弘海
GRANDOCEAN
0065.HK

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

INTERIM REPORT
2017

CONTENTS

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2017	2016	
	HK$'000	HK$'000	Change
	(Unaudited)	(Unaudited)	
Operating Results			
From continuing operations			
Revenue	**46,513**	80,493	-42%
Gross profit	**5,687**	24,323	-77%
Other operating expenses	**958**	2,073	-54%
Finance costs	**567**	785	-28%
Loss for the period attributable to owners of the Company	**(12,798)**	(63,880)	-80%
Loss per share from continuing operations – Basic	**(HK2.5 cents)**	(HK12.7 cents)	-80%

	30 June 2017	31 December 2016	
	HK$'000	HK$'000	
	(Unaudited)	(Audited)	
Financial Position			
Total assets	**399,462**	472,367	-15%
Total liabilities	**208,276**	269,479	-23%
Bank and cash balances	**11,555**	93,238	-88%
Equity attributable to owners of the Company	**149,319**	157,629	-5%
Financial Ratios			
Current ratio	**0.34**	0.60	-43%
Gearing ratio	**19.2%**	30.3%	-37%

MANAGEMENT DISCUSSION AND ANALYSIS

Financial and business review

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

The Coal Mining Business

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

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

Financial and business review (Continued)

The Coal Mining Business (Continued)

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

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

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

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

Financial and business review (Continued)

The Coal Mining Business (Continued)

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

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

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

Financial and business review (Continued)

The Coal Mining Business (Continued)

Notes:

(1) Due to the Application being yet to be granted and the recent coal industry policies of the compression of production capacity in the PRC, the projected annual coal production capacity was adjusted in accordance with the existing mining license.

(2) The estimated unit coal price per tonne (average selling price) was determined by referencing to (i) the average unit selling price of coal for the six months ended 30 June 2017 of Inner Mongolia Jinyuanli; (ii) the prevailing market price of coal in the Inner Mongolia Region; (iii) fluctuation of market price of coal in the PRC; and (iv) the historical average unit selling price of coal over past few years of Inner Mongolia Jinyuanli.

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

The management of Inner Mongolia Jinyuanli has taken necessary actions to ensure the compliance with all regulations of the PRC coal industry in order to continue the coal production operations. The application of the renewal of the safety production license ("安全生產許可證") has been submitted by the management of Inner Mongolia Jinyuanli in August 2017. Furthermore, the management of Inner Mongolia Jinyuanli is liaising with the relevant government authorities for the renewal of the existing coal mining license which will expire in November 2017 and preparing for submission in due course.

Financial and business review (Continued)

The Coal Upgrading Business

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

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

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

Financial and business review (Continued)

The Coal Upgrading Business (Continued)

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

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

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

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

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

Financial and business review (Continued)

The Coal Upgrading Business (Continued)

(ii) Other assumptions made in the valuation

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

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

Selling and distribution expenses

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

Administrative expenses

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

Financial and business review (Continued)

Finance costs

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

Loss for the period

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

Loans from a director

On 2 January 2014, the Company as the borrower, entered into a loan agreement with Mr. Xu Bin ("**Mr. Xu**"), the chairman, an executive Director and a controlling shareholder (as defined under the Listing Rules) of the Company, as lender, pursuant to which Mr. Xu agreed to grant to the Company an unsecured loan of HK$4 million at an interest rate of 5% per annum. This loan has been applied as general working capital of the Company. Certain part of the loan of approximately HK$1 million has been repaid during the six months ended 30 June 2017 and the remaining loan of HK$3 million will be repayable on or before 31 December 2018.

Loans from a director (Continued)

On 24 March 2014, Beijing Guochuan New Energy Development Co., Ltd ("**Beijing Guochuan**"), an indirect wholly-owned subsidiary of the Company, as borrower, entered into a loan agreement with Mr. Xu, as lender, pursuant to which Mr. Xu agreed to grant to Beijing Guochuan an unsecured and interest-free loan of RMB20 million (approximately HK$23 million) as general working capital of the Group (the "**Original Loan Amount**"). First part of the Original Loan Amount in the book of Beijing Guochuan amounted to RMB8 million was repaid in year 2016 and the second part of the Original Loan Amount in the amount of RMB12 million (approximately HK$14 million) has been assumed by Shanghai Wealthy Ocean International Trading Co., Ltd ("**Shanghai Wealthy Ocean**"), an indirect wholly-owned subsidiary of the Company, as part of the consideration of intra group transfer of 37.5% equity interests in Xilinhaote Guochuan held by Beijing Guochuan to Shanghai Wealthy Ocean, being part of the Group's restructuring. Xilinhaote Guochuan remained as an indirect wholly-owned subsidiary of the Company after such intra group transfer. The remaining of the Original Loan Amount of RMB12 million in the book of Shanghai Wealthy Ocean is unsecured, interest-free and repayable on or before 31 December 2018.

