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Grand Ocean Advanced Resources Company Limited

弘海高新資源有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 65)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

FINANCIAL HIGHLIGHTS

- (1) Revenue for the year ended 31 December 2022 amounted to approximately HK\$191,180,000, representing an increase of approximately HK\$8,164,000 or approximately 4.5% as compared to the revenue of approximately HK\$183,016,000 last year.
- (2) Gross profit for the year ended 31 December 2022 amounted to approximately HK\$81,166,000, representing an increase of approximately HK\$7,301,000 or approximately 9.9% as compared to the gross profit of approximately HK\$73,865,000 last year. Overall gross profit margin was approximately 42.5% as compared to approximately 40.4% last year.
- (3) Profit for the year ended 31 December 2022 amounted to approximately HK\$26,100,000 as compared to the profit of approximately HK\$31,975,000 last year.
- (4) Profit attributable to owners of the Company for the year ended 31 December 2022 amounted to approximately HK\$10,237,000 as compared to the profit attributable to owners of the Company of approximately HK\$14,372,000 last year.
- (5) The Board does not recommend the payment of any final dividend for the year ended 31 December 2022.

ANNUAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Grand Ocean Advanced Resources Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2022 together with the comparative figures for the year ended 31 December 2021 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue	4	191,180	183,016
Cost of sales		<u>(110,014)</u>	<u>(109,151)</u>
Gross profit		81,166	73,865
Other income and gains	5	2,921	3,385
Selling and distribution expenses		(4,561)	(3,779)
Administrative expenses		(72,160)	(74,323)
Impairment loss on trade receivables		–	(213)
Reversal of impairment loss on property, plant and equipment		19,998	24,981
Reversal of impairment loss on intangible asset		6,708	7,312
Reversal of impairment loss on right-of-use assets		<u>–</u>	<u>400</u>
Profit from operations		34,072	31,628
Finance costs	7	<u>(1,170)</u>	<u>(38)</u>
Profit before tax	8	32,902	31,590
Income tax (expense)/credit	9	<u>(6,802)</u>	<u>385</u>
Profit for the year		<u>26,100</u>	<u>31,975</u>
Attributable to:			
Owners of the Company		10,237	14,372
Non-controlling interests		15,863	17,603
		<u>26,100</u>	<u>31,975</u>
Earnings per share		HK cents	HK cents
– basic	11	<u>0.68</u>	<u>0.96</u>
– diluted	11	<u>0.68</u>	<u>0.96</u>

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year	<u>26,100</u>	<u>31,975</u>
Other comprehensive income after tax:		
<i>Item that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	<u>(12,207)</u>	<u>1,002</u>
Other comprehensive income for the year, net of tax	<u>(12,207)</u>	<u>1,002</u>
Total comprehensive income for the year	<u>13,893</u>	<u>32,977</u>
Attributable to:		
Owners of the Company	3,255	13,630
Non-controlling interests	<u>10,638</u>	<u>19,347</u>
	<u>13,893</u>	<u>32,977</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	2022 HK\$'000	2021 HK\$'000
Non-current assets			
Property, plant and equipment		109,997	90,610
Intangible asset		29,657	26,476
Investment property		2,217	2,543
Right-of-use assets		12,549	14,409
Deferred tax assets		12,547	20,812
Total non-current assets		166,967	154,850
Current assets			
Inventories		13,597	7,221
Trade receivables	12	–	–
Deposits, prepayments and other receivables		2,336	6,584
Restricted bank deposits		4,956	4,932
Bank and cash balances		117,494	86,412
Total current assets		138,383	105,149
Current liabilities			
Accruals and other payables		51,251	54,611
Contract liabilities	4	300	3,593
Convertible bonds	13	39,582	–
Lease liabilities		86	596
Total current liabilities		91,219	58,800
Net current assets		47,164	46,349
Total assets less current liabilities		214,131	201,199

