>, the price level of the coal produced by Inner Mongolia Jinyuanli with relative low calorific values (around 3,100KJ/Kg to 3,500KJ/Kg) could only be quoted from local reference for the Inner Mongolia Region – <http://www.coal-link.com>. The management of Inner Mongolia Jinyuanli relies on such reference in determining the selling price of its coal during the business negotiations with their buyers (with a +/-10% variance taking into account factors such as the means of transportation and size of purchase order etc), which we considered a relevant reference of coal price in the locality of Huolinguole City, Inner Mongolia, the PRC.

The management of Inner Mongolia Jinyuanli has taken necessary actions to ensure the compliance with all regulations of the PRC coal industry in order to continue the coal production operations. Furthermore, the management of Inner Mongolia Jinyuanli is liaising with the relevant government authorities for the renewal of the existing coal mining license which will expire in November 2017.

The Coal Upgrading Business

Further to the substantial completion of the construction of the first phase with designed annual production capacity of 500,000 tonnes of the Group's coal upgrading plant located at Xilinhaote City, Inner Mongolia, the PRC (the “**Coal Upgrading Plant**”) held by an indirect wholly-owned subsidiary of the Company, Xilinhaote City Guochuan Energy Technology Development Co. Ltd (“**Xilinhaote Guochuan**”), the Coal Upgrading Plant commenced instrument calibrations and trial production in the first quarter of 2016. In view of the poor market sentiment of the coal market in the Inner Mongolia region during the first three quarters of 2016, the Board has postponed the commencement of production to the second half of 2017 until the Group has sufficient funding to support the production and when necessary approvals for production are obtained.

The existing approvals granted to the development of the Coal Upgrading Plant (the “**Development Approvals**”) had been expired in June 2016. Accordingly, the management of the Coal Upgrading Plant has applied to relevant government authorities for further extension of the Development Approvals, which is currently still pending for approval. Meanwhile, the management of the Coal Upgrading Plant is now putting majority of its efforts in obtaining the land use rights and relevant production licenses and permits in the second half of 2017. At the same time, they are preparing preliminary production and budgeting plans for a smaller scale of production in the early stage, upon which we will promote our upgraded coal products to the market and assess the potential economic interests of this business segment.

Prior to the commencement of the production of the Coal Upgrading Plant, the Coal Upgrading Business segment did not record any revenue for the six months ended 30 June 2017. This segment reported a loss of approximately HK\$2,315,000 for the six months ended 30 June 2017 as compared to a loss in the corresponding period of approximately HK\$6,899,000. The decrease in loss for the period was mainly attributable to the decrease in operating costs including staff and labour costs during the temporary suspension period, as a result of cost saving measures implemented by the Group before commencement of production.

In assessing the impairment of the Group's assets under the Coal Upgrading Business, the Company conducted valuation by adopting the discounted cash flow method to derive the respective recoverable amounts of the Coal Upgrading Business assets. The assumptions of the valuation were made based on the current business conditions and project development progress. Subsequent to the Group's recorded total impairment losses of approximately of HK\$2,907,000, HK\$49,532,000 and HK\$324,000 for goodwill, property, plant and equipment and deposits under non-current assets for the financial year ended 31 December 2016, no further impairment has been made for the six months ended 30 June 2017 after assessment of impairment of the assets under the Coal Upgrading Business. The Company will further assess the impairment of the assets in this business segment by the end of 2017 depending on the project status by that time.

The key assumptions and parameters applied in the valuation for assessing the impairments of the Group's assets under the Coal Upgrading Business are set out below:

- (i) Availability of adequate of funding to finance the future capital expenditures of the Coal Upgrading Plant

Further to the extended time table of the commercial production of the Coal Upgrading Plant, the management has factored in the future capital expenditures (the "CAPEX") for the land use right of the Coal Upgrading Plant and the construction costs of the Coal Upgrading Plant for the phase 2 and 3 in the aggregate amount of approximately HK\$220 million. The management of the Coal Upgrading Business will revisit the time table of the development of phase 2 and 3 from time to time. Out of the total CAPEX, it was planned that approximately HK\$19 million will be incurred in the next 18 months for the development of the Coal Upgrading Plant, depending on the financial position of the Group.

