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 2020

FINANCIAL HIGHLIGHTS

(1) Revenue for the six months ended 30 June 2020 was approximately HK$50,051,000, representing a decrease of approximately 52.7% as compared to the corresponding period in 2019.

(2) Gross profit for the six months ended 30 June 2020 amounted to approximately HK$21,585,000, representing a decrease of approximately 65.5% as compared to the corresponding period in 2019. Overall gross profit margin was approximately 43.1% for the six months ended 30 June 2020 as compared to approximately 59.0% for the corresponding period in 2019.

(3) The Group recorded an unaudited consolidated net loss attributable to the owners of the Company of approximately HK$21,673,000 for the six months ended 30 June 2020.

(4) The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020.

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 2020 together with the relevant comparative figures as follows. The 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	
		2020	2019
HK$'000	*Notes*	**(Unaudited)**	(Unaudited)
Revenue	*5*	**50,051**	105,882
Cost of sales		**(28,466)**	(43,362)
Gross profit		**21,585**	62,520
Other income		**3,453**	349
Selling and distribution expenses		**(1,195)**	(2,308)
Administrative expenses		**(23,853)**	(24,671)
Impairment of property, plant and equipment		**(24,861)**	–
Impairment of intangible asset		**(6,595)**	–
(Loss)/profit from operations		**(31,466)**	35,890
Finance costs	*6*	**(49)**	(580)
(Loss)/profit before tax		**(31,515)**	35,310
Income tax (expense)/credit	*7*	**(707)**	103
(Loss)/profit for the period	*8*	**(32,222)**	35,413
Attributable to:			
Owners of the Company		**(21,673)**	16,206
Non-controlling interests		**(10,549)**	19,207
(Loss)/profit for the period		**(32,222)**	35,413
(Loss)/earnings per share			
– basic	*10*	**HK(1.4) cents**	HK1.1 cents
– diluted	*10*	**HK(1.4) cents**	HK1.1 cents

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Six months ended 30 June	
	2020	2019
HK$'000	**(Unaudited)**	(Unaudited)
(Loss)/profit for the period	**(32,222)**	35,413
Other comprehensive income after tax:		
Item that may be reclassified to profit or loss:		
Exchange difference on translating foreign operations	**(3,869)**	(889)
Other comprehensive income and total comprehensive income for the period, net of tax	**(36,091)**	34,524
Attributable to:		
Owners of the Company	**(23,916)**	15,705
Non-controlling interests	**(12,175)**	18,819
	(36,091)	34,524

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

HK$'000	*Notes*	**As at 30 June 2020 (Unaudited)**	As at 31 December 2019 (Audited)
Non-current assets			
Property, plant and equipment	*11*	**72,121**	105,577
Investment property	*11*	**2,452**	–
Intangible asset	*11*	**19,051**	26,528
Right-of-use assets	*11*	**5,115**	1,357
Due from non-controlling shareholders	*13*	**15,467**	15,748
Deposits for acquisition of property, plant and equipment		**3,108**	–
Deferred tax assets		**13,149**	13,388
Total non-current assets		**130,463**	162,598
Current assets			
Inventories		**4,845**	5,022
Trade and bills receivables	*12*	**10,239**	13,470
Deposits, prepayments and other receivables		**16,096**	12,584
Due from non-controlling shareholders	*13*	**5,571**	–
Restricted bank deposits		**4,387**	4,758
Bank and cash balances		**138,860**	121,644
Total current assets		**179,998**	157,478
Current liabilities			
Accrued charges and other payables		**50,020**	58,922
Contract liabilities		**34,792**	3,794
Lease liabilities		**2,828**	1,124
Total current liabilities		**87,640**	63,840
Net current assets		**92,358**	93,638
Total assets less current liabilities		**222,821**	256,236

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

HK$'000	**As at 30 June 2020 (Unaudited)**	As at 31 December 2019 (Audited)
Non-current liabilities		
Lease liabilities	**2,314**	268
Provision for environmental and restoration	**4,781**	4,868
Deferred tax liabilities	**15,291**	14,842
Total non-current liabilities	**22,386**	19,978
NET ASSETS	**200,435**	236,258
Capital and reserves		
Share capital	**15,035**	15,035
Other reserves	**434,061**	429,497
Accumulated losses	**(331,189)**	(302,709)
Equity attributable to owners of the Company	**117,907**	141,823
Non-controlling interests	**82,528**	94,435
TOTAL EQUITY	**200,435**	236,258

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 during the financial period ended 30 June 2020 is the production and sale of coal (the "**Coal Mining Business**").