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2022

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Non-current liabilities		
Provision for environmental rehabilitation and restoration	4,919	5,346
Deferred tax liabilities	<u>15,802</u>	<u>17,078</u>
Total non-current liabilities	<u>20,721</u>	<u>22,424</u>
NET ASSETS	<u>193,410</u>	<u>178,775</u>
Capital and reserves		
Share capital	15,035	15,035
Reserves	<u>108,090</u>	<u>104,093</u>
Equity attributable to owners of the Company	123,125	119,128
Non-controlling interests	<u>70,285</u>	<u>59,647</u>
TOTAL EQUITY	<u>193,410</u>	<u>178,775</u>

Notes:

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 1602, Sino Plaza, 255-257 Gloucester Road, Hong Kong. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The Company is an investment holding company. The principal activities of its subsidiaries during the year ended 31 December 2022 was the production and sale of coal (the “**Coal Mining Business**”).

2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). HKFRSs comprise Hong Kong Financial Reporting Standards (“**HKFRS**”), Hong Kong Accounting Standards (“**HKAS**”), and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and with the disclosure requirements of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong).

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis.

(c) Functional and presentation currency

The consolidated financial statements are presented in Hong Kong dollar, which is the same as the functional currency of the Company.

3. ADOPTION OF NEW OR AMENDED HONG KONG FINANCIAL REPORTING STANDARDS

(a) Adoption of amended HKFRSs

In the current year, the Group has applied for the first time the following amended HKFRSs issued by the HKICPA, which are relevant to and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2022:

Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41	Annual Improvements to HKFRSs 2018-2020
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRS 3	Reference to the Conceptual Framework

The adoption of these amended HKFRSs have no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

(b) New or amended HKFRSs that have been issued but not yet effective

The following new or amended HKFRSs, potentially relevant to the Group's consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ²
Amendments to HKAS 1	Non-current Liabilities with Covenants ²
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to HKAS 8	Definition of Accounting Estimates ¹
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ²
HKFRS 17	Insurance Contracts ¹

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after 1 January 2024.

³ The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

The directors of the Company anticipate that the application of these new and amended HKFRSs will have no material impact on the Group's consolidated financial performance and positions and/or the disclosures to the consolidated financial statements of the Group.

4. REVENUE

An analysis of the Group's revenue for the year is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Sale of coal	<u>191,180</u>	<u>183,016</u>

The Group recognised sale of coal of approximately HK\$191,180,000 (2021: HK\$183,016,000) during the year ended 31 December 2022 under the Coal Mining Business cash-generating unit. Sale of coal is recognised at a point in time and its external customers were located in the People's Republic of China (the "PRC") entirely.

The following table provides information about contract liabilities from contracts with customers.

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Contract liabilities	<u>300</u>	<u>3,593</u>

The contract liabilities mainly relate to the advance consideration received from customers.

Movement in contract liabilities:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Balance as at 1 January	3,593	7,251
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities		
– at the beginning of the year	(1,701)	(7,251)
– during the year	(189,479)	(175,765)
Decrease in contract liabilities in relation to refund	(1,706)	–
Increase in contract liabilities as a result of receipt in advance consideration received from customers	189,788	179,198
Exchange difference	<u>(195)</u>	<u>160</u>
Balance as at 31 December	<u>300</u>	<u>3,593</u>

5. OTHER INCOME AND GAINS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest income	264	308
Bad debts recovery	197	–
Government subsidy (<i>Note</i>)	1,975	–
Gain on disposal of subsidiaries (<i>Note 14</i>)	–	2,031
Gain on disposals of property, plant and equipment	55	43
Net foreign exchange gains	–	498
Sundry income	430	505
	<u>2,921</u>	<u>3,385</u>

Note: During the year ended 31 December 2022, the Group received subsidies of approximately HK\$1,951,000 from the local PRC government for subsidising the staff training (2021: Nil). There is no unfulfilled conditions or contingencies relating to these subsidies.

