



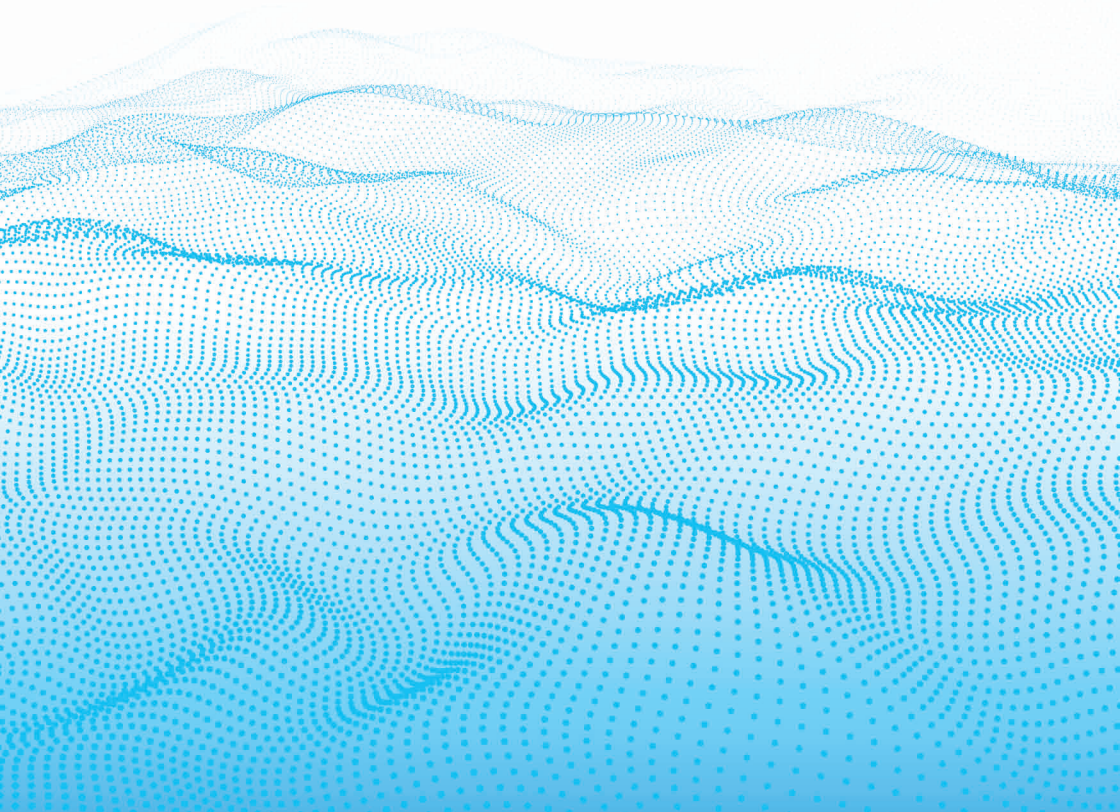
弘海
GRAND OCEAN

0065.HK

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

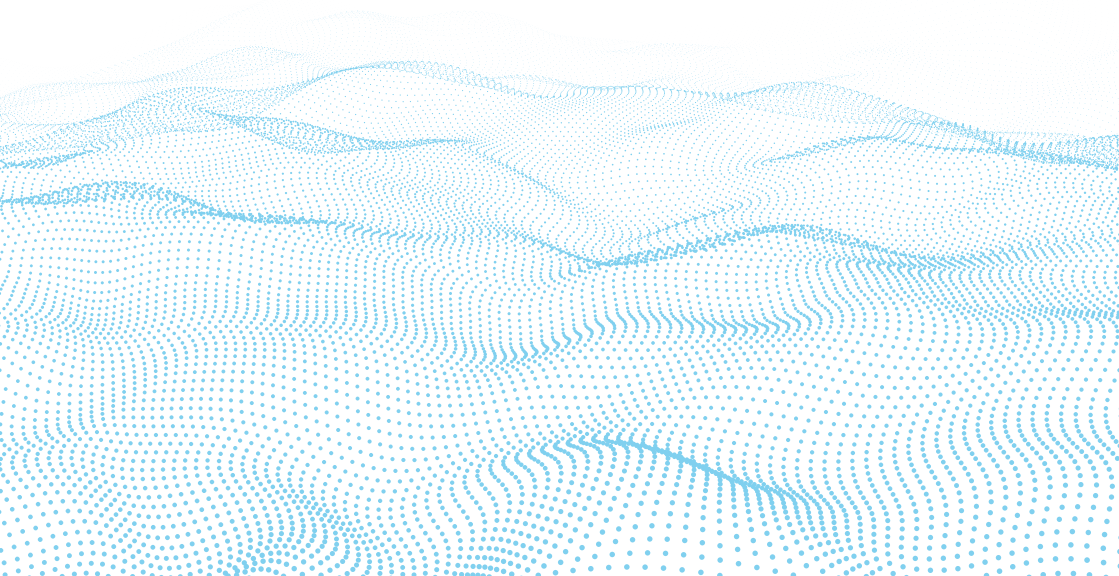
Incorporated in the Cayman Islands with limited liability
Stock code : 65