On 7 May 2014, the Company, as borrower, entered into a loan agreement with Mr. Xu, as lender, pursuant to which Mr. Xu agreed to grant to the Company an unsecured loan of HK$3 million at an interest rate of 5% per annum. The loan which had been applied as general working capital of the Company, was repayable on 31 March 2016. The repayment deadline of this loan had been extended to 31 December 2018.

Capital structure

Capital reduction and subdivision

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

Fundraising activity

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

Capital structure (Continued)

Liquidity and financial resources

As at 30 June 2017,

(a) the aggregate amount of the Group's (i) restricted bank deposits; and (ii) bank and cash balances was approximately HK$18,950,000 (as at 31 December 2016: approximately HK$100,372,000);

(b) the Group's total borrowings comprised (i) loan from a non-controlling shareholder; (ii) loans from a director; and (iii) other loans, totaling to approximately HK$36,645,000 (as at 31 December 2016: approximately HK$61,482,000);

(c) The Group's total gearing ratio was approximately 19.2% (as at 31 December 2016: 30.3%). The gearing ratio was calculated as the Group's total borrowings divided by total equity; and

(d) The current ratio of the Group was approximately 0.34 (as at 31 December 2016: approximately 0.60).

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

Pledge of assets

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

Foreign currency risk

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

Significant investments

The Group did not purchase, sell or hold any significant investments during the six months period ended 30 June 2017 and as at 30 June 2017.

Acquisition and disposal of material subsidiaries and associates

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

Contingent liabilities

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

Capital commitment

As at 30 June 2017, the Group had capital commitment relating to the construction agreements and prepaid land lease payments contracted for but not yet incurred in the amount of approximately HK$50,030,000 (as at 31 December 2016: approximately HK$48,578,000).

Employees

The Group employed 568 full-time employees as at 30 June 2017 (as at 31 December 2016: 613) in Hong Kong and the PRC. Remuneration of the staff comprised monthly salaries, provident fund contributions, medical benefits, training programs, housing allowances, discretionary bonus and discretionary options based on their contributions to the Group. Staff costs (including Directors' emoluments) for the six months ended 30 June 2017 were HK$24,082,000 (six months ended 30 June 2016: HK$31,588,000).

Prospects

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

Prospects (Continued)

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

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

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

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

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

HK$'000	*Notes*	Six months ended 30 June **2017** **(Unaudited)**	 2016 (Unaudited) (Represented)
Continuing operations:			
Revenue	*4*	**46,513**	80,493
Cost of sales		**(40,826)**	(56,170)
Gross profit		**5,687**	24,323
Other income		**3,170**	39
Selling and distribution expenses		**(1,856)**	(4,755)
Administrative expenses		**(22,920)**	(26,189)
Impairment loss on intangible asset		**–**	(17,818)
Impairment loss on property, plant and equipment		**–**	(74,448)
Other operating expenses		**(958)**	(2,073)
Loss from operations		**(16,877)**	(100,921)
Finance costs	*5*	**(567)**	(785)
Loss before tax	*7*	**(17,444)**	(101,706)
Income tax expense	*6*	**–**	(102)
Loss for the period from continuing operations		**(17,444)**	(101,808)
Discontinued operation			
Loss for the period from discontinued operation	*15*	**–**	(54,943)
Loss for the period		**(17,444)**	(156,751)

HK$'000	*Notes*	**Six months ended 30 June 2017 (Unaudited)**	2016 (Unaudited) (Represented)
Attributable to:			
Owners of the Company			
Loss from continuing operations		**(12,798)**	(63,880)
Loss from discontinued operation		**–**	(54,943)
Loss attributable to owners of the Company		**(12,798)**	(118,823)
Non-controlling interests		**(4,646)**	(37,928)
		(17,444)	(156,751)
Loss per share			
From continuing and discontinued operations			
Basic	*9(a)*	**HK(2.5) cents**	HK(23.6) cents
Diluted	*9(a)*	**N/A**	N/A
From continuing operations			
Basic	*9(b)*	**HK(2.5) cents**	HK(12.7) cents
Diluted	*9(b)*	**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