6. SEGMENT INFORMATION

The Group determines its operating segments based on the business from products/services perspective.

For the year ended 31 December 2022 and 2021, the Group had only one reportable operating segment which is the Coal Mining Business. Thus, no operating segments had been aggregated to form the above reportable operating segment.

Geographical information:

The Group's revenue from external customers by location of operations and information about its non-current assets (excluding deferred tax assets) by location of assets are detailed below:

	Revenue		Non-current assets	
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Hong Kong	–	–	94	18
The PRC except Hong Kong	191,180	183,016	154,326	134,020
	<u>191,180</u>	<u>183,016</u>	<u>154,420</u>	<u>134,038</u>
Consolidated total	<u>191,180</u>	<u>183,016</u>	<u>154,420</u>	<u>134,038</u>

Revenue from major customers:

For the year ended 31 December 2022, revenue from one customer (2021: three customers) have exceeded 10% of the Group's revenue for the year. Details were as below:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Coal Mining Business		
Customer A	148,176	–
Customer B	–	21,332
Customer C	N/A ¹	21,319
Customer D	N/A ¹	18,993
	_____	_____

¹ The corresponding revenue did not contribute over 10% of the total revenue of the Group.

7. FINANCE COSTS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest on lease liabilities	9	38
Interest on convertible bonds	837	–
Effective interest on convertible bonds	324	–
	_____	_____
	1,170	38
	_____	_____

8. PROFIT BEFORE TAX

The Group's profit before tax is stated after charging/(crediting) the following:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Auditor's remuneration	1,450	1,450
Amortisation of mining right	1,244	1,017
Cost of inventories sold [#]	110,014	109,151
Depreciation of		
– Property, plant and equipment	12,972	12,439
– Investment property	126	131
– Right-of-use assets included within		
– Properties	1,012	1,004
– Ownership interests in leasehold land and buildings	260	270
Reversal of impairment loss on inventories	–	(51)
Short-term leases expenses	69	72
Administrative fines*	<u>1,184</u>	<u>1,098</u>

[#] Cost of inventories sold includes staff costs, amortisation of mining right and depreciation of approximately HK\$45,157,000 (2021: HK\$46,658,000) which are included in the amounts disclosed separately.

* During the year ended 31 December 2022, the Group incurred several administrative fines in aggregate amount of approximately HK\$1,184,000 (2021: HK\$1,098,000) paid to the local government authority in relation to workplace safety matters for the year.

9. INCOME TAX EXPENSE/(CREDIT)

Income tax expense/(credit) has been recognised in profit or loss as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Deferred tax	<u>6,802</u>	<u>(385)</u>

No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2022 as the Group did not generate any assessable profit arising in Hong Kong during the year (2021: 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% (2021: 25%). No provision for PRC Enterprise Income Tax has been made for year ended 31 December 2022 as the PRC subsidiaries had available tax losses brought forward to offset the estimated assessable profit arising in the PRC (2021: the PRC subsidiaries did not generate any assessable profit arising in the PRC during the year).

10. DIVIDENDS

The Directors do not recommend the payment of any final dividend for the year ended 31 December 2022 (2021: Nil).

11. EARNINGS PER SHARE

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	10,237	14,372
Effect of dilutive potential ordinary share: – Convertible bonds	<u>–</u>	<u>–</u>
Profit for the year attributable to owners of the Company for the purpose of diluted earnings per share	<u>10,237</u>	<u>14,372</u>
	Number of shares	
	2022	2021
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,503,477,166	1,503,477,166
Effect of dilutive potential ordinary share: – Convertible bonds	<u>–</u>	<u>–</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,503,477,166</u>	<u>1,503,477,166</u>

Basic earnings per share

The calculation of basic earnings per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of approximately HK\$10,237,000 (2021: HK\$14,372,000) and the weighted average number of ordinary shares of 1,503,477,166 (2021: 1,503,477,166) in issue during the year.