INTERIM REPORT 2019



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FINANCIAL HIGHLIGHTS

Six months ended 30 June

	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited) (Represented)	Change
Operating Results			
From continuing operations			
Revenue	105,882	68,631	54.3%
Gross profit	62,520	11,547	441.4%
Finance costs	580	363	59.8%
Profit/(loss) for the period attributable to owners of the Company	16,206	(11,289)	243.6%
Earnings/(loss) per share from continuing operations – Basic	HK1.1 cents	(HK0.8) cents	237.5%
	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)	
Financial Position			
Total assets	326,784	368,498	(11.3)%
Total liabilities	(88,921)	(165,159)	(46.2)%
Bank and cash balances (excluding restricted bank deposits)	106,556	155,635	(31.5)%
Equity attributable to owners of the Company	169,273	153,568	10.2%
Financial Ratios			
Current ratio	2.29	1.32	73.5%
Gearing ratio	3.2%	6.7%	(52.2)%

MANAGEMENT DISCUSSION AND ANALYSIS

Business and financial review

The Group recorded total revenue from continuing operations of approximately HK\$105,882,000 for the six months ended 30 June 2019, representing an increase of approximately HK\$37,251,000 or approximately 54.3% as compared to the revenue of approximately HK\$68,631,000 for the six months ended 30 June 2018. The profit attributable to the owners of the Company from continuing operations for the six months ended 30 June 2019 amounted to approximately HK\$16,206,000 as compared to the corresponding period in 2018 of loss attributable to the owners of the Company from continuing operations of approximately HK\$11,289,000 (represented). For the six months ended 30 June 2019, two segments are reported, namely: (i) the Coal Mining Business as continuing operations; and (ii) the Coal Upgrading Business as discontinued operation.

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 Inner Mongolia region with an allowed annual production capacity of 1.2 million tonnes.

During the six months ended 30 June 2019, approximately 674,000 tonnes of coals were produced (six months ended 30 June 2018: 329,000 tonnes) and approximately 656,000 tonnes of coals were sold (six months ended 30 June 2018: 621,000 tonnes). The Coal Mining Business segment reported a profit turnaround during the period under review. The segment profit of the Coal Mining Business for the six months ended 30 June 2019 was approximately HK\$44,012,000 as compared to the segment loss of approximately HK\$6,144,000 for the six months ended 30 June 2018. The improvement in segment result was mainly due to: (i) the increase in the average selling price of certain purchase orders and quantity of coal being sold in the first half 2019; (ii) the improvement in the operating efficiency via saving the manpower and staff costs; and (iii) the decrease in consumables as compared to the same period last year (whereas additional costs were incurred for relocation of production to another coal seam).

Business and financial review (Continued)

The Coal Mining Business (Continued)

During the period under review, the management of Inner Mongolia Jinyuanli reported that the calorific values of the coal outputs from the existing coal seam were lower than 3,000KJ/Kg, resulted in decrease or cancellation of purchase orders from some of the previous major customers. In order to maintain stable sales, Inner Mongolia Jinyuanli entered into a year-long coal supply contract with a wholesale dealer for off taking not less than 50% of the total coal output of Inner Mongolia Jinyuanli for the year 2019. Furthermore, the management of the Company has explored new potential customers to diversify its customer base in the second half 2019 in order to mitigate the market risk associated with the decrease in calorific values of the coals output.

Besides, contingent liabilities in the amount of RMB2 million (approximately HK\$2.3 million) was reported in the Group's consolidated financial statements since the financial year ended 31 December 2016 on a prudent basis, which represented the maximum amount of penalty as a result of over-production in the year 2016. As at the date of this report, Inner Mongolia Jinyuanli has not received any indication or formal notice of warning or penalty insofar.

Impairment of property, plant and equipment and intangible assets of the Coal Mining Business

The management of the Company has performed an impairment assessment review on all the carrying amounts of the property, plant and equipment and intangible assets under 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 and an independent professional valuer has been engaged by the Company to review the reasonableness and fairness of the assumptions applied in the cash flow projections.

Business and financial review (Continued)

Impairment of property, plant and equipment and intangible assets of the Coal Mining Business (Continued)

No impairment has been made to the Coal CGU for the six months ended 30 June 2019 based on current business and financial performance of Inner Mongolia Coal Mine 958. The key assumptions and parameters in the cash flow projections of the Coal CGU as at 30 June 2018, 31 December 2018 and 30 June 2019 are set out below.

Key assumptions	30 June 2018	31 December 2018	30 June 2019
Projected annual coal production output for the period until the expiry date of the business license	1,003,600 tonnes	1,003,600 tonnes	1,003,600 tonnes
Average unit coal selling price per tonne (including value-added tax) (note)	2018:RMB137 2019:RMB140 2020 onwards: increase with inflation rate	2019:RMB136 2020:RMB140 2021 onwards: increase with inflation rate	2019:RMB131 2020:RMB134 2021 onwards: increase with inflation rate
Inflation rate	2.5%	2.5%	2.5%

Note:

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 2019 of Inner Mongolia Jinyuanli; (ii) the prevailing market price of coals in the Inner Mongolia Region; and (iii) the historical average unit selling price of coal over past few years of Inner Mongolia Jinyuanli.

Unlike the price of coal of relatively high calorific value (5,000KJ/Kg or above) with a transparent index that could be quoted on <http://www.cqcoal.com>, the price level of the coal produced by Inner Mongolia Jinyuanli with relative low calorific value was quoted from local reference for the Inner Mongolia region – <http://www.imcec.cn>. The management of Inner Mongolia Jinyuanli relies 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 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.

Business and financial review (Continued)

Selling and distribution expenses

The selling and distribution expenses of the Group from continuing operations for the six months ended 30 June 2019 was 100% attributed to the Coal Mining Business of approximately HK\$2,308,000, representing an decrease of approximately HK\$1,028,000 as compared to the corresponding period in year 2018 of approximately HK\$3,336,000. The decrease in selling and distribution expenses was mainly resulted from lower logistic costs of coal delivery in the first half of 2019.