CONDENSED CONSOLIDATED
STATEMENT OF FINANCIAL POSITION

HK$'000	*Notes*	**As at 30 June 2017 (Unaudited)**	As at 31 December 2016 (Audited)
Non-current liabilities			
Due to a director	*14*	**19,772**	20,230
Other loans	*13*	**9,794**	9,150
Deferred revenue		**2,300**	2,233
Deferred tax liabilities		**29,366**	28,546
Total non-current liabilities		**61,232**	60,159
NET ASSETS		**191,186**	202,888
Capital and reserves			
Share capital	*16*	**5,035**	251,739
Other reserves		**228,755**	88,236
Accumulated losses		**(84,471)**	(182,346)
Equity attributable to owners of the Company		**149,319**	157,629
Non-controlling interests		**41,867**	45,259
TOTAL EQUITY		**191,186**	202,888

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company											
HK$'000	Share capital (Unaudited)	Share premium (Unaudited)	Capital reserve (Unaudited)	Distributable reserve (Unaudited)	Future development fund (Unaudited)	Safety fund (Unaudited)	Foreign currency translation reserve (Unaudited)	Share based payment reserve (Unaudited)	Accumulated losses (Unaudited)	Total (Unaudited)	Non-controlling interests (Unaudited)	Total equity (Unaudited)
At 1 January 2017	**251,739**	**-**	**(1,628)**	**-**	**23,221**	**57,011**	**5,327**	**4,305**	**(182,346)**	**157,629**	**45,259**	**202,888**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**4,488**	**-**	**(12,798)**	**(8,310)**	**(3,392)**	**(11,702)**
Net appropriations	**-**	**-**	**-**	**-**	**(1,666)**	**2,415**	**-**	**-**	**(749)**	**-**	**-**	**-**
Capital reduction (Note)	**(246,704)**	**-**	**-**	**135,282**	**-**	**-**	**-**	**-**	**111,422**	**-**	**-**	**-**
Change in equity for the period	**(246,704)**	**-**	**-**	**135,282**	**(1,666)**	**2,415**	**4,488**	**-**	**97,875**	**(8,310)**	**(3,392)**	**(11,702)**
At 30 June 2017	**5,035**	**-**	**(1,628)**	**135,282**	**21,555**	**59,426**	**9,815**	**4,305**	**(84,471)**	**149,319**	**41,867**	**191,186**
At 1 January 2016	251,739	293,461	(1,628)	-	20,162	43,379	38,499	8,509	(343,042)	311,079	53,005	364,084
Total comprehensive income for the period	-	-	-	-	-	-	(515)	-	(118,823)	(119,338)	(37,803)	(157,141)
Share options lapsed during the period	-	-	-	-	-	-	-	(4,204)	4,204	-	-	-
Net appropriations	-	-	-	-	343	3,207	-	-	(3,550)	-	-	-
Change in equity for the period	-	-	-	-	343	3,207	(515)	(4,204)	(118,169)	(119,338)	(37,803)	(157,141)
At 30 June 2016	251,739	293,461	(1,628)	-	20,505	46,586	37,984	4,305	(461,211)	191,741	15,202	206,943

Note: On 22 March 2017, the authorized and issued share capital of the Company was reduced through a reduction in the nominal value of each shares from HK$0.50 to HK$0.01. The credit balance of the capital reduction amount after reducing the accumulated losses of the Company was transferred to distributable reserve.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

HK$'000	Six months ended 30 June **2017** **(Unaudited)**	 2016 (Unaudited)
Net cash (outflow)/inflow from operating activities	**(54,387)**	6,801
Net cash outflow from investing activities	**(1,030)**	(83)
Net cash (outflow)/inflow before financing activities	**(55,417)**	6,718
Net cash outflow from financing activities	**(26,266)**	(37,870)
Net decrease in cash and cash equivalents	**(81,683)**	(31,152)
Cash and cash equivalents at 1 January	**93,238**	48,189
Cash and cash equivalents at 30 June	**11,555**	17,037
Analysis of balances of cash and cash equivalents:		
Bank and cash balances	**11,555**	17,037

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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.