Diluted earnings per share

For the year ended 31 December 2022, diluted earnings per share was equal to the basic earnings per share as the adjustments to reflect the effect of deemed conversion of convertible bonds would increase the earnings per share attributable to owners of the Company and have anti-dilutive effect.

For the year ended 31 December 2021, diluted earnings per share was equal to the basic earnings per share as there was no dilutive potential ordinary share in issue for the year.

12. TRADE RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables	1,243	1,351
Impairment loss on trade receivables	<u>(1,243)</u>	<u>(1,351)</u>
	<u>—</u>	<u>—</u>

Payments in advance are required by the Group but credit terms of 90 days are granted to certain key customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the senior management.

13. CONVERTIBLE BONDS

On 21 June 2022, the Company entered into a subscription agreement with Blossom Investment Consultant Limited (the “**Subscriber**”), pursuant to which the Company had conditionally agreed to issue, and the Subscriber had conditionally agreed to subscribe for, convertible bonds in the aggregate principal amount of HK\$40,000,000 (the “**Convertible Bonds**”) which could be converted into a maximum of 220,000,000 conversion shares of the Company at an initial conversion price of approximately HK\$0.1818 per conversion share. The issuance of the Convertible Bonds was completed on 18 July 2022 with net proceeds of approximately HK\$39,800,000.

The Convertible Bonds, which will mature on 17 July 2023 (the “**Maturity Date**”), are secured by share charges of entire issued share capital of two wholly-owned subsidiaries of the Company, carrying an interest rate of the average of the rate of interest offered on Hong Kong dollar by banks in the interbank market for one year (1-year HIBOR) on (i) 21 June 2022, and (ii) the Maturity Date, plus 0.25% per annum.

The Convertible Bonds contained two components, liability and equity elements. The initial fair value of the liability component and the equity conversion component was determined based on net proceeds at issuance. The fair value of the liability component was calculated by using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, was included in equity as “convertible bonds reserve”. The liability component was subsequently measured at amortised cost using the effective interest method.

The movements of the components of the Convertible Bonds during the year ended 31 December 2022 are set out below:

	Liability component at amortised cost <i>HK\$'000</i>	Convertible bonds reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2022	–	–	–
Issuance of the Convertible Bonds	39,258	742	40,000
Effective interest expense (<i>Note 7</i>)	324	–	324
	<hr/>	<hr/>	<hr/>
As at 31 December 2022	<u>39,582</u>	<u>742</u>	<u>40,324</u>

As at 31 December 2022, the carrying amounts of the Convertible Bonds approximates to their fair value.

14. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2021

Disposal of Qingdao Xinghua Resources Holding Company Limited and its subsidiaries

Pursuant to the sale and purchase agreement dated 9 February 2021 entered into between Glory Skytop International Limited (“**Glory Skytop**”), an indirect wholly-owned subsidiary of the Company, as the vendor and Qingdao Dongyuanhai Investment Holding Company Limited as the purchaser (the “**Purchaser**”), Glory Skytop had conditionally agreed to sell and the Purchaser had conditionally agreed to purchase all of Glory Skytop’s equity interest held in Qingdao Xinghua Resources Holding Company Limited (“**Qingdao Xinghua**”) and its wholly-owned subsidiaries (collectively referred to as “**Qingdao Xinghua Group**”) at a consideration of US\$5.1 million (or HK\$39,660,000 equivalent) which were engaged in the provision of environmental-friendly tyre recycling services in the PRC (the “**Disposal**”). The Disposal was completed on 7 April 2021 (the “**Disposal Date**”).

