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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 2018

FINANCIAL HIGHLIGHTS

1) Revenue of the Group for the six months ended 30 June 2018 was approximately HK$68,631,000, representing an increase of approximately 47.6% as compared to the corresponding period in 2017.

2) Gross profit for the six months ended 30 June 2018 amounted to approximately HK$11,547,000, representing an increase of approximately 103.0% as compared to the corresponding period in 2017. Overall gross profit margin was approximately 16.8% as compared to approximately 12.2% for the last corresponding period.

3) The Group recorded an unaudited consolidated net loss attributable to the owners of the Company of approximately HK$22,019,000 for the six months ended 30 June 2018.

4) The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018.

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 2018 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	
		2018	2017
HK$'000	*Notes*	**(Unaudited)**	(Unaudited) (restated)
Revenue	*5*	**68,631**	46,513
Cost of sales		**(57,084)**	(40,826)
Gross profit		**11,547**	5,687
Other income		**106**	3,170
Selling and distribution expenses		**(3,336)**	(1,856)
Administrative expenses		**(23,615)**	(23,097)
Impairment loss on property, plant and equipment		**(8,809)**	–
Other operating expenses		**–**	(958)
Loss from operations		**(24,107)**	(17,054)
Finance costs	*6*	**(615)**	(567)
Loss before tax		**(24,722)**	(17,621)
Income tax expense	*7*	**(170)**	–
Loss for the period	*8*	**(24,892)**	(17,621)
Attributable to:			
Owners of the Company		**(22,019)**	(12,975)
Non-controlling interests		**(2,873)**	(4,646)
		(24,892)	(17,621)
Loss per share			
Basic	*10*	**HK(1.5) cents**	HK(1.4) cents
Diluted	*10*	**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended 30 June	
	2018	2017
HK$'000	**(Unaudited)**	(Unaudited) (restated)
Loss for the period	**(24,892)**	(17,621)
Other comprehensive income after tax:		
Item that may be reclassified to profit or loss:		
Exchange difference on translating foreign operations	**(234)**	5,703
Other comprehensive income and total comprehensive income for the period, net of tax	**(25,126)**	(11,918)
Attributable to:		
Owners of the Company	**(21,955)**	(8,526)
Non-controlling interests	**(3,171)**	(3,392)
	(25,126)	(11,918)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

HK$'000	*Notes*	**As at 30 June 2018 (Unaudited)**	As at 31 December 2017 (Audited) (restated)	As at 1 January 2017 (Audited) (restated)
Non-current assets				
Property, plant and equipment	*11*	**180,277**	196,344	296,991
Prepaid land lease payments		**16,460**	16,861	16,027
Intangible asset		**33,885**	35,217	36,918
Deferred tax assets		**12,019**	12,175	13,013
Prepayments		**107**	3,623	–
Deposits		**906**	918	854
Total non-current assets		**243,654**	265,138	363,803
Current assets				
Prepaid land lease payments		**372**	377	351
Inventories		**6,159**	24,855	7,391
Trade and bills receivables	*12*	**2,905**	2,850	7,655
Deposits, prepayments and other receivables		**12,295**	11,166	9,173
Restricted bank deposits		**10,608**	10,737	7,134
Bank and cash balances		**111,133**	105,286	93,238
Total current assets		**143,472**	155,271	124,942
Current liabilities				
Due to a non-controlling shareholder	*13*	**7,299**	7,393	6,874
Other loans	*14*	**–**	–	25,228
Accrued charges and other payables		**151,532**	186,630	194,766
Contract liabilities		**26,211**	–	–
Total current liabilities		**185,042**	194,023	226,868
Net current liabilities		**(41,570)**	(38,752)	(101,926)
Total assets less current liabilities		**202,084**	226,386	261,877

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

HK$'000	*Notes*	**As at 30 June 2018 (Unaudited)**	As at 31 December 2017 (Audited) (restated)	As at 1 January 2017 (Audited) (restated)
Non-current liabilities				
Due to a director	*15*	**–**	20,883	20,230
Other loans	*14*	**32,992**	10,994	9,150
Provision		**5,178**	5,245	–
Deferred revenue		**–**	–	2,233
Deferred tax liabilities		**31,089**	31,313	28,546
Total non-current liabilities		**69,259**	68,435	60,159
NET ASSETS		**132,825**	157,951	201,718
Capital and reserves				
Share capital		**15,035**	15,035	251,739
Other reserves		**358,211**	342,423	88,342
Accumulated losses		**(268,714)**	(230,971)	(183,622)
Equity attributable to owners of the Company		**104,532**	126,487	156,459
Non-controlling interests		**28,293**	31,464	45,259
TOTAL EQUITY		**132,825**	157,951	201,718

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 Board of the Company announced on 4 July 2018 that the operations of the Coal Upgrading Business had been temporarily suspended due to uncertainty on the extension of the license agreement (the "**License Agreement**") with Mr. Xu Bin ("**Mr. Xu**") and Gouden Kolen Company Limited, a company incorporated in the British Virgin Islands with limited liability wholly owned by Mr. Xu, in relation to the licensing of the proprietary technology (the "**Proprietary Technology**") to be expired in December 2018 in order to sustain the operations and development of the Coal Upgrading Plant.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements for the six months ended 30 June 2018 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 set out in the annual report of the Company for the year ended 31 December 2017 (the "**2017 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 2018 are consistent with those used in the Group's annual financial statements for the year ended 31 December 2017 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 current liabilities exceeded its current assets of approximately HK$41,570,000 as at 30 June 2018 and the Group incurred an unaudited consolidated net loss attributable to owners of the Company of approximately HK$22,019,000 for the six months ended 30 June 2018.