The Company is an investment holding company. The principal activities of its subsidiaries are: (i) production and sale of coal (the "**Coal Mining Business**"); and (ii) provision of low-rank coal upgrading services (the "**Coal Upgrading Business**"). The operations of the manufacture and sale of plastic woven bags, paper bags and plastic barrels (the "**Bags Business**") have been disposed in November 2016. The results of the Group has reclassified the Bags Business to discontinued operation in the financial period ending 30 June 2016.

2. Basis of preparation and accounting policies

These unaudited condensed consolidated financial statements for the six months ended 30 June 2017 have been prepared in accordance with the applicable disclosures required by Appendix 16 to the Listing Rules and the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

These condensed consolidated financial statements should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2016 (the "**2016 Annual Report**").

The accounting policies and methods of computation used in preparation of these condensed consolidated financial statements for the six months ended 30 June 2017 are consistent with those used in the 2016 Annual Report except as stated in note 3 below.

Going concern

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

2. Basis of preparation and accounting policies (Continued)

Going concern (Continued)

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

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

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

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

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

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

3. Adoption of new and revised Hong Kong Financial Reporting Standards

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") that are relevant to its operations and effective for its accounting period beginning on 1 January 2017. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years.

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

4. Segment information

The Group has three reportable segments as follows:

Bags Business	–	Manufacture and sale of plastic woven bags, paper bags and plastic barrels (the "**Discontinued Operation**");
Coal Mining Business	–	Production and sale of coal; and
Coal Upgrading Business	–	Provision of low-rank coal upgrading services.

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

4. Segment information (Continued)

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

HK$'000	Bags Business (Discontinued Operation) (Unaudited)	Coal Mining Business (Unaudited)	Coal Upgrading Business (Unaudited)	Total (Unaudited)
Six months ended 30 June 2017				
Revenue from external customers	N/A	46,513	–	46,513
Segment loss	N/A	(9,731)	(2,315)	(12,046)
Interest revenue	N/A	26	–	26
Interest expense	N/A	–	(74)	(74)
Income tax expense	N/A	–	–	–
Depreciation and amortisation	N/A	(8,668)	(986)	(9,654)
Impairment loss on property, plant and equipment	N/A	–	–	–
Impairment loss on intangible assets	N/A	–	–	–
Additions to segment non-current assets	N/A	(797)	–	(797)
As at 30 June 2017	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment assets	N/A	287,059	140,301	427,360
Segment liabilities	N/A	(197,335)	(159,220)	(356,555)

4. Segment information (Continued)

HK$'000	Bags Business (Discontinued Operation) (Unaudited)	Coal Mining Business (Unaudited)	Coal Upgrading Business (Unaudited)	Total (Unaudited)
Six months ended 30 June 2016				
Revenue from external customers	–	80,493	–	80,493
Segment loss	(52,031)	(84,803)	(6,899)	(143,733)
Interest revenue	–	11	–	11
Interest expense	–	–	(168)	(168)
Income tax expense	–	(102)	–	(102)
Depreciation and amortisation	(742)	(13,034)	(273)	(14,049)
Impairment loss on property, plant and equipment	(52,197)	(74,448)	–	(126,645)
Impairment loss on intangible assets	–	(17,818)	–	(17,818)
Additions to segment non-current assets	–	(2,903)	–	(2,903)
As at 31 December 2016	(Audited)	(Audited)	(Audited)	(Audited)
Segment assets	–	324,102	137,553	461,655
Segment liabilities	–	(227,349)	(153,630)	(380,979)

4. Segment information (Continued)

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

HK$'000	Six months ended 30 June **2017** **(Unaudited)**	2016 (Unaudited)
Revenue	**46,513**	80,493
Profit or loss		
Total loss of reportable segments	**(12,046)**	(143,733)
Unallocated corporate income	**3,899**	2
Unallocated corporate expenses	**(9,297)**	(13,020)
Discontinued Operation	**–**	54,943
Consolidated loss for the period from continuing operations	**(17,444)**	(101,808)

HK$'000	**30 June 2017 (Unaudited)**	31 December 2016 (Audited)
Assets		
Total assets of reportable segments	**427,360**	461,655
Corporate assets	**5,510**	43,541
Deferred tax assets	**13,402**	13,013
Elimination of intersegment assets	**(46,810)**	(45,842)
Consolidated total assets	**399,462**	472,367
Liabilities		
Total liabilities of reportable segments	**356,555**	380,979
Corporate liabilities	**25,969**	50,893
Deferred tax liabilities	**29,366**	28,546
Elimination of intersegment liabilities	**(203,614)**	(190,939)
Consolidated total liabilities	**208,276**	269,479

5. Finance costs

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

6. Income tax expense

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

PRC Enterprise Income Tax has been provided at a rate of 25% (six months ended 30 June 2016: 25%).