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements for the six months ended 30 June 2020 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 (the "**HKICPA**").

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 2019 (the "**2019 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 2020 are consistent with those used in the Group's annual financial statements for the year ended 31 December 2019 except as stated in note 4 below.

3. SIGNIFICANT EVENT

The World Health Organisation declared coronavirus and COVID-19 a global health emergency on 30 January 2020. Since then, the Group has experienced significant disruptions to its operations in the following respects:

- Interruptions to coal mining schedule;
- Interruptions to business plan of Tyre Recycling Plants;
- Significant uncertainty concerning when government lockdowns will be lifted, social distancing requirements will be eased and the long-term effects of the pandemic on the demand for the Group's primary products.

The significant events and transactions occurred since 31 December 2019 relate to the effects of the global pandemic on the Group's condensed consolidated interim financial statements for the six months ended 30 June 2020 and are summarised as follows.

Decrease in revenue and cash flow, including impairment of property, plant and equipment and intangible asset

As disclosed in note 5, the revenue from the Coal Mining Business have experienced significant reductions since the pandemic's effects became widespread. The Group considered the reduced sales and reductions in budgeted revenue as indicators of impairment, and therefore determined the recoverable amount for its cash generating units. The recoverable amount is the higher of fair value less costs of disposal and value in use. Value in use was higher in all cases due to the nature of the assets included in the carrying amount of cash generating units.

The impairment assessment for the Coal CGU (defined below) are disclosed in note 11.

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

The HKICPA has issued a number of new or amended Hong Kong Financial Reporting Standards ("**HKFRSs**") that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 3: Definition of a Business
- Amendments to HKFRS 7, HKFRS 9 and HKAS 39: Interest Rate Benchmark Reform
- Amendments to HKAS 1 and HKAS 8: Definition of Material
- Conceptual Framework for Financial Reporting (Revised)

The impacts of the adoption of HKFRS 3, HKAS 1 and HKAS 8 have been summarised below. The other new or amended HKFRSs that are effective from 1 January 2020 did not have any significant impact on the Group's accounting policies.

Amendments to HKFRS 3: Definition of a Business

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a "substantive process".

Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definitions of "outputs" and a "business" focus on returns from selling goods and services to customers, rather than on cost reductions.

An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to HKAS 1 and HKAS 8: Definition of Material

The amendments clarify the definition and explanation of "material", aligning the definition across all HKFRSs and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

5. SEGMENT INFORMATION

The Group determines its operating segments based on the business from products/services perspective. The reportable segment of the Group is the Coal Mining Business.

Segment performance is evaluated based on operating profit/(loss) and is measured consistently with operating profit/(loss) in the condensed consolidated financial statements. However, group financing costs are managed on a group basis and are not allocated to the reportable segments.

Segment assets exclude deferred tax assets and these assets are managed on a group basis.

Segment liabilities exclude deferred tax liabilities as these liabilities are managed on a group basis.

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.

Segment profits or losses do not include corporate income and expense and central administration costs. Segment assets do not include corporate assets and deferred tax assets. Segment liabilities do not include corporate liabilities and deferred tax liabilities.

Information about operating segment profit or loss, asset and liabilities:

HK$'000	**Coal Mining Business (Unaudited)**	**Total (Unaudited)**
Six months ended 30 June 2020		
Revenue from external customers	**50,051**	**50,051**
Segment loss	**(25,427)**	**(25,427)**
Interest revenue	**125**	**125**
Income tax expense	**(707)**	**(707)**
Depreciation and amortisation	**(7,135)**	**(7,135)**
Gain on disposal of property, plant and equipment	**232**	**232**
Impairment loss on property, plant and equipment	**(24,861)**	**(24,861)**
Impairment loss on intangible asset	**(6,595)**	**(6,595)**
Impairment loss on inventories	**(551)**	**(551)**
Reversal of impairment loss on trade receivables	**1,831**	**1,831**
Additions to segment non-current assets	**(2,872)**	**(2,872)**
As at 30 June 2020	**(Unaudited)**	**(Unaudited)**
Segment assets	**230,879**	**230,879**
Segment liabilities	**(148,694)**	**(148,694)**

5. **SEGMENT INFORMATION** (CONTINUED)