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 that the directors have adopted a prudent approach in applying the Group's cash onto the capital expenditure in relation to the development and commencement of the commercial production of the Coal Upgrading Business and the negotiations with the contractors for the possible haircuts of the contractors fees payable.

Based on the Group's cash flow forecasts, the directors are of the opinion that the Group will be able to meet its financial obligations as they fall due in the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing consolidated financial statements.

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 2018. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. This is the first set of the Group's financial statements in which HKFRS 9 and HKFRS 15 have been adopted and the changes and impacts of the adoption of these two standards are discussed below.

(a) HKFRS 9 "Financial Instruments" ("HKFRS 9")

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment; and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the unaudited condensed consolidated financial statements.

HKFRS 9 basically retains the existing requirements in HKAS 39 for the classification and measurements of financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("**FVTPL**"), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("**amortised costs**"); (ii) financial assets at fair value through other comprehensive income ("**FVOCI**"); or (iii) FVTPL (as defined in above). The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "**SPPI criterion**"). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

(i) Classification and measurement of financial instruments

A financial asset is measured at amortised cost if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to achieved by both collecting contractual cash flows and selling financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group's financial assets as follows:

FVTPL	FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.
Amortised costs	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.
FVOCI (debt investments)	Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.
FVOCI (equity investments)	Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss.

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("**ECLs**") model". HKFRS 9 requires the Group to recognise ECL for trade receivables, financial assets at amortised costs, contract assets and debt investment at FVOCI earlier than HKAS 39. Cash and cash equivalents are subject to ECL model but the impairment is immaterial for the current period.

Under HKFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For all other financial instruments, the Group measures the loss allowance equal to 12 months ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impact of the ECL model

The loss allowance calculated based on the ECL model was considered insignificant. Therefore, no loss allowance has been recognised upon the transition to HKFRS 9 as of 1 January 2018 and during the six months period ended 30 June 2018.

(iii) *Hedge accounting*

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

(iv) *Transition*

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. No transition adjustment has been made.

The following assessment has been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 (the "**DIA**"):

- The determination of the business model within which a financial asset is held;

- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and

- The designation of certain investments in equity investments not held for trading as at FVOCI.

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

(b) HKFRS 15 "Revenue from Contracts with Customers" ("HKFRS 15")

HKFRS 15 supersedes HKAS 11 "Construction Contracts", HKAS 18 "Revenue and related interpretations". HKFRS 15 has established a five-step model to account for revenue arising from contract with customers. Under HKFRS 15, revenue is recognised at the amount that reflect the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method with practical expedients whereby any cumulative effect of initially applying HKFRS 15 is recognised as an adjustment to the opening balance of retained earnings at the date of initial application (that is, 1 January 2018). The adoption of HKFRS 15 from 1 January 2018 has resulted in change in accounting policies of the Group, however, did not have significant impact on the Group's unaudited condensed consolidated financial statements for the current period.

Payments received in advance that are related to the sales of goods not yet delivered to customers are deferred and recognised as contract liabilities. Revenues are recognised when goods are delivered to customers. The Group does not expect to have any significant financing component as the period between the delivery of goods to the customers and payment by the customers does not exceed one year. As a result, the Group does not adjust any of the transaction prices for the effects of the time value of money.

The following table summarised the impact of adopting HKFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018. There was no material impact on the Groups' condensed consolidated statement of profit or loss for the six months ended 30 June 2018 and its condensed consolidated statement of cash flow for the six months period ended 30 June 2018.

Impact on the condensed consolidated statement of financial position as of 30 June 2018:

	HK$'000
Liabilities	
Current liabilities	
Accrued charges and other payables	(26,211)
Contract liabilities	26,211
Total liabilities	–

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's revenue are set out below:

Sale of coal

The Group's revenue is generated from sale of coal. Customers obtain control of the coal products when the goods are delivered to them and being accepted. Revenue is thus recognised upon when the customers accepted the coal products. There is generally only one performance obligation. The Group determined the revenue from sale of goods is recognised at a point in time when the goods are delivered to and being accepted.

HKFRS 15 did not result in significant impact on the Group's accounting policies.

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. PRIOR YEAR ADJUSTMENTS

Xilinhaote City Guochuan Energy Technology Development Co. Ltd ("**Xilinhaote Guochuan**"), an indirectly wholly-owned subsidiary of the Company, entered into a Grant Contract for State-owned Land Use Right with local authority in September 2013 (the "**Land Use Right Contract**") to acquire the piece of land (the "**Land**" or "**Land Use Right**") for the construction of a coal upgrading plant in Xilinhaote City, Inner Mongolia, the PRC (the "**Coal Upgrading Plant**"). As at 30 June 2018 and up to the date of this announcement, the legal land use right title has not been obtained and the grant of which is subject to the payment of land premium of approximately RMB15.7 million (equivalent to approximately HK$18.6 million).