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

7. Loss before tax

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

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

8. Dividend

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

9. Loss per share

(a) From continuing and discontinued operations

Basic loss per share

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

9. Loss per share (Continued)

(a) From continuing and discontinued operations (Continued)

Diluted loss per share

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

(b) From continuing operations

Basic loss per share

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

Diluted loss per share

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

(c) From Discontinued Operation

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

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

10. Property, plant and equipment

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

11. Trade and bills receivables

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

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

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

12. Due to a non-controlling shareholder

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

HK$'000	**30 June 2017 (Unaudited)**	31 December 2016 (Audited)
Current liabilities		
Other payables *(note)*	**7,079**	6,874
	7,079	6,874

Note:

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

13. Other loans

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

14. Due to a director

HK$'000	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Non-current liabilities		
Loans *(note)*	19,772	20,230
	19,772	20,230

Notes:

(1) The loans from a Director are unsecured, bear interest at 0% to 5% per annum and are repayable on 31 December 2018.

(2) The balances classified as non-current liabilities included interest payables of approximately HK$1,158,000 (as at 31 December 2016: HK$1,021,000), which are unsecured, interest-free and repayable on 31 December 2018.

15. Discontinued operation

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

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

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

16. Share capital

	Authorised		
	No. of shares of HK$0.50 each	No. of shares of HK$0.01 each	HK$'000
As at 1 January 2016 and 31 December 2016 (Audited)	2,000,000,000	–	1,000,000
Share subdivision *(note)*	**(2,000,000,000)**	**100,000,000,000**	**–**
As at 30 June 2017	**–**	**100,000,000,000**	**1,000,000**

	Issued and fully paid		
	No. of shares of HK$0.50 each	No. of shares of HK$0.01 each	HK$'000
As at 1 January 2016 and 31 December 2016 (Audited)	503,477,166	–	251,739
Capital reduction *(note)*	**(503,477,166)**	**503,477,166**	**(246,704)**
As at 30 June 2017	**–**	**503,477,166**	**5,035**

16. Share capital (Continued)

Note:

On 16 December 2016, a special resolution of capital reduction and subdivision was passed at the extraordinary general meeting of the Company and the resolution of capital reduction of issued shares and subdivision of unissued share which has become effective on 22 March 2017. The capital reduction of issued shares and subdivision of unissued shares involved the following:

(a) the par value of each issued share be reduced from HK$0.50 to HK$0.01 each by cancelling the paid up share capital to the extent of HK$0.49 on each issued share by way of a reduction of capital, so that each issued share shall be treated as one fully paid up share of par value of HK$0.01 each in share capital of the Company ("**Capital Reduction**");

(b) the credit arising from the Capital Reduction be applied towards offsetting the accumulated losses of the Company as at the effective date of the Capital Reduction, thereby reducing the accumulated losses of the Company. The balance of credit is transferred to "distributable reserve"; and

(c) immediately following the Capital Reduction, each of the then authorized but unissued shares with par value of HK$0.50 each be subdivided into 50 new Shares of HK$0.01 par value each.

These new Shares rank pari passu with the existing shares in issue in all aspects.

17. Related party transactions

Apart from those transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties during the six months ended 30 June 2017:

	Six months ended 30 June	
HK$'000	**2017 (Unaudited)**	2016 (Unaudited)
License fee payable to a director *(note)*	**–**	–
Loan interest payable to a director	**165**	199

Note:

The Company and a director entered into new license agreement. Pursuant to the new license agreement, the Company paid on a nominal license fee of HK$1 for the licensing of the proprietary technology on 1 December 2015 and extended to 31 December 2017.

