CHINA UNIENERGY GROUP LIMITED
中 国 优 质 能 源 集 团 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1573)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

The board (the "**Board**") of directors (the "**Directors**") of CHINA UNIENERGY GROUP LIMITED (the "**Company**") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2017 (the "**Reporting Period**").

FINANCIAL HIGHLIGHTS

- Revenue amounted to approximately RMB310.6 million (six months ended 30 June 2016: RMB298.4 million).
- Sales volume of anthracitic coal amounted to approximately 517,000 tonnes (six months ended 30 June 2016: 486,000 tonnes).
- Gross profit amounted to approximately RMB177.1 million (six months ended 30 June 2016: RMB170.1 million).
- Gross profit margin was 57.0% (six months ended 30 June 2016: 57.0%).
- Profit attributable to owners of the Company amounted to approximately RMB109.6 million (six months ended 30 June 2016: RMB76.5 million).
- Basic earnings per share was RMB0.15 (six months ended 30 June 2016: RMB0.13).

INTERIM RESULTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	NOTES	Six months ended 30 June **2017** **RMB'000** **(unaudited)**	2016 RMB'000 (unaudited)
Revenue	3	**310,555**	298,373
Cost of sales		**(133,429)**	(128,301)
Gross profit		**177,126**	170,072
Other income		**2,782**	914
Net foreign exchange loss		**(559)**	—
Distribution and selling expenses		**(1,787)**	(1,568)
Administrative expenses		**(12,020)**	(10,375)
Listing expenses		**—**	(26,144)
Finance costs		**(17,654)**	(22,555)
Share of loss of a joint venture		**(192)**	(134)
Profit before taxation		**147,696**	110,210
Income tax expense	4	**(38,123)**	(33,729)
Profit and total comprehensive income for the period	5	**109,573**	76,481
		RMB	RMB
Earnings per share			
Basic	7	**0.15**	0.13

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	NOTES	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Non-current assets			
Property, plant and equipment		**286,822**	293,982
Mining rights		**887,291**	896,759
Rehabilitation deposits		**17,874**	19,874
Deposits paid for acquisition of property, plant and equipment		**291**	—
Interest in a joint venture		**9,345**	9,537
Prepaid lease payments – non-current portion		**6,344**	6,268
		1,207,967	1,226,420
Current assets			
Inventories		**4,876**	1,707
Prepaid lease payments – current portion		**254**	314
Trade and other receivables	8	**3,826**	81,312
Short-term bank deposits		**50,000**	130,000
Bank balances		**251,313**	160,664
		310,269	373,997
Current liabilities			
Trade and other payables	9	**187,270**	210,661
Tax payables		**25,729**	32,569
Bank borrowings – current portion	10	**142,300**	232,300
		355,299	475,530
Net current liabilities		**(45,030)**	(101,533)
Total assets less current liabilities		**1,162,937**	1,124,887
Capital and reserves			
Share capital		**47,988**	47,988
Reserves		**815,010**	705,437
Total equity		**862,998**	753,425
Non-current liabilities			
Provision for restoration and environmental costs		**17,536**	17,048
Bank borrowings – non-current portion	10	**271,450**	342,600
Deferred tax liabilities		**10,953**	11,814
		299,939	371,462
		1,162,937	1,124,887

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. GENERAL, LISTING, REORGANISATION AND BASIS OF PRESENTATION AND PREPARATION OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 8 January 2014. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 13 July 2016 (the "Listing"). The registered office of the Company is located at Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business is located in 31st Floor, Fuzhong International Plaza, Xinhua Road, Nanming District, Guiyang City, Guizhou Province, the People's Republic of China (the "PRC"). Its parent and ultimate holding company is Lavender Row Limited, a limited liability company incorporated in the British Virgin Islands.

The Company is an investment holding company. The principal activities of the Group are the extraction and sale of anthracite coal in the PRC. The Group is holding the mining rights of four anthracite coal mines located in Guizhou Province, the PRC. Three out of the four anthracite coal mines, namely Lasu coal mine, Weishe coal mine and Luozhou coal mine are in commercial production and the remaining one, Tiziyan coal mine is currently under development.