As disclosed in the 2017 Annual Report, the Company's independent auditor reported on the consolidated financial statements of the Group for the year ended 31 December 2017 with qualified opinion due to the disagreement on the measurement of Land Use Right.

The Company did not recognise the amount of land premium paid under the Land Use Right Contract as prepaid land lease payments and the corresponding amortisation on the prepaid land lease payments in the 2017 Annual Report as the Directors considered that the measurement of the Land Use Right had been consistent with prior years' presentation of the Group's financial statements and based on the status of the development of the Coal Upgrading Plant, including but not limited to (i) the absence of the Land Use Right certificate; (ii) the pending status of the extension of the existing approvals granted to the development of the Coal Upgrading Plant (the "**Development Approvals**"); and (iii) the commercial production had been delayed until 2019.

Following the Company's decision on the temporary suspension of the operations of the Coal Upgrading Plant as announced in July 2018, the Directors have reassessed and adopted auditors' opinion on the accounting treatment on the Land Use Right ("**Land Use Right Reporting**") after thorough discussions with the Company's independent auditors. The financial effects of the prior year adjustments as a result of the Land Use Right Reporting on the condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2017, the consolidated statement of financial position as at 31 December 2017 and 1 January 2017 are as follows:

4. PRIOR YEAR ADJUSTMENTS (CONTINUED)

The amounts of the adjustment for each item affected are as follows:

(i) Effects on the consolidated statement of financial position

	As previously reported at 31 December 2017	Effect of prior year adjustments	As restated
	HK$'000	*HK$'000*	*HK$'000*
As at 31 December 2017			
Prepaid land lease payments – non-current assets	–	16,861	16,861
Non-current assets	248,277	16,861	265,138
Prepaid land lease payments – current assets	–	377	377
Current assets	154,894	377	155,271
Accrued charges and other payables – current liabilities	(167,756)	(18,874)	(186,630)
Current liabilities	(175,149)	(18,874)	(194,023)
Net current liabilities	(20,255)	(18,497)	(38,752)
Non-current liabilities	(68,435)	–	(68,435)
Net assets	159,587	(1,636)	157,951
Reserves			
Total equity attributable to owners of the Company	128,123	(1,636)	126,487
Total equity	159,587	(1,636)	157,951

	As previously reported at 31 December 2016	Effect of prior year adjustments	Opening balances as at 1 January 2017, as restated
	HK$'000	*HK$'000*	*HK$'000*
Opening balances as at 1 January 2017			
Prepaid land lease payments – non-current assets	–	16,027	16,027
Non-current assets	347,776	16,027	363,803
Prepaid land lease payments – current assets	–	351	351
Current assets	124,591	351	124,942
Accrued charges and other payables – current liabilities	(177,218)	(17,548)	(194,766)
Current liabilities	(209,320)	(17,548)	(226,868)
Net current liabilities	(84,729)	(17,197)	(101,926)
Non-current liabilities	(60,159)	–	(60,159)
Net assets	202,888	(1,170)	201,718
Reserves			
Total equity attributable to owners of the Company	157,629	(1,170)	156,459
Total equity	202,888	(1,170)	201,718

4. PRIOR YEAR ADJUSTMENTS (CONTINUED)

(ii) Effects on the condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2017

	As previously reported	Effect of prior year adjustments	As restated
	HK$'000	*HK$'000*	*HK$'000*
Amortisation on prepaid land lease payments	–	(177)	(177)
Loss before tax	(17,444)	(177)	(17,621)
Loss for the period	(17,444)	(177)	(17,621)
Attributable to owners of the Company	(12,798)	(177)	(12,975)
Loss per share *(HK cents) (restated)*			
– Basic	(1.4)	–	(1.4)
– Diluted	N/A	N/A	N/A
Total comprehensive income for the period	(11,702)	(216)	(11,918)
Total comprehensive income attributable to owners of the Company	(8,310)	(216)	(8,526)

5. SEGMENT INFORMATION

The Group has two reportable segments as follows:

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.

5. **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.

HK$'000	**Coal Mining Business (Unaudited)**	**Coal Upgrading Business (Unaudited)**	**Total (Unaudited)**
Six months ended 30 June 2018			
Revenue from external customers	**68,631**	**–**	**68,631**
Segment loss	**(6,144)**	**(10,933)**	**(17,077)**
Interest revenue	**17**	**–**	**17**
Interest expense	**–**	**(164)**	**(164)**
Income tax expense	**–**	**–**	**–**
Depreciation and amortisation	**(9,806)**	**(378)**	**(10,184)**
Impairment loss on property, plant and equipment	**–**	**(8,809)**	**(8,809)**
Additions to segment non-current assets	**(3,975)**	**–**	**(3,975)**
As at 30 June 2018	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Segment assets	**267,605**	**57,833**	**325,438**
Segment liabilities	**(204,149)**	**(200,655)**	**(404,804)**

HK$'000	Coal Mining Business (Unaudited)	Coal Upgrading Business (Unaudited) (restated)	Total (Unaudited) (restated)
Six months ended 30 June 2017			
Revenue from external customers	46,513	–	46,513
Segment loss	(9,731)	(2,492)	(12,223)
Interest revenue	26	–	26
Interest expense	–	(74)	(74)
Income tax expense	–	–	–
Depreciation and amortisation	(8,668)	(1,163)	(9,831)
Additions to segment non-current assets	(797)	–	(797)
As at 31 December 2017	(Audited)	(Audited) (restated)	(Audited) (restated)
Segment assets	283,859	67,340	351,199
Segment liabilities	(214,199)	(201,316)	(415,515)