Administrative expenses

The administrative expenses of the Group from continuing operations for the six months ended 30 June 2019 amounted to approximately HK\$24,671,000, representing a slight increase of approximately HK\$2,791,000 from approximately HK\$21,880,000 (represented) in the corresponding period in year 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 from continuing operations represented mainly the interest expenses of the loans from a former executive director. The decrease in finance costs was due to certain loan repayments made during the six months ended 30 June 2019.

Profit/(loss) for the period

The net profit attributable to the owners of the Company from continuing operations for the six months ended 30 June 2019 was approximately HK\$16,206,000 as compared to the loss attributable to the owners of the Company from continuing operations of approximately HK\$11,289,000 (represented) in the corresponding period in 2018.

Business and financial review (Continued)

Actions taken and proposed plan to address the qualified auditor’s opinion for the year ended 31 December 2018

Qualified Opinion in 2018	Actions Taken in 2019	Status for the year ending 31 December 2019 and proposed plan, if required
<p>Qualified opinion on the impairment of property, plant and equipment and deposit under non-current assets for the Coal Upgrading Business cash generating unit (the “Coal Upgrading CGU”)</p>	<p>Disposal of the Coal Upgrading CGU, completion took place in December 2018.</p>	<p>Qualified opinion for the year ended 31 December 2018 on the consequential effect of the opening/closing balances (at completion of the Disposal) of the Coal Upgrading CGU as a result of the uncertainty in the amounts of the impairment losses recognised in prior years as well as the disposal gain recognised in year 2018. Such uncertainty may have significant effect on the profit or loss and the movement of cashflow relating to the Coal Upgrading CGU for the year ended 31 December 2018.</p> <p>As the qualified opinion does not have impact on the consolidated statement of financial position of the Group as at 31 December 2018, the Company considers the qualified opinion will be addressed in the financial year ending 31 December 2019 accordingly.</p>
<p>Qualified opinion on the impairment of property, plant and equipment and intangible asset for the Coal CGU</p>	<p>Inner Mongolia Jinyuanli maintains its coal production output at a level with relevant industry rules and regulations.</p>	<p>Qualified opinion for the year ended 31 December 2018 on the consequential effect of the opening balances and comparability of the relevant current year figures. The Company considers the qualified opinion can be fully addressed in the financial year ending 31 December 2019.</p>

Business and financial review (Continued)

Other loans under the current liabilities

Other loans under the current liabilities included the loans from the late Mr. Xu Bin (“**Mr. Xu**”) and interest payable of approximately HK\$7,711,000 (31 December 2018: HK\$13,653,000).

On 2 January 2014, Mr. Xu, as lender, agreed to grant to the Company an unsecured loan of HK\$4 million at an interest rate of 5% per annum. This loan has been applied as general working capital of the Company. Approximately HK\$1 million of this loan was repaid in year 2017 and the remaining loan of HK\$3 million was repaid in July 2019.

On 24 March 2014, Beijing Guochuan New Energy Development Co., Ltd (“**Beijing Guochuan**”), an indirect wholly-owned subsidiary of the Company, as borrower, entered into a loan agreement with Mr. Xu, as lender, pursuant to which Mr. Xu agreed to grant to Beijing Guochuan an unsecured and interest-free loan of RMB20 million as general working capital of the Group (the “**Original Loan Amount**”). First part of the Original Loan Amount in the book of Beijing Guochuan amounted to RMB8 million was repaid in year 2016 and the second part of the Original Loan Amount in the amount of RMB12 million has been assumed by Shanghai Wealthy Ocean International Trading Co., Ltd (“**Shanghai Wealthy Ocean**”), an indirect wholly-owned subsidiary of the Company, as part of the consideration of intra group transfer of 37.5% equity interests in Xilinhaote City Guochuan Energy Technology Development Co., Ltd (“**Xilinhaote Guochuan**”), held by Beijing Guochuan to Shanghai Wealthy Ocean, being part of the Group’s restructuring. Xilinhaote Guochuan remained as an indirect wholly-owned subsidiary of the Company after such intra group transfer. The remaining of the Original Loan Amount of RMB12 million (approximately HK\$13,652,000) in the book of Shanghai Wealthy Ocean is unsecured, interest-free and due on or before 31 December 2019 (the “**Remaining Loan**”). The Remaining Loan was fully repaid of approximately RMB6,350,000 (approximately HK\$7,224,000) and RMB5,650,000 (approximately HK\$6,428,000) in November 2018 and in April 2019 respectively.

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 and extended to 31 December 2019. Such loan was fully repaid in July 2019.

Business and financial review (Continued)

Use of proceeds from the Placing

In July 2017, the Company raised gross and net proceeds from a placing of a maximum of 1,000,000,000 new Shares at a placing price of HK\$0.110 per share of the Company (the “**Placing**”) in the amounts 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 HK\$ million	Utilisation	Utilisation	Utilisation	Remaining balance	Change of use of proceeds HK\$ million	Remaining balance
		up to 31 December 2017 HK\$ million	up to 31 December 2018 HK\$ million	up to 30 June 2019 HK\$ million	up to 30 June 2019 (before change of use of proceeds) HK\$ million		up to 30 June 2019 (after change of use of proceeds) 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
	106.8	27.4	79.1	86.4	20.4	-	20.4

Following the completion of the disposal of Coal Upgrading Business in year 2018, the Group will not apply further proceeds on the Coal Upgrading Business (including the repayment of overdue construction payables). In addition, the relevant overdue construction payables of the Coal Mining Business, which were intended to be repaid by the proceeds have been fully repaid. The management of the Company will apply all the remaining proceeds from the Placing as the general working capital of the Group for the second half of 2019 and 2020.