Following the completion of the Placing (as defined below) in July 2017, the management of the Group expected that the net proceeds from the Placing would be available for the CAPEX in the next 18 months.

(ii) Other assumptions made in the valuation

The unit selling price is based on the prevailing market price of coal in the Inner Mongolia region with a reasonable profit margin. Further adjustment will be made in accordance with the unit selling price of the future commercial orders from customers that could be realised. The pricing of the Coal Upgrading Plant's upgraded coal products will depend on: (i) the characteristics and specifications of the upgraded coal products and their applications, applications other than electricity production would possibly improve the profit margins significantly; (ii) the costs of low rank coals as the raw materials, with a productivity ratio of 2 (upgraded coal output) : 3 (low rank coal input); and (iii) PRC's coal market sentiment.

While the Coal Upgrading Plant is yet to commence its commercial production as at the date of this announcement, the Group did not have any current orders for its upgraded coal products, and the assumptions made in the valuation was referenced to the latest information available to the management .

Selling and distribution expenses

The selling and distribution expenses of the Group for the six months ended 30 June 2017 from continuing operations was 100% attributable to the Coal Mining Business of approximately HK\$1,856,000, representing a decrease of approximately HK\$2,899,000 as compared to the corresponding period in 2016 of approximately HK\$4,755,000. The significant decrease in selling and distribution expenses was mainly resulted from lower logistic costs of coal delivery generally in line with the decrease in the quantity of sale of coal.

Administrative expenses

The administrative expenses of the Group for the six months ended 30 June 2017 from continuing operations amounted to approximately HK\$22,920,000, representing a decrease of approximately HK\$3,269,000 from approximately HK\$26,189,000 in the corresponding period in 2016. The decrease in administrative expenses was mainly attributable to the decrease in staff costs as a result of the cost-saving measures implemented and lower depreciation charges due to the impairment of property, plant and equipment made during the year 2016 which led to the lower depreciable amount of property, plant and equipment.

Finance costs

The finance costs of the Group from continuing operations mainly represented the interest expenses on the loans from a director and loans from third parties. The slight decrease in finance costs was due to the repayment of loans from a director and third parties during the period.

Loss for the period

Net loss attributable to the owners of the Company from continuing operations for the six months ended 30 June 2017 decreased to HK\$12,798,000 as compared to the corresponding period in 2016 of approximately HK\$63,880,000. It was attributable to the combined effect of : (i) the absence of impairment loss of property, plant and equipment, intangible assets and trade and other receivables during the period; and (ii) the decrease in the Group's revenue as a result of reduction in coal production output.

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 million at an interest rate of 5% per annum. This loan has been applied as general working capital of the Company. Certain part of the loan of approximately HK\$1 million has been repaid during the six months ended 30 June 2017 and the remaining loan of HK\$3 million will be repayable on or before 31 December 2018.

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 million (approximately HK\$23 million) as general working capital of the Group (the "**Original Loan Amount**"). First part of the Original Loan Amount in the book of Beijing Guochuan amounted to RMB8 million was repaid in year 2016 and the second part of the Original Loan Amount in the amount of RMB12 million (approximately HK\$14 million) has been assumed by Shanghai Wealthy Ocean International Trading Co., Ltd ("**Shanghai Wealthy Ocean**"), an indirect wholly-owned subsidiary of the Company, as part of the consideration of intra group transfer of 37.5% equity interests in Xilinhaote Guochuan held by Beijing Guochuan to Shanghai Wealthy Ocean, being part of the Group's restructuring. Xilinhaote Guochuan remained as an indirect wholly-owned subsidiary of the Company after such intra group transfer. The remaining of the Original Loan Amount of RMB12 million in the book of Shanghai Wealthy Ocean is unsecured, interest-free and repayable on or before 31 December 2018.