5. **SEGMENT INFORMATION** (CONTINUED)

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

	Six months ended 30 June	
	2018	2017
HK$'000	**(Unaudited)**	(Unaudited)
		(restated)
Revenue	**68,631**	46,513
Profit or loss		
Total loss of reportable segments	**(17,077)**	(12,223)
Unallocated corporate income	**702**	3,899
Unallocated corporate expenses	**(8,517)**	(9,297)
Consolidated loss for the period	**(24,892)**	(17,621)

	30 June	31 December
	2018	2017
HK$'000	**(Unaudited)**	(Audited)
		(restated)
Assets		
Total assets of reportable segments	**325,438**	351,199
Corporate assets	**96,685**	104,315
Deferred tax assets	**12,019**	12,175
Elimination of intersegment assets	**(47,016)**	(47,280)
Consolidated total assets	**387,126**	420,409
Liabilities		
Total liabilities of reportable segments	**404,804**	415,515
Corporate liabilities	**28,428**	27,987
Deferred tax liabilities	**31,089**	30,690
Elimination of intersegment liabilities	**(210,020)**	(211,734)
Consolidated total liabilities	**254,301**	262,458

6. FINANCE COSTS

HK$'000	Six months ended 30 June **2018** **(Unaudited)**	2017 (Unaudited)
Interest on other loans-wholly repayable within five years	**164**	74
Interest on loans from a former executive director	**149**	165
Imputed interest expense	**302**	402
Total borrowing costs	**615**	641
Amount capitalised	**–**	(74)
	615	567

7. INCOME TAX EXPENSE

HK$'000	Six months ended 30 June **2018** **(Unaudited)**	2017 (Unaudited)
Deferred tax	**170**	–

No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2018 as the Group did not generate any assessable profits arising in Hong Kong during the period (six months ended 30 June 2017: Nil).

Under the law of the PRC on Enterprise Income Tax (the "**EIT law**") and implementation of the EIT law, the tax rate applicable to the PRC subsidiaries is 25% (six months ended 30 June 2017: 25%). No provision for PRC Enterprise Income Tax has been made for the six months ended 30 June 2018 as the PRC subsidiaries did not have any assessable profits during the period.

8. LOSS FOR THE PERIOD

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

HK$'000	Six months ended 30 June **2018** **(Unaudited)**	2017 (Unaudited) (restated)
Interest income	**(27)**	(28)
Amortisation of mining right	**915**	510
Amortisation of prepaid land lease payments	**193**	177
Depreciation of property, plant and equipment	**9,234**	9,304
Impairment loss on property, plant and equipment	**8,809**	–
Cost of inventories sold	**57,084**	40,826
Directors' emoluments	**2,840**	2,741
Operating lease rentals in respect of land and buildings	**1,542**	1,495

9. DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

10. 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 attributable to owners of the Company for the six months ended 30 June 2018 of approximately HK$22,019,000 (six months ended 30 June 2017: HK$12,975,000 (restated)) and the weighted average number of ordinary shares of 1,503,477,166 (six months ended 30 June 2017: 897,992,115 (restated)) in issue during the period.

The weighted average number of ordinary shares for the purpose of basic loss per share for the period ended 30 June 2017 are restated to reflect the bonus element of the placement of shares in July 2017.

Diluted loss per share

No diluted loss per share is presented as the Company did not have any dilutive potential ordinary shares during the six months ended 30 June 2018 and 30 June 2017.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group had additions to property, plant and equipment of approximately HK$3,991,000 (six months ended 30 June 2017: HK$797,000).

12. TRADE AND BILLS RECEIVABLES

HK$'000	**30 June 2018 (Unaudited)**	31 December 2017 (Audited)
Trade receivables	**5,465**	4,619
Impairment loss on trade receivables	**(2,560)**	(2,593)
	2,905	2,026
Bills receivables	**–**	824
	2,905	2,850

As at 30 June 2018, the ageing analysis of trade receivables of approximately HK$2,905,000 (as at 31 December 2017: HK$2,026,000), based on the invoice date and net of allowance, is as follows:

HK$'000	**30 June 2018 (Unaudited)**	31 December 2017 (Audited)
0 to 90 days	**1,659**	571
91 to 180 days	**–**	–
181 to 365 days	**–**	1,291
Over 365 days	**1,246**	164
	2,905	2,026

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.

13. DUE TO A NON-CONTROLLING SHAREHOLDER

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

HK$'000	**30 June 2018 (Unaudited)**	31 December 2017 (Audited)
Current liabilities		
Other payables *(note)*	**7,299**	7,393

Note:

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

14. OTHER LOANS

HK$'000	**30 June 2018 (Unaudited)**	31 December 2017 (Audited)
Non-current liabilities		
In the second year	**32,992**	10,994

Notes:

(1) Other loans included the loans from a former director which are unsecured, interest bearing at 0% to 5% per annum and repayable on 31 December 2019 of approximately HK$21,066,000.