Business and financial review (Continued)

Liquidity and financial resources

As at 30 June 2019,

- (a) the aggregate amount of Group's: (i) restricted bank deposits; and (ii) bank and cash balances was approximately HK\$111,107,000 (as at 31 December 2018: approximately HK\$162,956,000);
- (b) the Group's total borrowing comprised other loans, totaling to approximately HK\$7,711,000 (as at 31 December 2018: approximately HK\$13,653,000);
- (c) the Group's total gearing ratio was approximately 3.2% (as at 31 December 2018: 6.7%). 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 2.29 (as at 31 December 2018: approximately 1.32). 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 2019, the Group did not have any pledge of assets (as at 31 December 2018: Nil).

Foreign currency risk

The Group's sale and purchases are mainly transacted in Renminbi and the books are recorded in Hong Kong dollars. The management of the Group noted that the recent fluctuation in the exchange rate between Renminbi and Hong Kong dollar, and is of the opinion that it does not currently have a material adverse impact of the Group's financial position 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.

Business and financial review (Continued)

Acquisition and disposal of material subsidiaries and associates

The Group did not acquire nor dispose of any material subsidiaries and associates during the six months ended 30 June 2019.

Significant investment

The Group did not purchase, sell or hold any significant investments during the six months ended 30 June 2019.

Contingent liabilities

As at 30 June 2019, contingent liabilities in the amount of RMB2 million (approximately HK\$2.3 million) since financial year ended 31 December 2016 which represents 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 2019, the Group have had no capital commitment (as at 31 December 2018: HK\$: Nil).

Employees

The Group employed 479 full-time employees as at 30 June 2019 (as at 31 December 2018: 449) in Hong Kong and the PRC. Remuneration of the staff comprised monthly salaries, provident fund contributions, medical benefits, training programs, housing allowances, discretionary bonus and discretionary options based on their contributions to the Group. Staff costs (including Director's emoluments) for the six months ended 30 June 2019 were HK\$23,484,000 (six months ended 30 June 2018: HK\$26,036,000).

Prospects

The global economic and political issues has led to China's gross domestic product growth to report a record low of 6.2% in the second quarter of year 2019. It is foreseeable that the business environment in the PRC will continue to be challenging.

The Group's coal mining operation is expected to remain stable in 2019 as China's coal industry reforms in the past few years have stabilised the coal prices in the PRC.

Going forward, the Group's coal production output is expected to maintain at a level complying with relevant industry rules and regulations changing from time to time. The financial performance of the Coal Mining Business will therefore be highly dependent on the volume and quality of its coal output, as well as the price level of coals in the PRC industry.

With an aim to improve the financial performance of the Group, the Group will strive to implement adequate cost saving measures and better sales strategies to enhance the operation efficiency of the Group.

In the near future, it is still one of the objectives of the Group to diversify its business into sectors offering higher growth momentum in view of current highly focused business portfolio. In light of the current fast-changing business and economic environment, the Group will use its best endeavors to explore business opportunities to broaden the Group's income base and diversify its business risks in order to enhance the shareholders' value.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

HK\$'000	Notes	Six months ended 30 June	
		2019 (Unaudited)	2018 (Unaudited) (Represented)
Continuing operations			
Revenue	4	105,882	68,631
Cost of sales		(43,362)	(57,084)
Gross profit			
Other income		349	40
Selling and distribution expenses		(2,308)	(3,336)
Administrative expenses		(24,671)	(21,880)
Profit/(loss) from operations			
Finance costs	5	(580)	(363)
Profit/(loss) before tax			
Income tax credit/(expense)	6	103	(170)
Profit/(loss) for the period from continuing operations			
		35,413	(14,162)
Discontinued operation			
Loss for the period from discontinued operation		–	(10,730)
Profit/(loss) for the period			
		35,413	(24,892)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

HK\$'000	Notes	Six months ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
			(Represented)
Attributable to:			
Owners of the Company			
Profit/(loss) from continuing operations		16,206	(11,289)
Loss from discontinued operation		–	(10,730)
Profit/(loss) attributable to owners of the Company		16,206	(22,019)
Non-controlling interests			
Profit/(loss) from continuing operations		19,207	(2,710)
Loss from discontinued operation		–	(163)
Profit/(loss) attributable to non-controlling interests		19,207	(2,873)
Profit/(loss) for the period		35,413	(24,892)
Earnings/(loss) per share			
From continuing operations and discontinued operation			
– basic	9(a)	HK1.1 cents	HK(1.5) cents
– diluted	9(a)	HK1.1 cents	HK(1.5) cents
From continuing operations			
– basic	9(b)	HK1.1 cents	HK(0.8) cents
– diluted	9(b)	HK1.1 cents	HK(0.8) cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

HK\$'000	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Profit/(loss) for the period	35,413	(24,892)
Other comprehensive income after tax:		
<i>Item that may be reclassified to profit or loss:</i>		
Exchange difference on translating foreign operations	(889)	(234)
Other comprehensive income and total comprehensive income for the period, net of tax	34,524	(25,126)
Attributable to:		
Owners of the Company	15,705	(21,955)
Non-controlling interests	18,819	(3,171)
	34,524	(25,126)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