OTHER INFORMATION

Interim dividend

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

Directors' and chief executive's interests and the short positions in the shares, underlying shares and debentures of the Company or any associated corporations

As at 30 June 2017, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Directors' and chief executive's interests and the short positions in the shares, underlying shares and debentures of the Company or any associated corporations (Continued)

Name	Capacity and nature of interest in Shares			Capacity and nature of interest in underlying Shares pursuant to share options				Approximate percentage of the total issued share capital of the Company
	Personal interests	Corporate interests	Total interests	Personal interests	Family interests	Total interests	Aggregate interests	as at 30 June 2017
Mr. Xu Bin	24,365,629	131,788,686 *(Note 1)*	156,154,315	4,500,000	–	4,500,000	**160,654,315**	**31.91%**
Mr. Ng Ying Kit	–	–	–	2,250,000	–	2,250,000	**2,250,000**	**0.45%**
Ms. Huo Lijie	–	–	–	2,250,000	–	2,250,000	**2,250,000**	**0.45%**
Mr. Kwok Chi Shing	–	–	–	225,000	–	225,000	**225,000**	**0.04%**
Mr. Huang Shao Ru	–	–	–	225,000	–	225,000	**225,000**	**0.04%**

Notes:

1. These Shares are beneficially owned by Hong Kong Hang Kei Company Limited ("**HK Hang Kei**"), a company incorporated in the British Virgin Islands (the "**BVI**") with limited liability and is wholly owned by Mr. Xu Bin, the Chairman of the Company and an executive Director of the Company. By virtue of the SFO, Mr. Xu Bin is deemed to be interested in the 131,788,686 Shares owned by HK Hang Kei.

2. Details of share options held by the Directors are set out under the heading "Share Option Scheme".

Saved as disclosed above, as at 30 June 2017, none of the Directors and the chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Substantial shareholders

As at 30 June 2017, so far as is known to the Directors or chief executive of the Company based on the register maintained by the Company pursuant to Section 336 of the SFO, the following persons (other than the Directors or the chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Name	Capacity/ Nature of interest	Number of Shares or underlying Shares	Approximate percentage of the total issued share capital of the Company as at 30 June 2017
HK Hang Kei	Beneficial owner	131,788,686 *(Note 1)*	26.18%
Shao Ze Yun	Interest of spouse	160,654,315 *(Note 2)*	31.91%

Notes:

1. HK Hang Kei is a company incorporated in the BVI with limited liability, which was wholly owned by Mr. Xu Bin, the chairman and an executive Director of the Company.

2. Ms. Shao Ze Yun is the wife of Mr. Xu Bin. She is deemed or taken to be interested in the Shares in which Mr. Xu Bin is interested.

Save as disclosed above, as at 30 June 2017, the Directors and the chief executive of the Company were not aware of any other person (other than Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of interests required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

Share option scheme

The purpose of the 2009 Scheme is to enable the Company to grant options to any employee (whether full-time or part-time, including any executive Director but excluding any non-executive Director) of the Company or any of its subsidiaries or an entity in which the Group holds any equity interest (the "**Invested Entity**"); any non-executive Director (including independent non-executive Director) of the Company, any of its subsidiaries or any Invested Entity; any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued or proposed to be issued by any member of the Group or any Invested Entity; and any other person (including any consultant, adviser, distributor, contractor, supplier, agent, customer, business partner, joint venture business partner, promoter or service provider of any member of the Group) whom the Board considers, in its sole discretion, has contributed or will contribute to the Group (the "**Eligible Participants**") as incentives or rewards for their contribution to the Group and/or to recruit and retain high caliber employees and attract human resources that are valuable to the Group and any Invested Entity.

The 2009 Scheme was adopted for a period of 10 years commencing on 20 August 2009 and will remain in force until 19 August 2019, after which period no further options will be offered or granted but the provisions of the 2009 Scheme shall remain in full force and effect in all other respects with regard to the share options granted during the life of the 2009 Scheme. The subscription price for the Shares in respect of any share option granted shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant share option but in any case, the subscription price for Shares shall be at least not lower than the highest of: (a) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five (5) trading days immediately preceding the date of grant; and (c) the nominal value of a Share.

On 30 April 2015 (the "**First Date of Grant**"), the Company granted certain share options comprising 14,400,000 underlying Shares, which represented approximately 3.14% of the total issued share capital of the Company as at that date, to certain Directors, employees and other Eligible Participants. Such share options were vested immediately and exercisable for a ten-year period from 30 April 2015 to 29 April 2025 (both days inclusive). The exercise price of the share options granted was HK$0.710 per Share, which was higher than the highest of (i) closing price of HK$0.700 per Share on the First Date of Grant; (ii) the average closing price of HK$0.708 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the First Date of Grant; and (iii) the nominal value of HK$0.500 per Share as at the First Date of Grant.