The net assets of Qingdao Xinghua Group at the Disposal Date were as follows:

	<i>HK\$’000</i>
Property, plant and equipment	490
Due from a non-controlling shareholder	16,714
Other receivables	30
Cash and cash equivalents	61,468
Other payables	<u>(134)</u>
Net assets disposed of	78,568
Non-controlling interests	(38,879)
Cumulative exchange difference in respect of net assets of subsidiaries reclassified from equity to profit or loss	(2,060)
Gain on disposal of subsidiaries	<u>2,031</u>
Total consideration	<u>39,660</u>
Consideration received in cash	<u>39,660</u>
Net cash inflow arising on Disposal:	
Cash consideration received	39,660
Cash and bank balances disposed of	<u>(61,468)</u>
Net outflow of cash and cash equivalents included in cash flow from investing activities	<u>(21,808)</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business and financial review

The Group recorded total revenue of approximately HK\$191,180,000 for the year ended 31 December 2022, representing an increase of approximately HK\$8,164,000 or approximately 4.5% as compared to the revenue of approximately HK\$183,016,000 for the year ended 31 December 2021. The profit for the year ended 31 December 2022 amounted to approximately HK\$26,100,000 as compared to approximately HK\$31,975,000 for the year ended 31 December 2021. The profit attributable to owners of the Company for the year ended 31 December 2022 amounted to approximately HK\$10,237,000 as compared to approximately HK\$14,372,000 for the year ended 31 December 2021.

As resulted from certain policies on restriction of coals importing to China and the increased demand in the domestic coal market, the overall market prices of coal in the Inner Mongolia region, the PRC, had been increased significantly in the fourth quarter of 2021. While under the stabilisation policy of energy supply implemented by the State Government of the PRC, the selling prices of coals had maintained stable in the second half of 2022. Nevertheless, the Group recorded an increase in average selling price of coals as compared to the corresponding period in 2021.

The increase in the average selling price of coals has led to the reversal of impairment loss in an aggregate amount of approximately HK\$26,706,000 in property, plant and equipment and intangible asset of the Coal Mining Business segment of the Group for the year ended 31 December 2022.

The Coal Mining Business segment reported a profit after tax of approximately HK\$36,706,000 for the year ended 31 December 2022 as compared to approximately HK\$40,825,000 for the year ended 31 December 2021. The Coal Mining Business is reported as the only business segment of Group for the year ended 31 December 2022.

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 (the “**Inner Mongolia Coal Mine 958**”) in the Inner Mongolia region with an allowed annual coal production capacity of 1,200,000 tonnes. During the year ended 31 December 2022, approximately 909,000 tonnes (2021: 978,000 tonnes) of coals were produced and approximately 910,000 tonnes (2021: 973,000 tonnes) of coals were sold.

In 2020, the local government authorities of Inner Mongolia region (the “**Review Authorities**”) were commissioned by the State Government of the PRC to conduct an extensive compliance review on all the coal mines located in the Inner Mongolia region, including the Group’s Inner Mongolia Coal Mine 958, covering inspections on all aspects of corporate matters such as production safety, sales activities, taxation, mining resources and annual reporting etc. during the past 20 years.

Upon the completion of compliance review by the Review Authorities in September 2020, Inner Mongolia Jinyuanli had settled the corresponding administrative fines. Thereafter, Inner Mongolia Jinyuanli entered into a Contract for State-Owned Construction Land Use Right Assignment (國有建設用地使用權出讓合同) with the Huolinguole Natural Resources Bureau (霍林郭勒市自然資源局) whereas a land premium of RMB11.6 million (approximately HK\$13.0 million) was paid in November 2020. As at the date of this announcement, Inner Mongolia Jinyuanli had submitted the application for the grant of the real estate ownership certificates (不動產所有權證) pending for the approval.

Subsequent to the completion of the compliance review in 2020, Inner Mongolia Jinyuanli had successfully renewed its: (i) safety production permit (安全生產許可證) approved by the State administration of Coal Mine Safety of Inner Mongolia (內蒙古煤礦安全監察局); and (ii) coal mining license (採礦許可證) approved by the Tongliao Natural Resources Bureau (通遼市自然資源局), both of which were extended for a term of three years until 24 September 2023 and 26 October 2023 respectively.