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 million at an interest rate of 5% per annum. The loan which had been applied as general working capital of the Company, was repayable on 31 March 2016. The repayment deadline of this loan had been extended to 31 December 2018.

Capital structure

Capital reduction and subdivision

In November 2016, the Company proposed to implement a reduction of the issued share capital by reducing the par value of each issued share of the Company from HK\$0.50 to HK\$0.01 by cancelling the paid up share capital to the extent of HK\$0.49 on each issued share so that each issued share shall be treated as one fully paid up share of par value of HK\$0.01 each in the share capital of the Company (the “**Capital Reduction**”) and each authorised but unissued share of the Company of par value of HK\$0.50 each be subdivided into 50 shares of HK\$0.01 par value each immediately following the Capital Reduction (the “**Subdivision**”), which were duly passed in the extraordinary general meeting held by the Company on 14 December 2016 and obtained the approval by the Grand Court of the Cayman Islands on 17 March 2017, and the completion of the registration by the Registrar of Companies of the Cayman Islands took place on 22 March 2017. Following the fulfillment of all the conditions precedent for the implementation of the Capital Reduction and the Subdivision, the Capital Reduction and Subdivision became effective after 4:00 p.m. on 22 March 2017 and before 9:00 a.m. on 23 March 2017 in Hong Kong due to time difference between Hong Kong and the Cayman Islands.

Fundraising activity

On 12 May 2017, the Company entered into a placing agreement with Grand Cartel Securities Co., Ltd. (the “**Placing Agent**”) pursuant to which the Company has conditionally agreed to place, through the Placing Agent, on a best-effort basis, a maximum of 1,000,000,000 ordinary shares of the Company under the specific mandate to be granted by the shareholders of the Company to not less than six placees who and whose ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons as defined in the Listing Rules at a placing price of HK\$0.110 per share (the “**Placing**”). All the conditions set out in the Placing agreement had been fulfilled subsequently and the Placing was completed on 31 July 2017 in accordance with the terms and conditions of the placing agreement. The gross and net proceeds raised from the Placing were approximately HK\$110.0 million and HK\$106.8 million respectively, which were intended to be applied for (i) repayment of the overdue construction payables; (ii) development of the Coal Upgrading Business; (iii) repayment of the loan due to a non-controlling shareholder and (iv) the general working capital of the Company. As at the date of this announcement, the net proceeds from Placing had not been used and were deposited in the Company’s bank account in Hong Kong.

Liquidity and financial resources

As at 30 June 2017,

- (a) the aggregate amount of the Group's (i) restricted bank deposits; and (ii) bank and cash balances was approximately HK\$18,950,000 (as at 31 December 2016: approximately HK\$100,372,000);
- (b) the Group's total borrowings comprised (i) loan from a non-controlling shareholder; (ii) loans from a director; and (iii) other loans, totaling to approximately HK\$36,645,000 (as at 31 December 2016: approximately HK\$61,482,000);
- (c) The Group's total gearing ratio was approximately 19.2% (as at 31 December 2016: 30.3%). The gearing ratio was calculated as the Group's total borrowings divided by total equity; and
- (d) The current ratio of the Group was approximately 0.34 (as at 31 December 2016: approximately 0.60).

Following the completion of the Placing, the Group's financial position has been strengthened and the Board will continue to closely monitor the financial position of the Group to maintain its financial capacity for future operations and developments.

Pledge of assets

As at 30 June 2017, the Group had no pledge of assets (as at 31 December 2016 : Nil).

Foreign currency risk

The Group's sales 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 2017 and as at 30 June 2017.

Acquisition and disposal of material subsidiaries and associates

The Group did not acquire or dispose any material subsidiaries and associates during the six months period ended 30 June 2017.