HK\$'000	Notes	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Non-current assets			
Property, plant and equipment	10	123,071	131,143
Intangible asset		30,696	31,681
Right-of-use assets		2,730	–
Deferred tax assets		13,772	13,784
Total non-current assets		170,269	176,608
Current assets			
Inventories		8,524	6,250
Trade and bills receivables	11	17,349	1,983
Deposits, prepayments and other receivables		13,755	14,984
Due from a non-controlling shareholder	12	5,780	5,717
Restricted bank deposits		4,551	7,321
Bank and cash balances		106,556	155,635
Total current assets		156,515	191,890
Current liabilities			
Accrued charges and other payables		56,574	112,262
Contract liabilities		1,672	18,922
Lease liabilities		2,354	–
Other loans	13	7,711	13,653
Total current liabilities		68,311	144,837
Net current liabilities		88,204	47,053
Total assets less current liabilities		258,473	223,661

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

HK\$'000	Notes	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Non-current liabilities			
Lease liabilities		408	–
Provision		4,970	4,974
Deferred tax liabilities		15,232	15,348
Total non-current liabilities		20,610	20,322
NET ASSETS			
Capital and reserves			
Share capital	14	15,035	15,035
Other reserves		424,465	410,386
Accumulated losses		(270,227)	(271,853)
Equity attributable to owners of the Company		169,273	153,568
Non-controlling interests		68,590	49,771
TOTAL EQUITY		237,863	203,339

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

HK\$'000	Attributable to owners of the Company											
	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 2019	15,035	96,935	(1,628)	135,282	30,178	88,047	16,189	45,383	(271,853)	153,568	49,771	203,339
Total comprehensive income for the period	-	-	-	-	-	-	(501)	-	16,206	15,705	18,819	34,524
Share options lapsed during the period	-	-	-	-	-	-	-	(1,816)	1,816	-	-	-
Net appropriations	-	-	-	-	6,690	9,706	-	-	(16,396)	-	-	-
Change in equity for the period	-	-	-	-	6,690	9,706	(501)	(1,816)	1,626	15,705	18,819	34,524
At 30 June 2019	15,035	96,935	(1,628)	135,282	36,868	97,753	15,688	43,567	(270,227)	169,273	68,590	237,863
At 1 January 2018	15,035	96,935	(1,628)	135,282	25,633	70,998	12,130	3,073	(230,971)	126,487	31,464	157,951
Total comprehensive income for the period	-	-	-	-	-	-	64	-	(22,019)	(21,955)	(3,171)	(25,126)
Net appropriations	-	-	-	-	4,877	10,847	-	-	(15,724)	-	-	-
Change in equity for the period	-	-	-	-	4,877	10,847	64	-	(37,743)	(21,955)	(3,171)	(25,126)
At 30 June 2018	15,035	96,935	(1,628)	135,282	30,510	81,845	12,194	3,073	(268,714)	104,532	28,293	132,825

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

HK\$'000	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Net cash (outflow)/inflow from operating activities	(44,191)	9,118
Net cash inflow/(outflow) from investing activities	2,828	(3,971)
Net cash (outflow)/inflow before financing activities	(41,363)	5,147
Net cash (outflow)/inflow from financing activities	(7,716)	700
Net (decrease)/increase in cash and cash equivalents	(49,079)	5,847
Cash and cash equivalents at 1 January	155,635	105,286
Cash and cash equivalents at 30 June	106,556	111,133
Analysis of balances of cash and cash equivalents:		
Bank and cash balances	106,556	111,133

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

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

The Company is an investment holding company. The principal activities of its subsidiaries are the production and sale of coal (the “**Coal Mining Business**”) and provision of low-rank coal upgrading services (the “**Coal Upgrading Business**”). In December 2018, the Group disposed of and discontinued its Coal Upgrading Business. The results of the Group has reclassified the Coal Upgrading Business to discontinued operation in the financial period ended 30 June 2018.

2. Basis of Preparation and Accounting Policies

These unaudited condensed consolidated financial statements for the six months ended 30 June 2019 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 2018 (the “**2018 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 2019 are consistent with those used in the Group’s annual financial statements for the year ended 31 December 2018 except as stated in note 3 below.

3. 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:

- HKFRS 16, Leases
- HK(IFRIC)-Int 23, Uncertainty over Income Tax Treatments
- Amendments to HKFRS 9, Prepayment Features and Negative Compensation
- Amendments to HKAS 19, Plan Amendment, Curtailment or Settlement
- Amendments to HKAS 28, Long-term Interests in Associates and Joint Ventures
- Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 included in Annual Improvements to HKFRSs 2015-2017 Cycle

The impact of the adoption of HKFRS 16 Leases have been summarised in below. The other new or amended HKFRSs that are effective from 1 January 2019 did not have any significant impact on the Group’s accounting policies.

(i) Impact of the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases (“**HKAS 17**”), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee’s perspective, almost all leases are recognised in the statement of financial position as a right-of-use assets and a lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor’s perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group’s accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to section (ii) to (v) of this note.

The Group has applied HKFRS 16 using the cumulative effect approach and recognised the right-of-use assets at the amount equals to the lease liability, adjusted by the amount of any prepayments or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 1 January 2019. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

3. Adoption of New and Revised Hong Kong Financial Reporting Standards (Continued)

(i) Impact of the adoption of HKFRS 16 (Continued)

The following tables summarised the impact of transition to HKFRS 16 on statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows:

	HK\$'000
Statement of financial position as at 1 January 2019	
Increase in right-of-use assets	3,288
Increase in lease liabilities	
Non-current portion	847
Current portion	2,441
Total lease liabilities	3,288

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the statement of financial position as at 1 January 2019:

Reconciliation of operating lease commitment to lease liabilities

	HK\$'000
Operating lease commitment as of 31 December 2018	3,412
Less: Future interest expenses	(124)
Total lease liabilities as of 1 January 2019	3,288

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position as at 1 January 2019 was 6%.