(2) The average interest rate at 30 June 2018 was 4.0% (31 December 2017: 4.5%) per annum.

15. DUE TO A DIRECTOR

HK$'000	**30 June 2018 (Unaudited)**	31 December 2017 (Audited)
Non-current liabilities		
At 1 January	**20,883**	20,230
Accrued interest	**149**	316
Imputed interest and exchange re-alignment	**34**	337
Transferred to other loans under non-current liabilities *(note 14)*	**(21,066)**	–
At the end of reporting period	**–**	20,883

MANAGEMENT DISCUSSION AND ANALYSIS

Business and financial review

The Group recorded total revenue of approximately HK$68,631,000 for the six months ended 30 June 2018, representing an increase of approximately HK$22,118,000 or approximately 47.6% as compared to the revenue of approximately HK$46,513,000 for the six months ended 30 June 2017. The loss attributable to the owners of the Company for the six months ended 30 June 2018 amounted to approximately HK$22,019,000 as compared to the corresponding period in 2017 of approximately HK$12,975,000 (restated). The Group reported its interim results for six months ended 30 June 2018 in two segments, namely: (i) the Coal Mining Business; and (ii) the Coal Upgrading Business.

The Coal Mining Business

Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Company Limited ("**Inner Mongolia Jinyuanli**"), an indirect non-wholly owned subsidiary of the Company, operates the Group's coal mine of Inner Mongolia Mine 958 ("**Inner Mongolia Mine 958**") in Inner Mongolia region with an allowed annual production capacity of 1.2 million tonnes. Despite the management of Inner Mongolia Jinyuanli had applied to the Land and Resources Bureau of Huolinguole City to increasing the allowed annual production capacity of Inner Mongolia Mine 958 to 1.8 million tonnes in 2015 (the "**Application**"), the Application was yet to be approved due to the tightening PRC coal industry regulations and policies.

In order to comply with the relevant PRC coal industry regulations and policies, the management of Inner Mongolia Jinyuanli lowered the coal production output to approximately 1.18 million tonnes during the year ended 31 December 2017, and Inner Mongolia Jinyuanli will continue to produce coals within its allowed production capacity in accordance with applicable regulations and policies. During the six months ended 30 June 2018, approximately 329,000 tonnes of coals were produced (period ended 30 June 2017: 333,000 tonnes) and approximately 621,000 tonnes of coals were sold (period ended 30 June 2017: 336,000 tonnes). The segment loss of the Coal Mining Business for the six months ended 30 June 2018 was approximately HK$6,144,000 as compared to segment loss of approximately HK$9,731,000 for the six months ended 30 June 2017. The decrease in segment loss of the Coal Mining business was mainly due to: (i) the cost saving measures taken along with the production plan; and (ii) the increase in the quantity of coals sold in the first half 2018.

Besides, contingent liabilities in the amount of RMB2 million (approximately HK$2.4 million) was reported in the Group's consolidated financial statements for the years ended 31 December 2016 and 2017 on a prudent basis, which represented the maximum amount of penalty as a result of over-production in the year 2016. As at the date of this announcement, Inner Mongolia Jinyuanli has not received any indication or formal notice of warning or penalty regarding the over-production in the year 2016.

The Coal Upgrading Business

Further to the substantial completion of the construction of the first phase of the Coal Upgrading Plant with designed annual production capacity of 500,000 tonnes held by an indirect wholly-owned subsidiary of the Company, Xilinhaote City Guochuan Energy Technology Development Co Ltd ("**Xilinhaote Guochuan**"), the Coal Upgrading Plant encountered a technical issue (the "**Technical Issue**") in relation to the obstruction of the valves of the autoclaves during the process of high-pressured steaming during the preparation of commercial production in October 2017. During the process of high-pressured steaming, the raw coals (as raw materials) encountered a change in density after applying high pressure, high temperature and the process of dehydration, which led to an emission failure through the valves inside the autoclaves. Accordingly, engineers of the Coal Upgrading Plant had proposed to install a spiral device at the valves to enhance the emission of the steamed raw coals to resolve the Technical Issue. The management of the Coal Upgrading Plant had also been working with the engineers from East China Engineering Science and Technology Co Ltd ("**ECEC**") in designing the eligible device. In March 2018, ECEC provided the drawings of their proposed design to start building the spiral device.

Unfortunately, since ECEC had been acting as the technical advisor to Mr. Xu (being the owner of the Proprietary Technology) starting from the development stage of the Proprietary Technology, ECEC withheld its technical services offered to Mr. Xu and on-site technical services to the Coal Upgrading Plant following the passing away of Mr. Xu in June 2018.

Thereafter, the senior management of the Coal Upgrading Plant was in the process of negotiating with ECEC to possibly entering into a new technical service contract to continue to resolve the Technical Issue. Nevertheless, as the proposed spiral device to resolve the Technical Issue was considered to form part of the Proprietary Technology being the estate of Mr. Xu, the Company could not enter into a new technical service contract with ECEC without the authorisation of the estate executor. Furthermore, the management of the Company has attempted to liaise with the representative of Mr. Xu for the continual extension of the License Agreement to be expired in December 2018, however, there was no positive response obtained as at the date of this announcement. In view of the circumstances, the Board had decided to temporarily suspend the operations of the Coal Upgrading Business in July 2018.