Contingent liabilities

As at 30 June 2017, contingent liabilities in the amount of RMB2 million (approximately HK\$2,300,000) which represents the maximum amount of penalty as a result of over-production of the Coal Mining Business in the year 2016.

Capital commitment

As at 30 June 2017, 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\$50,030,000 (as at 31 December 2016: approximately HK\$48,578,000).

Employees

The Group employed 568 full-time employees as at 30 June 2017 (as at 31 December 2016: 613) 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 2017 were HK\$24,082,000 (six months ended 30 June 2016: HK\$31,588,000).

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

PROSPECTS

The Chinese government's effective consolidation of the coal mining sector in the first half of 2016 led to the rise of coal price in the PRC due to shrunken supply, and the coal price in the PRC has likewise begun to stabilize since the second half of 2016. With relaxed restriction on the coal production capacity, the Chinese government is aiming to maintain coal price at a stable level in 2017.

Due to the Chinese government's coal industry reform on the supply side in the past few years, more limitations had been imposed to the coal production enterprises in the PRC on their production capacities. In 2015, the Group's coal mine in Huolinguole City, Inner Mongolia, the PRC has applied to relevant Government authorities for an increase in annual production output from 1.2 million tonnes to 1.8 million tonnes. While the application has been pending for over two years, currently the local government is still reluctant to grant the approval of such capacity increase.

The Group's coal output in 2017 is expected to be significantly lower than that of 2016 as a result of change in the coal production plan in the first half of 2017 in order to comply with relevant rules and regulations. The Group reported a total sales volume of 336,000 tonnes of coal during the first half of 2017 which was significantly lower than that in the same period of 2016. Nevertheless, it is the current production plan of the Group to produce approximately 1.2 million tonnes in accordance with the existing mining license for the year 2017. Meanwhile, the Group still strives to improve the coal mining operation efficiency and to enhance output with the arrival of the peak consumption season in the fourth quarter of 2017, with an aim to further improve its financial performance for the full year.

The Chinese government's emphasis on resolving environmental issues brought by the coal sector and promotion of cleaner energy is bringing an opportunity to the Group to inaugurate its coal upgrading plant located at Xilinhaote City, Inner Mongolia, the PRC. The management is cautiously reviewing the situation of the Coal Upgrading Plant, and preparing preliminary production and budgeting plans for the intention to launch a smaller scale of production, and promote such upgraded coal products to the market, in order to realistically assess the market demand for the upgraded coal products and the potential economic interests.

The Placing completed in July 2017 has provided to the Group the needed capital to sustain its operations and strengthen its financial positions, which eased the Group's pressure in the working capital and future capital expenditures. It is expected that the Group may recover from a net current liabilities position by end of 2017.

Currently, the business environment of the coal industry in China remains challenging, and is highly sensitive to the changing industry policies. Furthermore, the Chinese government's decision to cancel 85 coal-fired power plant projects in January 2017 is expected to deepen market competition. In view of the situation, the Board considers that the Group's business reliance on a single sector would hinder its future growth potential. As such, the management will continue to explore options for widening the business scopes of the Group in order to broaden the Group's revenue base and diversifying its business exposures.

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 2017.

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 2017.

CORPORATE GOVERNANCE

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules.

The Company has complied with the applicable code provisions as set out in the CG Code for the six months ended 30 June 2017 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 23 June 2017 (the "**AGM**") by telephone conference call, 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. Huang Shao Ru, an INED and the chairman of the nomination committee and the remuneration committee of the Company, was not able to attend the AGM due to his other business engagements. Mr. Kwok Chi Shing and Mr. Chang Xuejun, INEDs and members of the Audit Committee, attended the AGM by telephone conference call to ensure an effective communication with the shareholders of the Company thereat.

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

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND 2017 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 2017 interim report for the six months ended 30 June 2017 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, 25 August 2017

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.