HK$'000	Coal Mining Business (Unaudited)	Total (Unaudited)
Six months ended 30 June 2019		
Revenue from external customers	105,882	105,882
Segment profit	44,012	44,012
Interest revenue	156	156
Income tax credit	131	131
Depreciation and amortisation	(9,079)	(9,079)
Additions to segment non-current assets	(39)	(39)
As at 31 December 2019	(Audited)	(Audited)
Segment assets	231,522	231,522
Segment liabilities	(122,810)	(122,810)

5. SEGMENT INFORMATION (CONTINUED)

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

	Six months ended 30 June	
	2020	2019
HK$'000	**(Unaudited)**	(Unaudited)
Revenue	**50,051**	105,882
Profit or loss		
Total (loss)/profit of reportable segments	**(25,427)**	44,012
Unallocated corporate income	**654**	210
Unallocated corporate expenses	**(7,449)**	(8,809)
Consolidated (loss)/profit for the period	**(32,222)**	35,413

	30 June	31 December
	2020	2019
HK$'000	**(Unaudited)**	(Audited)
Assets		
Total assets of reportable segments	**230,879**	231,522
Corporate assets	**103,755**	113,167
Deferred tax assets	**13,149**	13,388
Elimination of intersegment assets	**(37,322)**	(38,001)
Consolidated total assets	**310,461**	320,076
Liabilities		
Total liabilities of reportable segments	**148,694**	122,810
Corporate liabilities	**5,396**	6,601
Deferred tax liabilities	**15,291**	14,842
Elimination of intersegment liabilities	**(59,355)**	(60,435)
Consolidated total liabilities	**110,026**	83,818

6. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
HK$'000	**(Unaudited)**	(Unaudited)
Interest on other loans - wholly repayable within five years	**–**	74
Interest on lease liabilities	**49**	81
Imputed interest expense	**–**	425
Total borrowing costs	**49**	580

7. INCOME TAX (EXPENSE)/CREDIT

	Six months ended 30 June	
	2020	2019
HK$'000	**(Unaudited)**	(Unaudited)
Deferred tax	**(707)**	103

No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2020 as the Group did not generate any assessable profits arising in Hong Kong during the period (six months ended 30 June 2019: Nil).

Under the law of the PRC on Enterprise Income Tax (the "**EIT law**") and Implementation Regulation of the EIT law, the tax rate applicable to the PRC subsidiaries is 25% (six months ended 30 June 2019: 25%). No provision for PRC Enterprise Income Tax has been made for the six months ended 30 June 2020 as the PRC subsidiaries did not have any assessable profits during the period.

8. (LOSS)/PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2020	2019
HK$'000	**(Unaudited)**	(Unaudited)
Interest income	**(477)**	(209)
Amortisation of mining right (included in cost of sales)	**446**	975
Depreciation of property, plant and equipment	**6,671**	8,140
Depreciation of investment property	**50**	–
Depreciation of right-of-use assets	**1,391**	1,256
Gain on disposal of property, plant and equipment	**(232)**	–
Impairment loss on property, plant and equipment	**24,861**	–
Impairment loss on intangible asset	**6,595**	–
Impairment of inventories	**551**	–
Reversal of impairment loss on trade receivables	**(1,831)**	–
Cost of inventories sold	**28,466**	43,362
Directors' emoluments	**1,444**	1,398
Short-term lease expenses	**33**	35

9. DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

10. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share attributable to the owners of the Company is based on the loss attributable to the owners of the Company for the six months ended 30 June 2020 of approximately HK$21,673,000 (six months ended 30 June 2019: profit of HK$16,206,000) and the weighted average number of ordinary shares (the "**Shares**") of 1,503,477,166 (six months ended 30 June 2019: 1,503,477,166) of the Company in issue during the period.

Diluted (loss)/earnings per share

The computations of diluted (loss)/earnings per share for the six months ended 30 June 2020 and 30 June 2019 does not and did not assume the exercise of share options granted by the Company as the exercise prices of those options were higher than the average market price for shares.

11. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

(a) During the six months ended 30 June 2020, the Group had additions to property, plant and equipment and investment property of approximately HK$397,000 and HK$2,515,000 respectively.

In addition, the Group has entered into lease agreement for Hong Kong office during the six months ended 30 June 2020. Right-of-use assets amounted to approximately HK$5,149,000 has been recognised for the current period.