The condensed consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

In the preparation of the Listing, the Group underwent a group reorganisation (the "Reorganisation") to rationalise the group structure of the companies now comprising the Group.

Prior to the Reorganisation, 貴州優銀投資控股有限公司 (Guizhou Union Investment Holding Company Limited) ("Union Investment") and 貴州瑞聯資產管理有限公司 (Guizhou Ruilian Assets Management Company Limited) ("Guizhou Ruilian") owned 貴州優能(集團)礦業股份有限公司 (Guizhou Union (Group) Mining Co. Ltd.) ("Guizhou Union") as to 50% and 50%, respectively. Union Investment was owned by two individuals, namely Mr. Xu Bo and Mr. Xiao Zhijun, both being directors of the Company (collectively the "Union Investment Shareholders"), as to 80% and 20%, respectively, while Guizhou Ruilian was owned by Union Investment and other five individuals (the "Guizhou Ruilian Individual Shareholders"), as to 50% and 50% (in aggregate), respectively. In addition, pursuant to the relevant shareholders' resolution of Guizhou Union and Guizhou Ruilian, Union Investment, a company controlled by Mr. Xu Bo, was able to exercise control over Guizhou Union and Guizhou Ruilian prior to the Reorganisation.

The Reorganisation principally involved the following steps:

(i) Acquisition/establishment of the Company and its wholly owned subsidiaries, China Unienergy Holdings Limited, China Unienergy Development Co., Limited and 深圳能創新能源開發有限公司 (Shenzhen Nengchuang New Energy Development Company Limited) ("Shenzhen WFOE"), as appropriate. The Company is beneficially owned by the Union Investment Shareholders and the Guizhou Ruilian Individual Shareholders as to the percentages which they effectively held prior to the Reorganisation in the companies now comprising the Group through the two investment holding vehicles, namely Union Investment and Guizhou Ruilian; and

(ii) Acquisition of the entire 100% equity interest in Union Investment and the 50% equity interest in Guizhou Ruilian from the Union Investment Shareholders and the Guizhou Ruilian Individual Shareholders by Shenzhen WFOE on 11 April 2016.

Upon completion of the Reorganisation on 11 April 2016, the Company became a holding company of the companies now comprising the Group.

Basis of presentation

The condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months ended 30 June 2016 have been prepared to present the financial performance, changes in equity and cash flows of the companies now comprising the Group as if the group structure upon the completion of the Reorganisation had been in existence throughout the reporting period, or since their respective dates of acquisition/establishment, or up to the respective date of disposal, whichever is shorter.

Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

At 30 June 2017, the Group had net current liabilities of approximately RMB45 million. In preparing these condensed consolidated financial statements, the directors of the Company have carefully considered the future liquidity of the Group and concluded that the Group has sufficient working capital to meet in full its financial obligations as and when they fall due in the foreseeable future, after taking into account (i) the continuous operating cash inflows generated from the Group’s business; (ii) the Group’s capital expenditure plan for its future business development; and (iii) the availability of unutilised banking facilities amounted to approximately RMB486 million. Accordingly, the directors of the Company are satisfied that the adoption of the going concern basis in preparing the condensed consolidated financial statements is appropriate.

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and method of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, certain amendments to HKFRSs issued by the HKICPA that are mandatorily effective for the current interim period.

The application of the amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in the condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

All revenues are generated in the PRC. The following is an analysis of the Group's revenue in the reporting periods.

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Sale of anthracite coal	**310,555**	298,360
Sale of coalbed methane	**—**	13
	310,555	298,373

Management determines the operating segment based on the information reported to the Group's chief operating decision maker ("CODM"), being the executive directors of the Company. The CODM assesses the operating performance and allocates the resources of the Group as a whole as the Group is primarily engaged in the extraction and sale of anthracite coal in the PRC. Accordingly, there is only one operating and reportable segment. All the principal assets employed by the Group are located in the PRC.

Segment assets and liabilities

Information reported to the CODM for the purposes of resources allocation and performance assessment does not include any assets and liabilities. Accordingly, no segment assets and liabilities are presented.