3. Adoption of New and Revised Hong Kong Financial Reporting Standards (Continued)

(ii) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee applies the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

(iii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets (the Group has leased photocopying machines) and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

3. Adoption of New and Revised Hong Kong Financial Reporting Standards (Continued)

(iii) Accounting as a lessee (Continued)

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

3. Adoption of New and Revised Hong Kong Financial Reporting Standards (Continued)

(iv) Accounting as a lessor

As the accounting under HKFRS 16 for a lessor is substantially unchanged from the requirements under HKAS 17, the adoption of HKFRS 16 does not have significant impact on these condensed consolidated interim financial statements.

(v) Transition

As mentioned above, the Group has applied HKFRS 16 using the cumulative effect approach and recognised the right-of-use asset at the amount equals to the lease liability, adjusted by the amount of any prepayments or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 1 January 2019. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified operating leases under HKAS 17 as if HKFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. For all these right-of-use assets, the Group has applied HKAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as on that date.

3. Adoption of New and Revised Hong Kong Financial Reporting Standards (Continued)

(v) Transition (Continued)

The Group has also adopted the following practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 January 2019) and accounted for those leases as short-term leases; (iii) excluded the initial direct costs from the measurement of the right-of-use asset at 1 January 2019 and (iv) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

In addition, the Group has also adopted the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether any arrangement contains a Lease and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int4.

4. Segment Information

The Group has two reportable segments as follows:

- | | | |
|-------------------------|---|---|
| Coal Mining Business | – | Production and sale of coal; and |
| Coal Upgrading Business | – | Provision of low-rank coal upgrading services (discontinued operation). |

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 represent the profit or loss earned by each segment without allocation of 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)	Coal Upgrading Business (discontinued operation) (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
Interest expense	–	–	–
Income tax credit	131	–	131
Depreciation and amortisation	(9,079)	–	(9,079)
Additions to segment non-current assets	(39)	–	(39)
As at 30 June 2019	(Unaudited)	(Unaudited)	(Unaudited)
Segment assets	268,242	–	268,242
Segment liabilities	(131,336)	–	(131,336)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. Segment Information (Continued)

HK\$'000	Coal Mining Business (Unaudited)	Coal Upgrading Business (discontinued operation) (Unaudited)	Total (Unaudited)
Six months ended 30 June 2018			
Revenue from external customers	68,631	–	68,631
Segment loss	(6,144)	(10,933)	(17,077)
Interest revenue	17	–	17
Interest expense	–	(164)	(164)
Income tax expense	–	–	–
Depreciation and amortisation	(9,806)	(378)	(10,184)
Impairment loss on property, plant and equipment	–	(8,809)	(8,809)
Additions to segment non-current assets	(3,975)	–	(3,975)
As at 31 December 2018	(Audited)	(Audited)	(Audited)
Segment assets	261,329	–	261,329
Segment liabilities	(167,439)	–	(167,439)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. Segment Information (Continued)

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

HK\$'000	Six months ended 30 June 2019 (Unaudited)	2018 (Unaudited) (Represented)
Revenue		
Total revenue of reportable segment	105,882	68,631
Elimination of discontinued operation	–	–
Consolidated revenue from continuing operations	105,882	68,631
Profit or loss		
Total profit/(loss) of reportable segments	44,012	(17,077)
Unallocated corporate income	210	702
Unallocated corporate expenses	(8,809)	(8,517)
Discontinued operation	–	10,730
Consolidated profit/(loss) for the period from continuing operations	35,413	(14,162)
Assets		
HK\$'000		
Total assets of reportable segments	268,242	261,329
Corporate assets	83,566	136,656
Deferred tax assets	13,772	13,784
Elimination of intersegment assets	(38,796)	(43,271)
Consolidated total assets	326,784	368,498
Liabilities		
HK\$'000		
Total liabilities of reportable segments	131,336	167,439
Corporate liabilities	15,753	60,170
Deferred tax liabilities	15,232	15,348
Elimination of intersegment liabilities	(73,400)	(77,798)
Consolidated total liabilities	88,921	165,159

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. Finance Costs

HK\$'000	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Interest on other loans – wholly repayable within five years	74	164
Interest on loans from a director	–	149
Interest on lease liabilities	81	–
Imputed interest expense	425	302
Total borrowing costs	580	615
Representing:		(Represented)
Continuing operations	580	363
Discontinued operation	–	252
	580	615

6. Income Tax Credit/(expense)

HK\$'000	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Deferred tax	103	(170)
		(Represented)
Representing:		
Continuing operations	103	(170)
Discontinued operation	–	–
	103	(170)

No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2019 as the Group did not generate any assessable profits arising in Hong Kong during the period (six months ended 30 June 2018: 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 2018: 25%). No provision for PRC Enterprise Income Tax has been made for the six months ended 30 June 2019 as the PRC subsidiaries did not have any assessable profits during the period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. Profit/(loss) for the Period