(b) Impairment assessment

During the six months ended 30 June 2020, the coal production output of the Coal Mining Business cash generating unit (the "**Coal CGU**") decreased due to the impact of the COVID-19 pandemic and the aggravating fatigue of the mining infrastructure and malfunction of certain major machineries. The Group performed an impairment assessment review on the non-current assets under the Coal CGU to assess the recoverable amounts of the property, plant and equipment and intangible asset. Accordingly, impairment losses of: (i) approximately HK$24,861,000 on property, plant and equipment; and (ii) approximately HK$6,595,000 on intangible asset respectively, were recognised in the Group's condensed consolidated statement of profit or loss for the six months ended 30 June 2020. The recoverable amounts of the Coal CGU were estimated based on their values in use, determined by discounting the future cash flows to be generated from the continuing use of these assets (the "**Cash Flow Projections**").

The management of the Group prepared the Cash Flow Projections based on past performance and its expectations of market development. Pre-tax discount rate of 16% is used and reflect specific risk relating to the operating segment. The management of the Group also prepared relevant scenarios and sensitivity in determining the recoverable amount of the Coal CGU.

Therefore, the Cash Flow Projections have been prepared after taking into account the risks to further temporary suspension coal production associated with the lockdown or other measures taken by the state government in relation to the COVID-19 pandemic.

(c) Valuation

An independent professional valuer has been engaged by the Company to review the reasonableness and appropriateness of the assumptions applied in the Cash Flow Projections.

12 . TRADE AND BILLS RECEIVABLES

HK$'000	**30 June 2020 (Unaudited)**	31 December 2019 (Audited)
Trade receivables	**4,273**	4,376
Impairment loss on trade receivables	**(1,606)**	(3,489)
	2,667	887
Bills receivables	**7,572**	12,583
	10,239	13,470

As at 30 June 2020, the ageing analysis of trade receivables of approximately HK$2,667,000 (as at 31 December 2019: HK$887,000), based on the date of delivery and net of allowance, is as follows:

HK$'000	**30 June 2020 (Unaudited)**	31 December 2019 (Audited)
0 to 90 days	**1,976**	183
Over 365 days	**691**	704
	2,667	887

Payments in advance are required by the Group 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 FROM NON-CONTROLLING SHAREHOLDERS

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

HK$'000	**30 June 2020 (Unaudited)**	31 December 2019 (Audited)
Non-current assets		
Other receivable *(note a)*	**15,467**	15,748
Current assets		
Other receivable *(note b)*	**5,571**	–

Notes:

(a) The other receivable represents USD 2 million unpaid capital commitment by Ecostar (Qingdao) Holdings Corporation (伊克斯達(青島)控股有限公司) for the formation of an indirect non-wholly owned subsidiary of the Company, namely Qingdao Xinghua Resources Holding Company Limited 青島星華資源控股有限公司 to be contributed on or before the expiry of a 3-year period from the establishment of Qingdao Xinghua on 27 November 2019.

(b) The other receivable represents the loan due from Inner Mongolia Yuan Yuan Energy Group Company Limited (內蒙古源源能源集團有限責任公司) with principal amount of RMB5 million. Such loan is unsecured, interest bearing at 3.6% per annum and repayable in December 2020.

(c) The carrying amounts of the amounts due from non-controlling shareholders were denominated in USD and RMB respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and financial review

The Group recorded total revenue of approximately HK$50,051,000 for the six months ended 30 June 2020, representing a decrease of approximately HK$55,831,000 or approximately 52.7% as compared to the total revenue of approximately HK$105,882,000 for the six months ended 30 June 2019. The loss attributable to the owners of the Company for the six months ended 30 June 2020 amounted to approximately HK$21,673,000 as compared to the profit attributable to the owners of the Company of approximately HK$16,206,000 for the corresponding period in 2019. Such loss was mainly due to the decrease in coal output as a result of the outbreak of the COVID-19 pandemic since early 2020, which caused a temporary suspension of our coal production for approximately two months in early of 2020. For the six months ended 30 June 2020, the Coal Mining Business is reported as the only business segment of Group as continuing operations.

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 Inner Mongolia Coal Mine 958 ("**Inner Mongolia Coal Mine 958**") in the Inner Mongolia region with an allowed annual production capacity of 1.2 million tonnes.