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
PRC Enterprise Income Tax ("EIT")	**38,984**	35,533
Deferred taxation	**(861)**	(1,804)
	38,123	33,729

During the six months ended 30 June 2017 and 2016, the Group had no assessable profit subject to tax in any jurisdictions other than the PRC. The Group's PRC subsidiaries are subject to EIT at the statutory rate of 25%.

No deferred taxation has been provided in respect of the undistributed earnings of the Group's PRC subsidiaries as the directors consider that such earnings will not be distributed in the foreseeable future.

5. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging (crediting):		
Amortisation of mining rights (included in cost of sales)	**9,468**	9,431
Depreciation of property, plant and equipment		
- included in cost of sales	**7,773**	8,779
- included in distribution and selling expenses	**134**	128
- included in administrative expenses	**207**	221
	8,114	9,128
Release of prepaid lease payments	**127**	126
Cost of inventories recognised as an expense	**133,429**	128,301
Bank interest income	**(2,227)**	(68)

6. DIVIDEND

No dividend was paid, declared or proposed for the six months ended 30 June 2017 and 2016 by the directors of the Company.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings		
Earnings for the purpose of basic earnings per share		
- profit for the period attributable to owners of the Company	**109,573**	76,481

	Six months ended 30 June	
	2017	2016
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	**718,000,000**	600,000,000

The number of ordinary shares for the purpose of basic earnings per share for the six months ended 30 June 2016 had been determined assuming the Reorganisation, subdivision of shares and capitalisation issue of the Company had been effective on 1 January 2016.

No diluted earnings per share for the six months ended 30 June 2017 and 2016 is presented as there were no potential ordinary shares outstanding during both periods.

8. TRADE AND OTHER RECEIVABLES

	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Trade receivables	**132**	78,059
Deposits, prepayments and other receivables (note)	**3,694**	3,253
	3,826	81,312

Note: Included in other receivables as at 30 June 2017 and 31 December 2016 was an amount of RMB305,000 due from ultimate holding company, which is unsecured, interest-free and repayable on demand.

Before accepting any new customers, the Group assesses the customers' credit quality and reputation. This exercise is also performed on a regular basis by the Group. In general, the Group requests advance payments from customers before delivering the goods and no credit period is granted. For certain customers, the Group requests an upfront sales deposit and grants them a credit period of 45 days for the six months ended 30 June 2016 for subsequent purchases. No credit period was granted to customers for the six months ended 30 June 2017 and no upfront sale deposits were received for this purpose.

The following is an aged analysis of trade receivables, presented based on invoice dates which approximated the respective revenue recognition date, at the end of the reporting periods:

	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
0 - 30 days	**117**	58,992
31 - 60 days	**15**	19,067
	132	78,059

9. TRADE AND OTHER PAYABLES

	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Trade payables	**6,204**	6,311
Upfront sale deposits received	**—**	17,700
Accruals for staff costs	**11,736**	13,710
Advanced sales receipts from customers	**117**	176
Interests payables	**14,789**	14,411
Other payables and accruals	**4,259**	6,142
Other tax payables	**13,664**	15,710
Resources fees payable and accrual (note)	**136,501**	136,501
	181,066	204,350
	187,270	210,661

Note: Resources fees are charged by the PRC local government authority upon their approval to upgrade the Group's annual production capacity of the relevant coal mines and the payable amounts are determined based on the total coal reserves in the respective mining areas as assessed and approved by the authority in prior years. Included in the amounts are RMB29,055,000 as at 30 June 2017 and 31 December 2016 which carry interest at the Benchmark Lending Rate of the People's Bank of China and are payable on demand. The amount as at 30 June 2017 and 31 December 2016 also included an amount of RMB107,446,000 estimated and accrued by the management upon the PRC local government authority approving the upgrade of the annual production capacity of Lasu coal mine, Weishe coal mine and Luozhou coal mine in late 2015. Such accrual did not bear interest and the Group is in the process of finalising the actual resources fees to be paid and applying for deferring the payment and agreeing an instalment plan with the relevant authority. Up to the date of this interim result announcement, the approval is yet to obtain.

The following is an aged analysis of trade payables, presented based on the invoice date, at the end of the reporting periods:

	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
0 - 30 days	**6,204**	6,311

The average credit period for purchase of goods is 30 days.