In view of the uncertainty surrounding the licensing of the Proprietary Technology, the Board is monitoring the situation and assessing the potential impacts on the Group's overall operation. The Board is also discussing with management of Coal Upgrading Plant for the future course of actions to be taken by the Company, including the possible cessation of the Coal Upgrading Business and the realisation and divestment of its assets with a view to mitigate the risks associated with possible prolonged suspension. Further updates on the status of the Coal Upgrading Plant will be announced by the Company as and when appropriate.

Due to the above situation, the Coal Upgrading Business segment did not record any revenue for the six months ended 30 June 2018. This segment reported a loss of approximately HK$10,933,000 as compared to a loss in the corresponding period of HK$2,492,000. The increase in loss for the period was mainly attributable to the impairment loss on the property, plant and equipment for the period ended 30 June 2018. In view of the temporary suspension of the operations of the Coal Upgrading Plant, the senior management of the Coal Upgrading Plant is currently in discussions with the contractors for possible haircuts of the contractors' fees payable to them (i.e. major liabilities of the Coal Upgrading Plant, which accounted for approximately 47.3% of the Coal Upgrading Business segment liabilities as at 30 June 2018). The Board will continue working with management of the Coal Upgrading Plant in order to resolving the situation as soon as possible.

Since the Coal Upgrading Business has yet to commence commercial production and did not generate any revenue to the Group, the Board is of the view that the temporary suspension of the Coal Upgrading Business would not cause any material adverse impact to the overall business and financial operations of the Group.

Impairment of property, plant and equipment and intangible assets under non-current assets

In accordance with the Group's accounting policies, each assets or cash-generating unit(s) ("**CGU(s)**") will be evaluated at the end of each reporting period. In assessing whether an impairment is required, the carrying amounts of the CGUs will be compared with its recoverable amounts. The recoverable amount is the higher of the CGU's fair value less cost of disposal ("**FVLCD**") and value in use ("**VIU**").

During the past few years, the Group recorded total impairment losses have been made on the property, plant and equipment and intangible assets under non-current assets of the Coal Mining Business and the Coal Upgrading Business of approximately HK$368,912,000 as at 30 June 2018 (as at 31 December 2017: HK$360,103,000). For the six months ended 30 June 2018, further impairment loss on the property, plant and equipment of approximately HK$8,809,000 has been made. The basis and assumptions of the impairment review for the Coal Mining Business CGU and Coal Upgrading Business CGU are as follows :

(i) The Coal Mining Business

The management of the Company has performed an impairment assessment review on all the carrying amounts of the property, plant and equipment and intangible assets under non-current assets of the Coal Mining Business CGU (the "**Coal Mining CGU**"). The recoverable amounts of Coal Mining CGU were estimated based on the VIU of the Coal Mining CGU, determined by discounting the future cash flows to be generated from the continuing use of its assets. The key assumptions of the cash flow projections were made based on the current business and financial conditions of Inner Mongolia Jinyuanli and an independent professional valuer has been engaged by the Company to review the reasonableness and fairness of the assumptions applied in the cash flow projections.

As at 30 June 2018, the Group recorded total impairment losses of approximately HK$186,531,000 (as at 31 December 2017: HK$186,531,000) on the property, plant and equipment and intangible assets under non-current assets of the Coal Mining CGU. No further impairment was necessary to be made on the Coal Mining CGU for the six months ended 30 June 2018.

The key assumptions and parameters in the cash flow projections of the Coal Mining CGU as at 30 June 2017, 31 December 2017 and 30 June 2018 are set out below.

Key assumptions	**30 June 2017**	**31 December 2017**	**30 June 2018**
Projected annual coal production output for the period until the expiry date of the business license *(note 1)*	1,200,000 tonnes	1,003,600 tonnes	1,003,600 tonnes
Average unit coal selling price per tonne (including value-added tax) *(note 2)*	2017-2019: RMB110 2020-2022: RMB115 2023 onwards: RMB120	2018: RMB135 2019: RMB140 2020 onwards: increase with inflation rate	2018: RMB137 2019: RMB141 2020 onwards: increase with inflation rate
Inflation rate	2.0%	2.5%	2.5%

Notes :

(1) Due to the recent coal industry policies of the compression of production capacity in the PRC, the projected annual coal production output was adjusted from 1,200,000 tonnes to 1,003,600 tonnes.

(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 2018 of Inner Mongolia Jinyuanli; (ii) the prevailing market price of coal in the Inner Mongolia Region; and (iii) the historical average unit selling price of coal of Inner Mongolia Jinyuanli over past few years.

Unlike the price 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 value (around 3,100 KJ/Kg to 3,500 KJ/Kg) was quoted from a local reference for the Inner Mongolia region – http://www.imcec.cn. 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 is considered a relevant reference of coal price in the locality of Huolinguole City, Inner Mongolia, the PRC.

(ii) The Coal Upgrading Business

The management of the Company has performed an impairment assessment review on all the carrying amounts of the property, plant and equipment and prepaid land lease payments under non-current assets of Coal Upgrading Business CGU (the "**Coal Upgrading CGU**").