During the six months ended 30 June 2020, approximately 343,000 tonnes of coals were produced (six months ended 30 June 2019: 674,000 tonnes) and approximately 340,000 tonnes of coals were sold (six months ended 30 June 2019: 656,000 tonnes). The segment loss of the Coal Mining Business for the six months ended 30 June 2020 was approximately HK$25,427,000 as compared to the segment profit of approximately HK$44,012,000 for the six months ended 30 June 2019. The segment loss for the six months ended 30 June 2020 was mainly due to: (i) the decrease in coal output and revenue as a result of the temporary suspension of our coal production operations; and (ii) the impairment losses of: (a) approximately HK$24,861,000 made on the property, plant and equipment; and (b) approximately HK$6,595,000 made on intangible asset of the Coal Mining Business respectively.

Based on the notice "Nei Mei Ju Zi (2016) No. 63" (the "**Notice**") issued by the Coal Industrial Bureau of Inner Mongolia, the number of annual working days of the coal mines in the region is limited to 276 days. In past few years, the Inner Mongolia Coal Mine 958 paused its coal production for certain period in every year, and commenced its coal production after the Chinese New Year holidays in order to comply with the Notice. In usual circumstance, Inner Mongolia Coal Mine 958 has around 4 months of coal production in the first half each year.

The outbreak of the COVID-19 in the first half of 2020 has halted mobility of people all over the PRC, which caused some labours of Inner Mongolia Jinyuanli failed to return to their working positions, accordingly, our coal production operations had been temporary suspended for approximately two months and resumed its operations in April 2020.

Furthermore, the management of Inner Mongolia Jinyuanli reported the expected decrease in the annual production capacity of the Group's Inner Mongolia Coal Mine 958 due to aggravating fatigue of the mining infrastructure and malfunction of certain major machineries since its development in 2009, including but not limited to the coal shearer, excavators, conveyor belts and shielding frames. Several of the Inner Mongolia Coal Mine 958's maintenance service providers for mining infrastructure and machineries were closed amid the outbreak of COVID-19, which negatively affected the machineries performances of the mining activities and the overall productivity. As such, the Inner Mongolia Coal Mine 958 is presently unable to operate at its optimal efficiency, thus the current annual coal production output is projected to be around 900,000 tonnes based on existing status.

In view of the increasing annual maintenance expenses of the mining infrastructure and machineries upon usage of around 10 years, the management of Inner Mongolia Jinyuanli is evaluating the required capital expenditures (the "**Coal Mining CAPEX**") and time to rebuild and/or replace these infrastructures and machineries to restore the annual production capacity to 1.2 million tonnes. Based on the latest assessments of the management of Inner Mongolia Jinyuanli, the Coal Mining CAPEX is expected to be not less than RMB20 million (approximately HK$21.9 million). Nevertheless, it is the decision of the Board and management of Inner Mongolia Jinyuanli to maintain better cash position at current business environment given the uncertainties brought by the COVID-19 pandemic and fluctuations in energy prices, the Group will decide whether it will invest in the Coal Mining CAPEX in due course when it's considered economically beneficial based on the then business environment.

The Development of Environmental-friendly Tyre Recycling Plants in the PRC

On 8 November 2019, the Company's indirect wholly owned subsidiary, Glory Skytop International Limited ("**Glory Skytop**"), entered into a joint venture agreement with Ecostar (Qingdao) Holdings Corporation (伊克斯達(青島)控股有限公司) ("**Ecostar**") and Hope Star (Hong Kong) International Limited ("**Hope Star**"), to establish a joint venture company (the "**Tyre Recycling JVC**") with a registered capital of US$10 million (approximately HK$78.6 million) for the purpose of developing environmental-friendly tyre recycling plants in the PRC (the "**Tyre Recycling Project**"). On 27 November 2019, the Tyre Recycling JVC, namely Qingdao Xinghua Resources Holding Company Limited (青島星華資源控股有限公司) ("**Qingdao Xinghua**"), was established in Qingdao, Shandong Province, the PRC, owned as to 51% of the total registered capital by Glory Skytop, 20% of the total registered capital by Ecostar and 29% of the total registered capital by Hope Star respectively. By the end of 2019, the Group had contributed US$5.1 million (approximately HK$40.2 million) by way of cash representing 51% of the total registered capital of Qingdao Xinghua.