Share option scheme (Continued)

On 28 July 2015 (the "**Second Date of Grant**"), the Company granted certain share options comprising 11,250,000 underlying Shares, which represented approximately 2.23% of the total issued share capital of the Company as at that date, to certain Directors and employees. Such share options were vested immediately and exercisable for a ten-year period from 28 July 2015 to 27 July 2025 (both days inclusive). The exercise price of the share options granted HK$0.530 per Share, which was the highest of (i) the closing price per Share of HK$0.465 on the Second Date of Grant; (ii) the average closing price of HK$0.530 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the Second Date of Grant; and (iii) the nominal value of HK$0.500 per Share as at the Second Date of Grant.

Particulars of the share options under the 2009 Scheme outstanding during the six months ended 30 June 2017 were as follows:

(a) Movement of share options granted to the Directors was as follows:

			Number of underlying Shares comprised in share options					
Name of Directors	Date of grant	Exercisable period	Balance as at 1 January 2017	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Balance as at 30 June 2017	Exercise price per Share (HK$)
Executive Directors								
Mr. Xu Bin	28 July 2015	28 July 2015 to 27 July 2025	4,500,000	–	–	–	4,500,000	0.530
Mr. Ng Ying Kit	30 April 2015	30 April 2015 to 29 April 2025	2,250,000	–	–	–	2,250,000	0.710
Ms. Huo Lijie	28 July 2015	28 July 2015 to 27 July 2025	2,250,000	–	–	–	2,250,000	0.530
			9,000,000	–	–	–	9,000,000	

Share option scheme (Continued)

(a) Movement of share options granted to the Directors was as follows: (Continued)

Name of Directors	Date of grant	Exercisable period	Number of underlying Shares comprised in share options Balance as at 1 January 2017	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Balance as at 30 June 2017	Exercise price per Share (HK$)
Independent Non-Executive Directors								
Mr. Kwok Chi Shing	30 April 2015	30 April 2015 to 29 April 2025	225,000	–	–	–	225,000	0.710
Mr. Huang Shao Ru	30 April 2015	30 April 2015 to 29 April 2025	225,000	–	–	–	225,000	0.710
			450,000	–	–	–	450,000	
Total			9,450,000	–	–	–	9,450,000	

(b) Movement of share options granted to the employees and other Eligible Participants under the 2009 Scheme was as follows:

	Date of grant	Exercisable period	Number of underlying Shares comprised in share options Balance as at 1 January 2017	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Balance as at 30 June 2017	Exercise price per Share (HK$)
Employees and Eligible Participants	30 April 2015	30 April 2015 to 29 April 2025	3,825,000	–	–	–	3,825,000	0.710
			3,825,000	–	–	–	3,825,000	

Share option scheme (Continued)

The maximum number of Shares to be issued upon exercise of all share options to be granted under the 2009 Scheme was refreshed to 50,347,716 shares (the "**Scheme Mandate**") on 15 June 2015, being 10% of the total issued share capital of the Company as at the date of passing of an ordinary resolution by the Shareholders to approve the refreshment of the Scheme Mandate. As at 30 June 2017, the number of Shares to be issued upon the exercise of the outstanding options under the 2009 Scheme was 13,275,000 Shares, representing 2.64% of the total issued share capital of the Company as at 30 June 2017.

The fair value of the share options comprising 14,400,000 underlying Shares granted on the First Date of Grant of approximately HK$5,438,000 was valued by using the Binominal pricing model. Values are estimated based on the risk-free rate 1.52% per annum by reference to the yield rate of the Hong Kong government bills and bonds with similar duration, a ten-year period historical volatility 78.26%, assuming a dividend yield of 1.12% and an expected option life of 10 years.

The fair value of the share options comprising 11,250,000 underlying Shares granted on the Second Date of Grant of approximately HK$3,071,000 was valued by using the Binominal pricing model. Values are estimated based on the risk-free rate 1.72% per annum by reference to the yield rate of the Hong Kong government bills and bonds with similar duration, a ten-year period historical volatility 81.34%, assuming a dividend yield of 0.76% and an expected option life of 10 years.

The Binomial pricing model required input of subjective assumptions such as the expected stock price volatility. Change in the subjective input may materially affect the fair value estimates.