10. BANK BORROWINGS

During the current interim period, the Group repaid bank borrowings of approximately RMB161 million (six months ended 30 June 2016: RMB167 million). During the six months ended 30 June 2016, the Group obtained new bank borrowings amounting to RMB90 million (six months ended 30 June 2017: Nil). The borrowings carry interest at fixed market rates ranging from 5.50% to 6.60% (31 December 2016: ranging from 4.79% to 6.60%) per annum and are repayable within one to three years (31 December 2016: one to four years). The proceeds was used for working capital and general corporate purposes.

MANAGEMENT DISCUSSION AND ANALYSIS

This management discussion and analysis is prepared as of 28 August 2017. It should be read in conjunction with the unaudited interim condensed consolidated financial statements and notes thereto of the Group for the six months ended 30 June 2017.

Business Review and Market Review

According to data from the National Bureau of Statistics of the People's Republic of China (the "**PRC**" or "**China**"), GDP for the first half of the year was RMB38,149.0 billion, representing an increase of 6.9% year-on-year. Specifically, the year-on-year growth rate during the first and second quarter were both 6.9%. Overall, the national economy remained stable as a whole with active development made for the first half of 2017.

As an important mission of China's supply-side structural reform, the PRC government has implemented the policy to reduce production capacity continuously and effectively. According to data from the National Development and Reform Commission, in 2016, over 2,000 coal mines across the nation with outdated production capacity had been closed, and the number of coal mines in China has decreased to under 8,000, while the coal production capacity in China has reduced by over 290 million tonnes. In 2017, China is scheduled to reduce the coal production capacity by 150 million tonnes within the year. During the first half of the year, China has reduced its coal production capacity by 111 million tonnes, representing the completion of 74% of the annual mission. It is highly possible to surpass the production capacity reduction target in 2017. The Development and Reform Commission's plan also stated that, in 2017 and 2018, the elimination of outdated production capacity will be accelerated in order to make way for the development of premium quality production capacity.

In 2017, the overall performance of the coal market is relatively active. According to data from the National Bureau of Statistics, the output of raw coal in China was 1.71 billion tonnes for the first half of 2017, representing an increase of 5.0% year-on-year. Based on data from the National Energy Administration, coal consumption in China was approximately 1.83 billion tonnes during the first half of 2017, representing an increase of approximately 1% year-on-year. Coal price at the Qinhuangdao Port has shown continuous and significant increase over the corresponding period last year. During the first half of 2017, saved for construction material industry, the coal-related downstream industries such as the electricity, steel, and chemical industry have seen an increase in their respective coal consumption over the last corresponding period. The overall active performance of the coal market was illustrated by the significant improvement of the operating condition of coal enterprises. In the first 6 months of 2017, the profit of coal enterprises above designated size in China amounted to a total of RMB147.48 billion, representing an increase of RMB140.31 billion over the corresponding period last year.

China's overall economic development is stable and active. The PRC government has continuously deepened the policy to reduce production capacity of the coal mine industry. Combined with the growth in the coal-related downstream production, these factors are beneficial for the coal market to remains stable and rational.

Financial Review

Revenue

During the Reporting Period, the Group recorded a revenue of approximately RMB310.6 million, representing an increase of RMB12.2 million, or a rise of approximately 4.1%, from approximately RMB298.4 million for the six months ended 30 June 2016. The increase in the revenue was primarily attributable to the increased sales volume of anthracite coal recorded in the current period. Sales volume increased by 6.4% from approximately 486,000 tonnes for the six months ended 30 June 2016 to approximately 517,000 tonnes for the Reporting Period benefited by the overall improvement in China's economic development.

Cost of Sales

The Group's cost of sales increased by 4.0% to approximately RMB133.4 million during the Reporting Period from approximately RMB128.3 million for the six months ended 30 June 2016, which was primarily attributable to the increase in the production volume of anthracite coal resulting in the increase in (i) staff costs; (ii) costs of materials, fuels and energy; (iii) depreciation of property, plant and equipment and amortisation of mining rights; and (iv) business taxes and surcharges.

The Group's cost of sales per tonne recorded a decrease from RMB265 per tonne for the six months ended 30 June 2016 to RMB258 per tonne for the Reporting Period.