Further in May 2020, Qingdao Xinghua formed a wholly-owned subsidiary in Qingdao, Shandong Province, the PRC, namely Qingdao Xinghua Recycle Economic Company Limited (青島星華循環經濟有限公司) ("**QDXH Recycle**", therefore an indirect non-wholly owned subsidiary owned as to 51% by the Group) with a registered capital of RMB10 million (approximately HK$10.9 million), and has started negotiations with local government authorities in connection with the feasibility of the development of an environmental-friendly tyre recycling plant in the China (Shangdong) Pilot Free Trade Zone (中國(山東)自由貿易試驗區). Due to the outbreak of COVID-19 pandemic, the progress has been considerably slow and the management of Qingdao Xinghua is still in discussions with relevant government officials to formulating a concrete development plan as at the date of this announcement.

Impairment loss on property, plant and equipment and intangible asset of the Coal Mining Business segment

The management of the Company has performed an impairment assessment review on all the carrying amounts of the property, plant and equipment and intangible asset under the non-current assets of the Coal Mining Business cash generating unit (the "**Coal CGU**"). The recoverable amounts of the Coal CGU were estimated based on their values in use, determined by discounting the future cash flows to be generated from the continuing use of these assets. The key assumptions of the cash flow projections were made based on the current business and financial conditions of Inner Mongolia Jinyuanli. 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.

The Group recorded total impairment losses of approximately HK$31,456,000 on the assets under the Coal CGU for the six months ended 30 June 2020, comprised: (i) approximately HK$24,861,000 on the property, plant and equipment; and (ii) approximately HK$6,595,000 on the intangible asset, due to the decrease in the projected annual coal production output as compared to previous years based on the latest status of the Inner Mongolia Coal Mine 958. The key assumptions and parameters adopted in the cash flow projections of the Coal CGU as at 30 June 2019, 31 December 2019 and 30 June 2020 are set out below:

Key assumptions	30 June 2019	31 December 2019	**30 June 2020**
Projected annual coal production output for the period until the expiry date of the business license *(note 1)*	1,003,600 tonnes	1,003,600 tonnes	**900,000 tonnes**
Average unit coal selling price per tonne (including value-added tax) *(note 2)*	2019: RMB131 2020: RMB134 2021 onwards: increase with inflation rate	2020: RMB131 2021: RMB134 2022 onwards: increase with inflation rate	**2020: RMB131** **2021: RMB134** **2022 onwards: increase with inflation rate**
Inflation rate	2.5%	2.5%	**2.5%**

Notes :

(1) The forecasted annual coal production output of the Group's Inner Mongolia Coal Mine 958 was adjusted from 1,003,600 tonnes to 900,000 tonnes, representing a slight decrease of approximately 10.3% to reflect the existing status of the coal mine and business environment as well as potential negative impacts brought by the COVID-19. Given the current business environment, the management of the Company and Inner Mongolia Jinyuanli will evaluate whether it would be economically beneficial to restore its coal production capacity as and when appropriate.

(2) The estimated unit selling price of coal (average selling price) was determined by referencing to: (i) the average unit selling price of coals sold during the six months ended 30 June 2020; (ii) the prevailing market selling price of coals in the Inner Mongolia Region; and (iii) the historical average unit selling price of coals produced by Inner Mongolia Jinyuanli over past few years. The average selling price of the coals produced by Inner Mongolia Coal Mine 958 remained stable during the six months ended 30 June 2020 as compared to the same corresponding period in 2019.

Unlike the price of coals 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 coals produced by Inner Mongolia Jinyuanli with relative low calorific value was quoted from local reference for the Inner Mongolia region – http://www.imcec.cn. The management of Inner Mongolia Jinyuanli relied on such reference 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, size of purchase orders and payment terms etc), which we considered a relevant reference of coal price in the locality of Huolinguole City, Inner Mongolia, the PRC.

Selling and distribution expenses

The selling and distribution expenses of the Group for the six months ended 30 June 2020 was 100% attributed to the Coal Mining Business of approximately HK$1,195,000, representing a decrease of approximately 48.2% as compared to the corresponding period in year 2019 of approximately HK$2,308,000. The decrease in selling and distribution expenses was generally in line with the decrease in the quantity of coals sold in the first half of year 2020.

Administrative expenses

The administrative expenses of the Group for the six months ended 30 June 2020 amounted to approximately HK$23,853,000, representing a slight decrease of approximately HK$818,000 as compared to approximately HK$24,671,000 for the corresponding period in 2019. During the period under review, administrative fines in the amount of RMB960,000 (approximately HK$1.1 million) were charged by the local government authority in relation to the waste gangue produced and sold in 2018. The management of the Company will continue to adopt cost saving measures in order to improve the financial performance of the Group.