Purchase, sale or redemption of listed shares

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

Competing interest

None of the Directors or the controlling shareholders (as defined under the Listing Rules) of the Company had an interest in a business which competed or might compete with the business of the Group during the six months ended 30 June 2017.

Audit Committee

The Audit Committee comprises three INEDs, namely Mr. Kwok Chi Shing, Mr. Huang Shao Ru and Mr. Chang Xuejun. The primary duties of the Audit Committee are to review the financial information of the Group, to oversee the financial reporting system, risk management and internal control systems to ensure the integrity of the financial statements of the Group and the effectiveness of internal control and risk management systems of the Group. The Audit Committee has reviewed the unaudited interim financial statements and the interim report of the Company for the six months ended 30 June 2017.

Corporate governance

The Company 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 2017 except for the following deviations:

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

Under the code provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Huang Shao Ru, an INED and the chairman of the Nomination Committee and Remuneration Committee, was not able to attend the 2016 AGM due to his other business engagements. Mr. Kwok Chi Shing and Mr. Chang Xuejun, INEDs and members of the Audit Committee, attended at the 2016 AGM by telephone conference call to ensure an effective communication with the Shareholders thereat.

Model code for securities transactions by Directors

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

CORPORATE PROFILE

Board of Directors

Executive Directors

Mr. XU Bin *(Chairman)*
Mr. ZHANG Fusheng
(Chief Executive Officer)
Mr. NG Ying Kit
Ms. HUO Lijie

Independent Non-Executive Directors

Mr. KWOK Chi Shing
Mr. HUANG Shao Ru
Mr. CHANG Xuejun

Compliance Officer

Mr. NG Ying Kit

Company Secretary

Ms. WAN Shui Wah

Authorised Representatives

Mr. ZHANG Fusheng
Mr. NG Ying Kit

Audit Committee

Mr. KWOK Chi Shing *(Chairman)*
Mr. HUANG Shao Ru
Mr. CHANG Xuejun

Remuneration Committee

Mr. HUANG Shao Ru *(Chairman)*
Mr. XU Bin
Mr. CHANG Xuejun

Nomination Committee

Mr. HUANG Shao Ru *(Chairman)*
Mr. XU Bin
Mr. CHANG Xuejun

Registered Office

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Corporate Website

www.grandocean65.com

Head Office and Principal Place of Business in Hong Kong

Suite 3103, Sino Plaza
255-257 Gloucester Road
Hong Kong

Principal Share Registrar and Transfer Office

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road, P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Abacus Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Banker

Hang Seng Bank Limited

Independent Auditor

RSM Hong Kong
Certified Public Accountants

Legal Advisers

As to Hong Kong Law:
Michael Li & Co.

As to Cayman Islands Law:
Conyers Dill & Pearman

Stock Code

65

DEFINITIONS

In this interim report, unless the context otherwise requires, the following expressions shall have the following meaning:

"2009 Scheme"	the share option scheme adopted at an extraordinary general meeting of the Company held on 20 August 2009;
"2016 AGM"	the annual general meeting held by the Company on 23 June 2017;
"Amended and Restated Memorandum and Articles"	the memorandum and the articles of association of the Company adopted in the extraordinary general meeting held on 14 December 2016, and "Article" shall mean an article of the Articles of Association;
"Audit Committee"	the audit committee of the Company;
"Bags Business"	the manufacture and sale of plastic woven bags, paper bags and plastic barrels business;
"Board"	the board of Directors of the Company;
"Coal Mining Business"	production and sale of coal;
"Coal Upgrading Business"	provision of low-rank coal upgrading services;
"Company"	Grand Ocean Advanced Resources Company Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed and traded on the Main Board of the Stock Exchange (Stock Code: 65);
"CG Code"	the Corporate Governance Code set out in Appendix 14 to the Listing Rules;
"Director(s)"	the directors of the Company from time to time;
"Group"	the Company and all of its subsidiaries from time to time;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;

"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"INED(s)"	an independent non-executive Director(s) of the Company;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time;
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules;
"New Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time;
"Nomination Committee"	the nomination committee of the Company;
"PRC" or "China"	the People's Republic of China;
"Remuneration Committee"	the remuneration committee of the Company;
"RMB"	Renminbi, the lawful currency of the PRC;
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time;
"Share(s)"	ordinary share(s) with par value of HK$0.01 each in the share capital of the Company;
"Shareholder(s)"	holder(s) of issued Share(s) from time to time;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited; and
"%"	percent.