The following table sets forth a breakdown of the Group's average cost of sales per tonne of anthracite coal in the periods as indicated below:

	Six months ended 30 June	
	2017	2016
Cost of sales per tonne	**RMB/Tonne**	RMB/Tonne
Staff costs	**107**	109
Cost of materials, fuel and energy	**75**	74
Depreciation and amortisation	**34**	38
Business taxes and surcharges	**40**	42
Others	**2**	2
Total	**258**	265

Gross Profit and Gross Profit Margin

As a result of the foregoing, the gross profit increased by 4.1% from approximately RMB170.1 million for the six months ended 30 June 2016 to approximately RMB177.1 million for the Reporting Period. The gross profit margin maintained at 57.0% for both periods.

Distribution and Selling Expenses

During the Reporting Period, the Group's distribution and selling expenses were approximately RMB1.8 million, representing an increase of RMB0.2 million, or a rise of approximately 14.0%, from approximately RMB1.6 million for the six months ended 30 June 2016, which was primarily attributable to the increase in material expenses of diesel fuel used by tractor shovels as a result of increased sales volume of anthracite coal in the current period.

Administrative Expenses

During the Reporting Period, the Group's administrative expenses were approximately RMB12.0 million, representing an increase of RMB1.6 million, or a rise of approximately 15.9%, from approximately RMB10.4 million for the six months ended 30 June 2016, which was primarily attributable to the increase in salaries and employees benefits as a result of the increase in the number of administrative staff and general level of salaries and benefits for administrative staff.

Finance Costs

During the Reporting Period, the Group's finance costs were approximately RMB17.7 million, representing a decrease of RMB4.9 million, or a drop of approximately 21.7%, from approximately RMB22.6 million for the six months ended 30 June 2016, which was primarily attributable to the decrease in average loan balance.

Income Tax Expense

During the Reporting Period, the Group's income tax expense was approximately RMB38.1 million, representing an increase of RMB4.4 million from approximately RMB33.7 million for the six months ended 30 June 2016, which was primarily attributable to the growth in the Group's business and hence resulting in a higher taxable profit.

Profit and Total Comprehensive Income Attributable to Owners of the Company

During the Reporting Period, profit and total comprehensive income attributable to owners of the Company was approximately RMB109.6 million, representing an increase of RMB33.1 million, or a rise of approximately 43.3%, from approximately RMB76.5 million for the six months ended 30 June 2016. The increase was primarily attributable to the sales growth during the Reporting Period.

Liquidity and Capital Resources

As at 30 June 2017, the Group had net current liabilities of approximately RMB45.0 million (31 December 2016: RMB101.5 million).

The Group intends to finance its future capital expenditure requirements mainly with the continuous operating cash flows generated from the Group's business, the net proceeds from the listing and the availability of banking facilities. As of 30 June 2017, the Group had bank balances in the amount of approximately RMB251.3 million (31 December 2016: RMB160.7 million) and unutilised banking facilities in the amount of approximately RMB486.2 million (31 December 2016: RMB325.1 million).

As at 30 June 2017, the Group had bank borrowings of approximately RMB413.8 million (31 December 2016: RMB574.9 million). Bank borrowings carry interest at fixed market rates ranging from 5.50% to 6.60% (31 December 2016: ranging from 4.79% to 6.60%) and are repayable within one to three years (31 December 2016: one to four years) and are denominated in Renminbi.

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The management monitors the utilisation of bank borrowings and ensures compliance with the covenants under the relevant loan.

The Group has not engaged in any foreign currency contract to hedge the potential foreign currency exchange exposure.

Pledge of Assets

As at 30 June 2017, the Group's mining rights with carrying amounts of approximately RMB887.3 million (31 December 2016: RMB896.8 million) were pledged as securities for banking facilities.

Capital Commitments

There were no capital commitments as at 30 June 2017 (31 December 2016: Nil).

Gearing Ratio

As at 30 June 2017, the gearing ratio (total bank borrowings over total equity and multiplied by 100%) of the Group was 47.9% (31 December 2016: 76.3%). The decrease in the gearing ratio was primarily attributable to the decrease in total bank borrowings from approximately RMB574.9 million as at 31 December 2016 to approximately RMB413.8 million.