Finance costs

The finance costs of the Group mainly represented the interest on lease liabilities in relation to the leasing of the Hong Kong office. The decrease in finance costs was due to the full repayment of loans from a former executive director in 2019.

(Loss)/profit for the period

The net loss attributable to the owners of the Company for the six months ended 30 June 2020 was approximately HK$21,673,000 as compared to the profit attributable to the owners of the Company of approximately HK$16,206,000 for the six months ended 30 June 2020.

Use of proceeds from the placing

In July 2017, the Company raised gross and net proceeds from the placing of 1,000,000,000 new shares of the Company at a placing price of HK$0.110 per share of the Company (the "**Placing**") in the amount of approximately HK$110.0 million and HK$106.8 million respectively. The use of net proceeds from the Placing is as follows:

Intended use	Planned use of proceeds	Utilisation up to 31 December 2017	Utilisation up to 31 December 2018	Utilisation up to 30 June 2019	Balance up to 30 June 2019 (before change of use of proceeds)	Change of use of proceeds	Balance up to 30 June 2019 (after change of use of proceeds)	Utilisation up to 31 December 2019	Utilisation up to 30 June 2020	Remaining balance up to 30 June 2020
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*	**HK$ million**
Repayment of the overdue construction payables of the Coal Mining Business and Coal Upgrading Business	45.0	14.7	39.0	42.0	3.0	(3.0)	–	–	–	**-**
Development of the Coal Upgrading Business	25.0	4.4	7.6	7.6	17.4	(17.4)	–	–	–	**-**
Repayment of the loan due to a non-controlling shareholder of Inner Mongolia Jinyuanli	8.0	–	8.0	8.0	–	–	–	–	–	**-**
General working capital	28.8	8.3	24.5	28.8	–	20.4	20.4	8.5	17.3	**3.1**
	106.8	27.4	79.1	86.4	20.4	–	20.4	8.5	17.3	**3.1**

Following the disposal of the business of provision of low-rank coal upgrading services (the "**Coal Upgrading Business**") in 2018, the Group will not apply further proceeds on the Coal Upgrading Business. On the other hand, the relevant overdue construction payables of the Coal Mining Business, which were intended to be settled by the proceeds of the Placing, had been fully settled. The management of the Company will apply the remaining proceeds of the Placing as the general working capital of the Group for 2020. It is expected that such remaining proceeds will be utilised in the financial year ending 2020.

Liquidity and financial resources

As at 30 June 2020,

(a) the aggregate amount of the Group's: (i) restricted bank deposits; and (ii) bank and cash balances was approximately HK$143,247,000 (as at 31 December 2019 : approximately HK$126,402,000);

(b) the Group had no borrowing (as at 31 December 2019 : Nil);

(c) the Group's gearing ratio was zero (as at 31 December 2019 : Nil). The gearing ratio was calculated as the Group's total borrowings divided by total equity; and

(d) the Group's current ratio was approximately 2.05 (as at 31 December 2019: approximately 2.47). The current ratio was calculated as total current assets divided by total current liabilities.

The Board will continue to closely monitor the financial position of the Group to maintain its financial capacity for future operations and business developments.

Pledge of assets

As at 30 June 2020, the Group did not have any pledge of assets (as at 31 December 2019: 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 the recent fluctuation in the exchange rate between Renminbi and Hong Kong dollar, and is of the opinion that it does not have any material adverse impact to the Group's financial position at present. 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.

Acquisition and disposal of material subsidiaries and associates

Qingdao Xinghua Recycle Economic Company Limited 青島星華循環經濟有限公司 was established in the PRC in May 2020 with a registered capital of RMB10 million (approximately HK$11.0 million). The equity interest of QDXH Recycle is wholly-owned by Qingdao Xinghua which is owned as to 51% of the total registered capital by the Group, as such, QDXH Recycle is an indirect 51% non-wholly owned subsidiary of the Group. Apart from the establishment of QDXH Recycle, the Group did not acquire nor dispose of any material subsidiaries and associates during the six months ended 30 June 2020.

Significant investment

The Group did not purchase, sell or hold any significant investment during the six months ended 30 June 2020.