At present, the Review Authorities visited Inner Mongolia Jinyuanli occasionally to review mainly the workplace safety and coal resources of the Inner Mongolia Coal Mine 958. During the year ended 31 December 2022, administrative fines of RMB1,020,000 (approximately HK\$1,184,000) (2021: RMB910,000 (approximately HK\$1,098,000)) were paid to the local government authority for certain minor workplace safety matters.

In view of current conditions of our production facilities, the annual coal production output of our Inner Mongolia Coal Mine 958 is expected to remain at around 900,000 tonnes.

Impairment assessment review on property, plant and equipment, intangible asset and right-of-use assets of the Coal Mining Business segment

The management of the Company has performed an impairment assessment review on all the carrying amounts of the property, plant and equipment, intangible asset and right-of-use assets under the non-current assets of the Coal Mining Business cash-generating unit (the “Coal CGU”) for each of the reporting period. The recoverable amounts of the Coal CGU were estimated based on the value in use calculation, determined by discounting the future cash flows to be generated from the continuing use of these assets. The key assumptions of the cash flow projections were made based on the current business and financial conditions of Inner Mongolia Jinyuanli. An independent professional valuer has been engaged by the Company to review the appropriateness and reasonableness of the assumptions applied in the cash flow projections, and conduct a valuation on the Coal CGU.

The key assumptions and parameters adopted in the cash flow projections of the Coal CGU as at 31 December 2021, 30 June 2022 and 31 December 2022 are set out below:

Key assumptions	31 December 2021	30 June 2022	31 December 2022
Projected annual coal production output for the period until the expiry date of the business license (<i>note 1</i>)	900,000 tonnes	900,000 tonnes	900,000 tonnes
Average unit coal selling price per tonne (including value-added tax) (<i>note 2</i>)	2022: RMB165 2023: RMB168 2024 onwards: increase with inflation rate	2022:RMB165 2023:RMB168 2024 onwards: increase with inflation rate	2023:RMB178 2024:RMB182 2025 onwards: increase with inflation rate
Inflation rate	2.5%	2.5%	2.5%
Pre-tax discount rate	16.66%	16.25%	16.49%

Notes:

- (1) The forecasted annual coal production output of the Group’s Inner Mongolia Coal Mine 958 was estimated to be 900,000 tonnes based on the existing status of the Inner Mongolia Coal Mine 958.
- (2) The estimated unit selling price of coal (average unit selling price) was determined by referencing to: (i) the current unit selling price of coals of approximately RMB180 per tonne (including value-added tax); (ii) the prevailing market price of coals in the Inner Mongolia Region; and (iii) the historical average unit selling price of coals produced by Inner Mongolia Jinyuanli over past few years.

Based on the impairment assessment review for the year ended 31 December 2022 above, reversal of impairment losses in an aggregate amount of approximately HK\$26,706,000 was recorded on the carrying amounts of property, plant and equipment and intangible asset of the Coal Mining Business segment of the Group.

Selling and distribution expenses

The selling and distribution expenses of the Group for the year ended 31 December 2022 in the amount of approximately HK\$4,561,000 was 100% attributed to the Coal Mining Business, representing an increase of approximately HK\$782,000 as compared to approximately HK\$3,779,000 for the year ended 31 December 2021. The increase in selling and distribution expenses was caused by the increase in the logistics costs during the year.

Administrative expenses

The administrative expenses of the Group for the year ended 31 December 2022 amounted to approximately HK\$72,160,000, representing a decrease of approximately HK\$2,163,000 as compared to approximately HK\$74,323,000 for the year ended 31 December 2021. The slight decrease in administrative expenses was mainly attributable to the decrease in staff cost. 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 for the year ended 31 December 2022 amounted to approximately HK\$1,170,000 as compared to approximately HK\$38,000 for the year ended 31 December 2021. The increase in finance costs was mainly attributable to the interest payable in accordance with the coupon of the Convertible Bonds (as defined below) issued in July 2022.