In previous year, the recoverable amounts of Coal Upgrading CGU were estimated based on the VIU of the Coal Upgrading CGU, determined by discounting the future cash flows to be generated from the continuing use of its assets. However, due to the temporary suspension of the Coal Upgrading CGU, the previous basis of continuing use of assets in determining the recoverable amounts based on the VIU of the non-current assets was considered no longer applicable.

In view of the latest developments relating to the Coal Upgrading Plant, the management of the Company considered that FVLCD will be more applicable in determining the recoverable amount due to the change in the business status of the Coal Upgrading Plant. Accordingly, the management of the Company engaged an independent professional valuer to determine the market value of: (i) the property, plant and equipment based on cost approach; (ii) the land use right based on market approach; (iii) the building superstructure of the Coal Upgrading Plant based on direct comparison approach; and (iv) the machinery and equipment based on cost approach.

As at 30 June 2018, the Group recorded total impairment losses of approximately HK$182,381,000 (as at 31 December 2017: HK$173,572,000) made on the property, plant and equipment under non-current assets of the Coal Upgrading CGU. Futher impairment loss for the six months ended 30 June 2018 has been made on the Coal Upgrading CGU of approximately HK$8,809,000 was mainly attributable to depreciate of building superstructure of the Coal Upgrading Plant.

Selling and distribution expenses

The selling and distribution expenses of the Group for the six months ended 30 June 2018 was 100% attributed to the Coal Mining Business of approximately HK$3,336,000, representing an increase of approximately HK$1,480,000 as compared to the corresponding period in 2017 of approximately HK$1,856,000. The increase in selling and distribution expenses was generally in line with the increase in the quantity of coals sold during the six months period ended 30 June 2018.

Administrative expenses

The administrative expenses of the Group for the six months ended 30 June 2018 amounted to approximately HK$23,615,000, representing a slight increase of approximately HK$518,000 from approximately HK$23,097,000 (restated) in the corresponding period in 2017.

Finance costs

The finance costs of the Group represented mainly the interest expenses of the loans from a former executive director and loans from third parties. The slight increase in finance costs was due to the absence of capitalisation of interest expenses during the six months ended 30 June 2018.

Loss for the period

Net loss attributable to the owners of the Company for the six months ended 30 June 2018 of approximately HK$22,019,000 represented an increase of HK$9,044,000 as compared to the corresponding period in 2017 of approximately HK$12,975,000 (restated). The increase in net loss attributable to the owner of the Company was mainly attributable to the impairment loss on property, plant and equipment of the Coal Upgrading CGU during the period.

Proposed plan to address the qualified opinion in the 2017 Annual Report

As disclosed in the independent auditor's report contained in the 2017 Annual Report, the auditors of the Company (the "**Auditors**") expressed: (i) a disclaimer of opinion on the recoverable amounts of Coal Upgrading CGU as the Auditors were unable to assess whether the Technical Issue could be resolved by the end of 2018 so that the upgraded coal production in the capacity of 500,000 tonnes per annum could be achieved in 2019; and (ii) disagreement opinion on the measurement of the Land Use Right.

(i) Steps taken to resolving the disclaimer of opinion relating the Technical Issue

The Board have been working with the management of the Coal Upgrading Plant and ECEC in resolving the Technical Issue and kept the Auditors informed of the latest development of Coal Upgrading Plant so as to resolve the audit issue during the financial year ending 31 December 2018. In view of the latest developments relating to the Coal Upgrading Plant which the operations had been temporary suspended, after discussions with the independent professional valuer on the proper basis to be adopted in the impairment assessment of the Coal Upgrading CGU, the Company has changed the basis in determining the recoverable amounts of the Coal Upgrading CGU as at 30 June 2018 as discussed in the above section headed "Impairment of property, plant and equipment and intangible assets under non-current assets".

(ii) Steps taken to resolving the disagreement of opinion relating the measurement of the Land

Regarding the measurement of the Land, the Company has adopted the Auditors' opinion. Certain prior year adjustments have been made to reflect the carrying amount of the Land upon the change in business status of the Coal Upgrading Plant, and being agreed with the Audit committee of the Company. Such accounting treatment requires the Company to present its consolidated financial statements as at 31 December 2017 and 1 January 2017 during the preparation of the financial statements for the six months ended 30 June 2018 as well as the financial year ending 31 December 2018. Therefore, the comparative figures as at 31 December 2017 and 1 January 2017 have been restated in the condensed consolidated financial statements for the six months ended 30 June 2018 as well as including the notes explaining the impacts on the consolidated financial statements. Details about the "Prior year adjustments" are shown in the note 4 to the condensed consolidated financial statements.

Other loans under non-current liabilities

Other loans under non-current liabilities included the loans from Mr. Xu, the former chairman and executive director of the Company, who passed away on 12 June 2018, of approximately HK$21,066,000 as at 30 June 2018. As at the date of this announcement, the Company has not received any response from the representative of Mr. Xu for the status of the loans. Therefore, the Company reclassified the balances of "due to a director" to "other loans" under non-current liabilities.

On 2 January 2014, Mr. Xu, as lender, 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. Approximately HK$1 million of this loan was repaid in 2017 and the remaining loan of HK$3 million will be due on or before 31 December 2019.

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 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 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 (approximately HK$14 million) in the book of Shanghai Wealthy Ocean is unsecured, interest-free and repayable on or before 31 December 2019.