Employee and Remuneration Policy

As of 30 June 2017, the Group had a total of 1,584 employees.

The employee's remuneration policy of the Group is formulated on the basis of the performance, work experience and salary level prevailing in the market. The Group has not experienced any significant employment issues or any suspension of operations due to labour disputes nor has it experienced any difficulty in the recruitment and retention of experienced staff. The Group maintains a good relationship with its employees.

Contingent Liabilities

Between 2013 and 2015, the Group entered into five conditional asset transfer agreements with independent third parties to acquire all the assets and liabilities in five companies (with respect to Daihaizi Coal Mine, Xinfeng Coal Mine, Chengguan Coal Mine, Hongfa Coal Mine and Qingsong Coal Mine), each of which is inactive but holding the mining right of an anthracite coal mine in Guizhou Province of the PRC. Each of the agreements contain a number of condition precedents including, but not limited to, transfer of mining right to the Group, technological upgrade and related application for upgrading the annual production capacity of the mines by the vendors, obtaining the updated mining right licences with the increased production capacity, satisfactory completion of the due diligence by the Group as well as consideration determination based on professional valuation.

In 2016, the Group entered into supplemental agreements with the vendors to delineate the rights and obligations between the parties under the proposed acquisitions and each of the vendors agreed to indemnify the Group and its directors and shareholders for any potential liabilities therefrom. In addition, the Group has the sole and absolute discretion to decide whether or not to proceed with the acquisitions in accordance with the supplemental agreements. Based on the foregoing, the management of the Group is of the view that no provision is considered necessary during the Reporting Period.

At the end of the Reporting Period, the respective acquisitions are yet to complete given the fact that many of the key completion precedents are not satisfied. Hence, the Directors consider that it is unlikely that future economic benefits associated with the mines will flow to the Group in the near term and the consideration of the transactions cannot be accurately measured. The Directors concluded that the risks and rewards of those anthracite coal mines are yet to be transferred to the Group. Notwithstanding certain obligations imposed on the Group in the respective asset transfer agreements as well as those mining licence transfer agreements subsequently entered into, the management of the Group, having consulted its

PRC legal advisors, considered that contingent liabilities adhered to those agreements are remote and yet to estimate reliably. Hence, no provision has been made in the financial statements in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

In addition, in connection with one of the above proposed conditional assets transfer agreements, the Group was a defendant to a claim with Guangshengyuan, an independent third party, regarding the non-payment of outstanding consideration and related liquidated damages of approximately RMB25.2 million in relation to the Laowangchong Coal Mine (the "**Litigation**"). In 2015, the Court of First Instance in Guizhou ruled in favour of Guangshengyuan and held that Guizhou Union was liable to pay RMB5.6 million in liquidated damages; and proceed with the mine transfer agreement (and its supplement) and pay RMB19.6 million to Guangshengyuan. Guizhou Union appealed in January 2016 to the Higher People's Court of Guizhou Province and a second instance hearing was held in May 2016. During the Reporting Period, on 21 April 2017, the Company received the judgment of the Higher People's Court of Guizhou Province dated 19 April 2017 (the "**Judgment**"). The Higher People's Court of Guizhou Province ruled in favour of Guizhou Union and held that, among others: (1) the facts affirmed by the Court of First Instance in Guizhou and the applications of law were erroneous, and the judgment at the Court of First Instance in Guizhou is therefore dismissed; (2) the mine transfer agreement (and its supplement) are rescinded; (3) Guangshengyuan shall return the coal mine purchase price of RMB8.4 million to Guizhou Union within 10 days of the Judgment, along with the interest accrued on the amount at the then prevailing bank loan interest rates since 25 March 2014. Litigation fee of the first instance and second instance hearings of about RMB0.55 million in aggregate shall be borne by Guangshengyuan at RMB0.44 million and Guizhou Union at RMB0.11 million, respectively. Since Guizhou Union has already pre-paid about RMB0.38 million litigation fee in advance for the first instance and second instance hearings, Guizhou Union shall be directly reimbursed by Guangshengyuan for the extra payment of about RMB0.27 million. As advised by the PRC legal advisers of the Company, the Judgment is final and binding on the parties. As the Judgment was in favour of Guizhou Union, the Board is of the view that the Litigation does not have any material adverse impact to the financial position of the Group. As such, no provision is considered necessary. During the Reporting Period, the Company has received the reimbursement of RMB0.27 million and the coal mine purchase price of RMB8.4 million from Guangshengyuan.