Profit for the year

The profit for the year ended 31 December 2022 amounted to approximately HK\$26,100,000 as compared to approximately HK\$31,975,000 for the year ended 31 December 2021. The profit attributable to owners of the Company for the year ended 31 December 2022 was approximately HK\$10,237,000 as compared to approximately HK\$14,372,000 for the year ended 31 December 2021.

Convertible bonds

On 21 June 2022, the Company entered into a subscription agreement with Blossom Investment Consultant Limited (the “**Subscriber**”), pursuant to which the Company had conditionally agreed to issue, and the Subscriber had conditionally agreed to subscribe for, convertible bonds in the aggregate principal amount of HK\$40,000,000 (the “**Convertible Bonds**”) which could be converted into a maximum of 220,000,000 conversion shares of the Company at an initial conversion price of approximately HK\$0.1818 per conversion share at the option of the Subscriber at any time during the period from 18 July 2022 to 16 July 2023. The issuance of the Convertible Bonds was completed on 18 July 2022 with net proceeds of approximately HK\$39,800,000.

The Convertible Bonds, which will mature on 17 July 2023 (the “**Maturity Date**”), are secured by share charges of entire issued share capital of two wholly-owned subsidiaries of the Company, carrying an interest rate of the average of the rate of interest offered on Hong Kong dollar loans by banks in the interbank market for one year (1-year HIBOR) on (i) 21 June 2022, and (ii) the Maturity Date, plus 0.25% per annum.

Use of proceeds of the Convertible Bonds

The net proceeds from the Convertible Bonds were approximately HK\$39,800,000, of which (i) approximately HK\$37,000,000 will be used to further enhance the Group’s mining and mineral related businesses; and (ii) approximately HK\$2,800,000 will be used for general working capital of the Group. As at 31 December 2022, the Group had utilised approximately HK\$8,708,000 and HK\$2,800,000 to enhance our mining and mineral related businesses and for general working capital respectively.

Liquidity and financial resources

As at 31 December 2022,

- (a) the aggregate amount of the Group's: (i) restricted bank deposits; and (ii) bank and cash balances was approximately HK\$122,450,000 (2021: HK\$91,344,000);
- (b) the Group's total borrowings comprised of the Convertible Bonds amounted to approximately HK\$39,582,000 (2021: Nil);
- (c) the Group's gearing ratio was approximately 0.20 (2021: Nil). The gearing ratio was calculated as the Group's total borrowings divided by total equity; and
- (d) the Group's current ratio was approximately 1.52 (2021: 1.79). 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 31 December 2022, the entire issued share capital of two wholly-owned subsidiaries of the Company were pledged being the collaterals of the Convertible Bonds issued by the Company in July 2022 (2021: Nil).

Foreign currency risk

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

Acquisition and disposal of material subsidiaries and associates

The Group did not acquire nor dispose of any material subsidiaries and associates during the year ended 31 December 2022.

Significant investment

The Group did not purchase, sell or hold any significant investments during the year ended 31 December 2022.

Contingent liabilities

The Group did not have any material contingent liabilities as at 31 December 2022.

Capital commitment

As at 31 December 2022, the Group's capital expenditure contracted for but not provided in the consolidated financial statements in respect of property, plant and equipment amounted to approximately HK\$5,366,000 (2021: Nil).

Employees

The Group employed 451 full-time employees as at 31 December 2022 (2021: 447) in Hong Kong and the PRC. Remuneration of the staff comprises monthly salaries, provident fund contributions, medical benefits, training programs, housing allowances and discretionary bonus based on their qualifications, job nature, performance and working experiences referencing to the prevailing market rate and contributions to the Group. Staff costs including Directors' emoluments for the year ended 31 December 2022 were approximately HK\$83,194,000 (2021: HK\$80,691,000).