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

HK\$'000	Continuing operations		Discontinued operation		Total	
	Six months ended 30 June 2019 (Unaudited)	2018 (Unaudited) (Represented)	Six months ended 30 June 2019 (Unaudited)	2018 (Unaudited) (Represented)	Six months ended 30 June 2019 (Unaudited)	2018 (Unaudited) (Represented)
Interest income	(209)	(27)	-	-	(209)	(27)
Amortisation of mining right (included in cost of sales)	975	915	-	-	975	915
Amortisation of prepaid land lease payment	-	-	-	193	-	193
Depreciation of property, plant and equipment	8,140	9,049	-	185	8,140	9,234
Depreciation of right-of-use assets	1,256	-	-	-	1,256	-
Impairment loss on property, plant and equipment	-	-	-	8,809	-	8,809
Cost of inventories sold	43,362	57,084	-	-	43,362	57,084
Directors' emoluments	1,398	2,791	-	49	1,398	2,840
Interest on lease liabilities	81	-	-	-	81	-
Short term lease expenses	35	-	-	-	35	-

8. Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

9. Earnings/(loss) per Share

(a) From continuing and discontinued operations

Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share attributable to owners of the Company is based on the profit attributable to owners of the Company for the six months ended 30 June 2019 of approximately HK\$16,206,000 (six months ended 30 June 2018: loss of HK\$22,019,000) and the weighted average number of ordinary shares of 1,503,477,166 (six months ended 30 June 2018: 1,503,477,166) in issue during the period.

Diluted earnings/(loss) per share

The computation of diluted earnings/(loss) per share for the six months ended 30 June 2019 and 30 June 2018 does not assume the exercise of share options granted by the Company as the exercise price of those options was higher than the average market price for shares.

(b) From continuing operations

Basic earnings/(loss) per share

The calculation of basic earnings/(loss) from continuing operations per share attributable to owners of the Company is based on the profit attributable to owners of the Company for the six months ended 30 June 2019 of approximately HK\$16,206,000 (six months ended 30 June 2018: loss of HK\$11,289,000 (represented)) and the weighted average number of ordinary shares detailed above for basic earnings/(loss) per share from continuing and discontinued operations.

Diluted earnings/(loss) per share

The computations of diluted earnings/(loss) per share for the six months ended 30 June 2019 and 30 June 2018 does not assume the exercise of share options granted by the Company as the exercise price of those options was higher than the average market price for shares.

9. Earnings/(loss) per Share (Continued)

(c) From discontinued operation

Basic loss per share

Basic loss per share from the discontinued operation for the six months ended 30 June 2018 is HK0.7 cent per share based on the loss for the period from discontinued operation attributable to the owners of the Company of approximately of HK\$10,730,000 (represented) and the weighted average number of ordinary shares detailed above for basic earnings/(loss) per share from continuing and discontinued operations.

Diluted loss per share

The computation of diluted loss per share for the six months ended 30 June 2018 does not assume the exercise of share options granted by the Company as the exercise price of those options was higher than the average market price for shares.

10. Property, Plant and Equipment

During the six months ended 30 June 2019, the Group had additions to property, plant and equipment of approximately HK\$39,000 (six months ended 30 June 2018: HK\$3,991,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. Trade and Bills Receivables

HK\$'000	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Trade receivables	20,320	4,386
Impairment loss on trade receivables	(3,653)	(3,656)
	16,667	730
Bills receivables	682	1,253
	17,349	1,983

As at 30 June 2019, the ageing analysis of trade receivables of approximately HK\$16,667,000 (as at 31 December 2018: HK\$730,000), based on the date of delivery and net of allowance, is as follows:

HK\$'000	30 June 2019 (Unaudited)	31 December 2018 (Audited)
0 to 90 days	16,667	5
91 to 180 days	–	6
181 to 365 days	–	719
Over 365 days	–	–
	16,667	730

For sale of coal, 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 from a Non-Controlling Shareholder

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

HK\$'000	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Current assets		
Other receivable (note)	5,780	5,717

Note:

The other receivable as at 30 June 2019 is unsecured, 3.6% interest per annum and repayable on 20 December 2019.

13. Other loans

HK\$'000	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Current liabilities		
Within one year (note)	7,711	13,653

Note:

Other loans as at 30 June 2019 represent the loans from a former director, Mr. Xu Bin, which are unsecured, interest bearing at 5% per annum and repayable on 31 December 2019. The amounts had been fully repaid in July 2019.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. Share Capital

Ordinary shares:	Authorised	
	No. of shares of HK\$0.01 each	HK\$'000
At 31 December 2018 (audited), 1 January 2019 and 30 June 2019 (unaudited)	100,000,000,000	1,000,000
	Issued and fully paid	
	No. of shares of HK\$0.01 each	HK\$'000
At 31 December 2018 (audited), 1 January 2019 and 30 June 2019 (unaudited)	1,503,477,166	15,035

15. 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 2019:

HK\$'000	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Loan interest payable to a director	–	149

OTHER INFORMATION

Interim dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: 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 2019, 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 any 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:

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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			Aggregate Interests	Approximate percentage of the total issued share capital of the Company as at 30 June 2019
	Personal Interests	Corporate Interests	Total Interests	Personal Interests	Family Interests	Total Interests		
Mr. Ng Ying Kit	-	-	-	17,250,000	-	17,250,000	17,250,000	1.15%
Mr. Ren Hang	-	-	-	15,000,000	-	15,000,000	15,000,000	1.00%
Mr. Kwok Chi Shing	-	-	-	225,000	-	225,000	225,000	0.01%
Mr. Huang Shao Ru	-	-	-	225,000	-	225,000	225,000	0.01%

Note: 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 2019, 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.

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Substantial shareholders

As at 30 June 2019, 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 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 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 2019
Liu Chang Deng	Beneficial owner	156,154,315	10.39%

Save as disclosed above, as at 30 June 2019, 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 (i) closing price per Share of HK\$0.700 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 at the Second Date of Grant.