Contingent liabilities

As at 30 June 2020, contingent liabilities in the amount of RMB2 million (approximately HK$2.2 million) was booked, 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 2020, the Group had no capital commitment (as at 31 December 2019: HK$ Nil).

Employees

The Group employed 454 full-time employees as at 30 June 2020 (as at 31 December 2019: 463) in Hong Kong and the PRC. Remuneration of the staff comprises monthly salaries, provident fund contributions, medical benefits, training programs, housing allowances, discretionary bonus and options based on their qualifications, job nature, performance and working experiences referencing to the prevailing market rate and contributions to the Group. Staff costs including Director's emoluments for the six months ended 30 June 2020 were HK$20,741,000 (for the six months ended 30 June 2019 : HK$23,484,000).

PROSPECTS

The economic outlook and business environment of the PRC are anticipated to becoming more challenging in the second half of 2020 as a result of the outbreak of COVID-19 pandemic and rising global political uncertainties. It is expected the pace of the business development of the Group would be sluggish due to the COVID-19 pandemic. The Group will closely monitor the impacts of the COVID-19 pandemic to the Group's business portfolio.

It is the current objective of the management of the Group to sustain its current operations, and adopt a prudent manner in applying its capital in order to maintain a stable financial position of the Group. The Group will strive to implement adequate cost saving measures and to enhance the operation efficiency of the Coal Mining Business.

In the foreseeable future, it is still one of the major objectives of the Group to diversify its businesses into sectors offering higher growth momentum. In view of the uncertain business and economic environment at present, the Group will use its best endeavors to manage its business portfolio with an aim 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. Chang Xuejun and Mr. Ho Man. 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 2020.

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 Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Company has complied with the applicable code provisions as set out in the CG Code contained in Appendix 14 to the Listing Rules during the six months ended 30 June 2020 except for the following deviations:

(1) Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive should separate and should not be performed by the same individual. Following the passing away of the former chairman and executive Director of the Company, and resignation of the chief executive officer of the Company, the Board does not have any chairman and chief executive officer at present. 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 and chief executive officer.

(2) Following the resignation of Mr. Huang Shao Ru as an INED with effect from 31 October 2019, the Board comprised two INEDs, hence failed to meet the requirements of having the nomination committee of the Company (the "**Nomination Committee**") comprising a majority of INEDs and chaired by the chairman of the Board or an INED under code provision A.5.1 of the CG Code. Following the appointment of Mr. Ho Man as an INED with effect from 22 January 2020, the Company is in compliance with the requirements under code provision A.5.1 of the CG Code, which stipulates that the Nomination Committee shall comprise a majority of INEDs and chaired by the chairman of the Board or an INED.

NON-COMPLIANCE WITH RULES 3.10(1), 3.21 AND 3.25 OF THE LISTING RULES

Following the resignation of Mr. Huang Shao Ru as an INED with effect from 31 October 2019, the Company had only two INEDs, hence failed to meet the requirements of : (i) at least three INEDs in the Board under Rule 3.10(1) of the Listing Rules; (ii) the Audit Committee comprising only non-executive Directors with a minimum of three members under Rule 3.21 of the Listing Rules; and (iii) the remuneration committee of the Company (the "**Remuneration Committee**") comprising a majority of INEDs and chaired by an INED under Rule 3.25 of the Listing Rules.

Following the appointment of Mr. Ho Man as an INED with effect from 22 January 2020, the Company is in compliance with the requirements under: (i) Rule 3.10(1) of the Listing Rules stipulating that the Board must have at least three INEDs; (ii) Rule 3.21 of the Listing Rules stipulating that the Audit Committee must comprise a minimum of three members; and (iii) Rule 3.25 of the Listing Rules, which stipulates that the Remuneration Committee shall comprise a majority of INEDs and chaired by an INED.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by the Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as the required standard governing securities transactions by the Directors. The Company has made specific enquires to all the Directors and all the Directors have confirmed that they had complied with the required standards set out in the Model Code during the six months ended 30 June 2020.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2020, 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 for the six months ended 30 June 2020.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND 2020 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 interim report of the Company for the six months ended 30 June 2020 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, 21 August 2020

As at the date of this announcement, the Board comprises two executive Directors, namely Mr. Ng Ying Kit and Mr. Ren Hang; and three independent non-executive Directors, namely Mr. Kwok Chi Shing, Mr. Chang Xuejun and Mr. Ho Man.