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 originally due on 31 March 2016. The repayment deadline of this loan had been extended to 31 December 2019.

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 were 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 the: (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) general working capital of the Company. As at 30 June 2018, the net proceeds from the Placing were utilised by approximately of HK$38,500,000 comprised of the: (i) repayment of overdue construction payables of approximately HK$17,100,000; (ii) development of the Coal Upgrading Plant of approximately HK$5,500,000 million; and (iii) the general working capital of the Company of approximately HK$15,900,000 million.

Liquidity and financial resources

As at 30 June 2018,

(a) the aggregate amount of Group's: (i) restricted bank deposits; and (ii) bank and cash balances was approximately HK$121,741,000 (as at 31 December 2017 : approximately HK$116,023,000);

(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$40,291,000 (as at 31 December 2017: approximately HK$39,270,000);

(c) the Group's total gearing ratio was approximately 30.3% (as at 31 December 2017: 24.9% (restated)). The gearing ratio was calculated as the Group's total borrowings dividend by total equity; and

(d) the current ratio of the Group was approximately 0.78 (as at 31 December 2017: approximately 0.80 (restated)).

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 2018, the Group had no pledge of assets (as at 31 December 2017: 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 cause any 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 investment

The Group did not purchase, sell or hold any significant investments during the six months ended 30 June 2018.

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 ended 30 June 2018.

Contingent liabilities

As at 30 June 2018, contingent liabilities in the amount of RMB2 million (approximately HK$2.4 million) was booked since year 2016 which represented the maximum amount of penalty may arise as a result of over-production of the Coal Mining Business in 2016.

Capital commitment

As at 30 June 2018, the Group had capital commitment relating to the construction agreements contracted for but not yet incurred in the amount of approximately HK$24,493,000 (as at 31 December 2017: approximately HK$24,809,000 (restated)).

Employees

The Group employed 514 full-time employees as at 30 June 2018 (as at 31 December 2017: 572) 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 Director's emoluments) for the six months ended 30 June 2018 were approximately HK$26,036,000 (six months ended 30 June 2017: HK$24,082,000).

PROSPECTS

The Chinese government's coal industry reform on the supply side in the past few years has continued to affect the coal production enterprises in the PRC on their production capacities. Notwithstanding the recent policies had led to the decrease in the Group's coal production output, such industry reform has contributed to the stabilisation of coal price in the PRC in past two years which is expected to persist looking ahead onto the second half of 2018.

Due to the recent changes in regulations and policies of the PRC coal industry, Inner Monoglia Jinyuanli has yet to obtain the approval to increase its annual production capacity. Nevertheless, it is still the intention of the management to pursue such approval in due course when the industry policies would become less tightening. The Group's coal production output is expected to maintain at current level in order to comply with relevant industry regulations and policies. With an aim to improve the financial performance of the Group, the Group will strive to implement adequate cost saving measures and better sales strategies to enhance the operation efficiency of the Coal Mining Business.

During the first half of 2018, the Chairman of the Company passed away. The passing away of Mr. Xu was a great loss to the Company, and caused some adverse impacts on the Group's Coal Upgrading Business. Regarding to this unforeseeable incident, the management of the Coal Upgrading Plant has immediately taken appropriate actions to resolve the situation, and the Board is also formulating several plans and actions for various scenarios to cope with the future development of the Coal Upgrading Business, with an aim to minimise the influence to the operations of the Group.

In view of the Group's business performance over the past few years, the Board is of the view that the existing business portfolio of the Group is highly focused and exposed materially to the risks of the PRC's coal industry policy changes. As such, the Company will continue to explore opportunities to widening the Group's business scope and extending its resources into industries offering more stable and higher return in order to broaden the Group's income base and diversify its business exposure in order to enhance the shareholders' value.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") comprises three independent non-executive Director(s) (the "**INED(s)**"), 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 2018.

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 2018 except for the following deviations:

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Following the death of Mr. Xu, the chairman of the Company has not yet been appointed. Currently, the duties and responsibilities of the Company's business are handled by the existing executive directors and senior management of the Company so as to achieve the overall commercial objectives of the Company. The Company is looking for suitable person to fill the vacancy of the chairman.

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 Remuneration Committee; and Mr. Kwok Chi Shing, an INED and the Chairman of Audit Committee, were not able to attend the 2017 AGM due to their personal business engagements. Mr. Chang Xuejun, an INED and a member of the Nomination Committee, Remuneration Committee and Audit Committee, attended at the 2017 AGM by telephone conference to ensure an effective communication with the shareholders 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 required standard governing securities transactions of the Directors. The Company made specific enquiries to all the Directors and all Directors confirmed that they had complied with the required standards set out in the Model Code throughout the period under review.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIVIDEND

The Board does not recommend the payment of an interim dividend in respect for the six months ended 30 June 2018.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND 2018 INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.grandocean65.com) respectively. The 2018 interim report for the six months ended 30 June 2018 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and published on the above websites in due course.

By order of the Board
Grand Ocean Advanced Resources Company Limited
Ng Ying Kit
Executive Director

Hong Kong, 31 August 2018

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Ng Ying Kit, Ms. Huo Lijie and Mr. Ren Hang; and three independent non-executive Directors, namely Mr. Kwok Chi Shing, Mr. Huang Shao Ru and Mr. Chang Xuejun.