On 27 July 2018 (the “**Third Date of Grant**”), the Company granted certain share options comprising 150,000,000 underlying Shares, which represented approximately 9.98% of the total issued share capital of the Company as at that date, to certain Directors and employees and other eligible participants. Such share options were vested immediately and exercisable for a ten-year period from 27 July 2018 to 26 July 2028 (both days inclusive). The exercise price of the share options granted HK\$0.510 per Share, which was the highest of (i) the closing price per Share of HK\$0.510 on the Third Date of Grant; (ii) the average closing price of HK\$0.500 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the Third Date of Grant; and (iii) the nominal value of HK\$0.01 per Share at the Third Date of Grant.

OTHER INFORMATION

Share option scheme (Continued)

Particulars of the share options under the 2009 Scheme outstanding as at 30 June 2019 were as follows:

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

Name of Directors	Date of Grant	Exercisable Period	Number of underlying Shares comprised in share options				Balance as at 30 June 2019	Exercise Price Per Share (HK\$)
			Balance as at 1 January 2019	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period		
Executive Directors								
Mr. Ng Ying Kit	30 April 2015	30 April 2015 to 29 April 2025	2,250,000	-	-	-	2,250,000	0.710
	27 July 2018	27 July 2018 to 26 July 2028	15,000,000	-	-	-	15,000,000	0.510
Ms. Huo Lijie	28 July 2015	28 July 2015 to 27 July 2025	2,250,000	-	-	(2,250,000)	-	0.530
Mr. Ren Hang	27 July 2018	27 July 2018 to 26 July 2028	15,000,000	-	-	-	15,000,000	0.510
			34,500,000	-	-	(2,250,000)	32,250,000	
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			34,950,000	-	-	(2,250,000)	32,700,000	

OTHER INFORMATION

Share option scheme (Continued)

(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 30 June 2019	Exercise Price Per Share (HK\$)
			Balance as at 1 January 2019	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period		
Employees	30 April 2015	30 April 2015 to 29 April 2025	450,000	-	-	-	450,000	0.710
	27 July 2018	27 July 2018 to 26 July 2028	45,000,000	-	-	-	45,000,000	0.510
			45,450,000	-	-	-	45,450,000	
Eligible Participant	28 July 2015	28 July 2015 to 27 July 2025	4,500,000	-	-	(4,500,000)	-	0.530
	27 July 2018	27 July 2018 to 26 July 2028	75,000,000	-	-	-	75,000,000	0.510
			79,500,000	-	-	(4,500,000)	75,000,000	
Total			124,950,000	-	-	(4,500,000)	120,450,000	

The maximum number of Shares to be issued upon exercise of all share options to be granted under the 2009 Scheme was refreshed to 150,347,716 shares (the "**Scheme Mandate**") on 17 July 2018, being 10% of the total issued share capital of the Company as at the date of the passing of an ordinary resolution by the shareholders of the Company to approve the refreshment of the Scheme Mandate. On 27 July 2018, the Company has granted 150,000,000 share options to certain eligible participants. As at 30 June 2019, the number of Shares to be issued upon the exercise of the outstanding options under the 2009 Scheme was 347,716 Shares, representing 0.02% of the total issued share capital of the Company as at 30 June 2019.

Share option scheme (Continued)

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 fair value of the share options comprising 150,000,000 underlying Shares granted on the Third Date of Grant of approximately HK\$42,309,000 was valued by using the Binominal pricing model. Values are estimated based on the risk-free rate 2.18% 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 65.00%, assuming a dividend yield of Nil and an expected opinion 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 the Company's listed securities

During the six months ended 30 June 2019, 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 2019.

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 2019.

Corporate Governance

The Company's corporate governance practices are based on the principles and code provision as set out in the CG Code.

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 2019 except for the following deviations:

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 Mr. Xu Bin, the former Chairman and executive Director of the Company and resignation of Mr. Zhang Fusheng, the former Chief executive officer and executive Director of the Company, the Board does not have any Chairman and Chief executive officer. The duties and responsibilities of the Company's business are handled by the existing executive Director and senior management of the Company so as to achieve the overall commercial objectives of the Company. The Company looking for suitable person to fill the vacancy of the chairman and chief executive officer.

Compliance with the Model Code for Securities Transactions

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.

Update on Directors' Information

The changes in director's information subsequent to the 2018 annual report of the Company dated 29 March 2019 and up to the date of this interim report, as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

- Ms. Huo Lijie resigned as an executive Director and various subsidiary directorship of the Company with effect from 30 April 2019.

CORPORATE PROFILE

Board of Directors

Executive Directors

Mr. NG Ying Kit
Mr. REN Hang
Ms. HUO Lijie
(resigned on 30 April 2019)

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. NG Ying Kit
Ms. WAN Shui Wah

Audit Committee

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

Remuneration Committee

Mr. HUANG Shao Ru (*Chairman*)
Mr. CHANG Xuejun
Mr. NG Ying Kit

Nomination Committee

Mr. HUANG Shao Ru (*Chairman*)
Mr. CHANG Xuejun
Mr. NG Ying Kit

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

CORPORATE PROFILE

Hong Kong Branch Share Registrar and Transfer Office

Tricor Abacus Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Banker

Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong)
Limited
DBS Bank (Hong Kong) Limited

Independent Auditor

BDO Limited
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;
“2018 AGM”	the annual general meeting held by the Company on 17 June 2019;
“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;
“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 director(s) 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;

DEFINITIONS

“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.