Prospects

The COVID-19 pandemic and Russia's invasion of Ukraine have led to major disruptions to global energy supply chains. In December 2022, the PRC government ended its zero-COVID policy and are administering efforts in resuming everything to normal. The mainland economy has begun to recover gradually and comprehensively.

Having said that, the Board is of the view that the Coal Mining Business is still full of challenges, such as rising competition from renewable energies, and tightening government regulations and industry practices due to increasing environmental, social and corporate governance awareness. The serious coal mine accident in Inner Mongolia in February 2023 had raised our attention that government authorities may further tighten the safety regulations and practices of the coal industry in the Inner Mongolia region, possibly bringing additional operation and compliance risks to our Coal Mining Business.

Looking forward, the Board will fully leverage on the competitive edges of the Group to drive the performance of core businesses at a steady pace and will also actively seize investment opportunities prudently and thoroughly in order to generate favourable returns for our shareholders. Counting on our professional team with extensive market experience, the Group will seize the development opportunities arising from the mining and mineral business as well as other energy sectors and increase geographic diversity. The Company aims to broaden its business scope and benefit from the diversified return in the future to enhance shareholders' value.

CORPORATE GOVERNANCE

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

The Company has complied with the applicable code provisions as set out in the CG Code contained in Appendix 14 to the Listing Rules during the year ended 31 December 2022 except for the following deviations:

Under the code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Following the passing away of the former chairman and executive Director of the Company, and the resignation of the chief executive officer 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 Directors and senior management of the Company so as to achieve the overall commercial objectives of the Company. The Company is looking for suitable person to fill the vacancy of the chairman and chief executive officer.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the required standard governing securities transactions by the Directors. The Company made specific enquires to all the Directors and all the Directors have confirmed that they had complied with the required standards set out in the Model Code during the year ended 31 December 2022.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2022, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

ANNUAL GENERAL MEETING

The 2022 annual general meeting of the Company (the “**2022 AGM**”) will be held on Wednesday, 21 June 2023 at 11:00 a.m., details of which will be set out in the notice of the 2022 AGM, which will be published and despatched to the shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 15 June 2023 to Wednesday, 21 June 2023, both days inclusive, for the purpose of determining the shareholders who are entitled to attend and vote at the 2022 AGM.

In order to be eligible to attend and vote at the 2022 AGM, all transfers of the shares of the Company accompanied by the relevant share certificates and transfer forms must be lodged to the Company’s Hong Kong branch share registrar and transfer office, Tricor Abacus Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not later than 4:30 p.m. on Wednesday, 14 June 2023.

REVIEW OF THE ANNUAL RESULTS BY AUDIT COMMITTEE

An audit committee of the Company has been established for the purpose of reviewing the financial information of the Group and overseeing 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, comprising three independent non-executive Directors, namely Mr. Lee Wai Ming (Chairman), Mr. Chang Xuejun and Mr. Ho Man, have reviewed the Group’s annual results for the year ended 31 December 2022 and are satisfied that the preparation of the results is in compliance with appropriate accounting policies and practices.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of this announcement of the Group's annual results for the year ended 31 December 2022 have been agreed by the Group's independent auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements and the related notes thereto for the year ended 31 December 2022. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with the Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by BDO Limited on this annual results announcement.

DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2022.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.grandoccean65.com) respectively. The annual report of the Company for the year ended 31 December 2022 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and published on the above websites in due course.

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

Hong Kong, 24 March 2023

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Ng Ying Kit, Mr. Leung Ka Hong, Mr. Guo Jianpeng and Mr. Tao Ye; two non-executive Directors, namely Mr. Zhou Hongliang and Mr. Hu Xiutong; and three independent non-executive Directors, namely Mr. Lee Wai Ming, Mr. Chang Xuejun and Mr. Ho Man.