Subsequent Events after the Reporting Period

There is no material event undertaken by the Group subsequent to 30 June 2017 and up to the date of this announcement.

Prospect

With the stable development of the PRC economy, the PRC government has implemented the policy to reduce production capacity of the coal mine industry continuously, and has continuously improved the downstream industries, which will lead the coal mine market to a stable and rational state. The management of the Group is optimistic on the overall development of the coal mine industry. As such, the management of the Group has been looking for coal mines with high quality coal resources for mergers and acquisitions. If mergers and acquisitions are identified, the Group will make relevant disclosure pursuant to the Listing Rules and the relevant laws and regulations.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Reporting Period, there was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

USE OF PROCEEDS

Net proceeds from the global offering amounted to approximately HK$154.7 million (including the proceeds received pursuant to the partial exercise of the over-allotment option), and are intended to be used in the manner as set out in the prospectus of the Company dated 30 June 2016. In 2016, a total of HK$3.48 million had been applied to the working capital and other general corporate purposes. During the Reporting Period, a total of HK$6.83 million had been also applied to the working capital and other general corporate purposes.

INTERIM DIVIDEND

The Board does not recommend the distribution of any interim dividend for the Reporting Period.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Directors recognise the importance of good corporate governance in the management of the Group. The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") as its own corporate governance framework.

During the Reporting Period, the Company has complied with the code provisions as set out in the CG Code, save and except for the following code provision.

Chairman and Chief Executive

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive of the Company should be performed by separate individuals, but due to Mr. Xu Bo's background, qualifications and experience at the Company, he was considered the most suitable person to take both roles in the current circumstances. The Board believes that it is appropriate and in the best interests of the Company that Mr. Xu Bo holds both positions at the current stage, as it helps to maintain the continuity, the stability and efficiency of the operations of the Company. The Board believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high-calibre individuals including four independent non-executive Directors offering independent advice from different perspectives. In addition, major decisions are made after consultation with the Board and appropriate Board committee. The Board is therefore of the view that there are adequate balance and safeguards in place.

COMPLIANCE WITH THE 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 its own code of conduct regarding Directors' securities transactions.

The Company has made specific enquiry to all Directors, and all Directors have confirmed that they have complied with the required standard as set out in the Model Code during the Reporting Period.

AUDIT COMMITTEE

The Company has an audit committee (the "**Audit Committee**") which was established in accordance with the requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting system, risk management and internal control. The Audit Committee comprises three independent non-executive Directors. The members of the Audit Committee are Mr. Fu Lui (chairman), Mr. Jiang Chenglin and Mr. Choy Wing Hang William.

The Audit Committee has reviewed the unaudited interim results for the six months ended 30 June 2017 of the Group. The Audit Committee has also reviewed the effectiveness of the financial control, internal control and risk management systems of the Company.

The interim results of the Group for the Reporting Period are unaudited, but have been reviewed by Deloitte Touche Tohmatsu in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by Independent Auditor of the Entity" issued by the HKICPA.

PUBLICATION OF THE INTERIM RESULTS AND 2017 INTERIM REPORT

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.unienergy.hk), and the 2017 Interim Report will be dispatched to the shareholders of the Company and will be made available on the websites of the Stock Exchange and the Company in due course.

By order of the Board
CHINA UNIENERGY GROUP LIMITED
Xu Bo
Chairman

Guiyang, People's Republic of China
28 August 2017

As at the date of this announcement, the executive directors of the Company are Mr. Xu Bo, Mr. Wei Yue and Mr. Xiao Zhijun; and the independent non-executive directors of the Company are Mr. Jiang Chenglin, Mr. Choy Wing Hang William, Mr. Lee Cheuk Yin Dannis and Mr. Fu Lui.