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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

The board (the "**Board**") of directors (the "**Directors**") of CHINA UNIENERGY GROUP LIMITED (the "**Company**") is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2017 (the "**Reporting Period**").

FINANCIAL HIGHLIGHTS

- Revenue amounted to approximately RMB642.4 million (year ended 31 December 2016: RMB691.0 million).
- Sales volume of anthracitic coal amounted to approximately 1,040,000 tonnes (year ended 31 December 2016: 1,120,000 tonnes).
- Gross profit amounted to approximately RMB369.2 million (year ended 31 December 2016: RMB403.6 million).
- Gross profit margin was 57.5% (year ended 31 December 2016: 58.4%).
- Profit attributable to owners of the Company amounted to approximately RMB230.1 million (year ended 31 December 2016: RMB213.7 million).
- Basic earnings per share was RMB0.32 (year ended 31 December 2016: RMB0.33).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	NOTES	**2017**	2016
		RMB'000	*RMB'000*
Revenue	4	**642,432**	690,998
Cost of sales		**(273,184)**	(287,381)
Gross profit		**369,248**	403,617
Other income		**6,133**	2,242
Other losses, net		**(419)**	(964)
Distribution and selling expenses		**(3,276)**	(3,500)
Administrative expenses		**(26,729)**	(22,814)
Listing expenses		**—**	(32,774)
Finance costs	5	**(31,682)**	(43,301)
Share of results of a joint venture		**24**	(254)
Profit before taxation		**313,299**	302,252
Income tax expense	6	**(83,225)**	(88,512)
Profit and total comprehensive income for the year	7	**230,074**	213,740
		RMB	*RMB*
Earnings per share	8		
Basic		**0.32**	0.33
Diluted		**N/A**	0.33

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	2017	2016
		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment		**279,898**	293,982
Mining rights		**878,274**	896,759
Deposit paid for acquisition of an exploration right		**86,400**	—
Rehabilitation deposits		**17,874**	19,874
Interest in a joint venture		**9,561**	9,537
Prepaid lease payments - non-current portion		**6,089**	6,268
		1,278,096	1,226,420
Current assets			
Inventories		**1,174**	1,707
Prepaid lease payments - current portion		**318**	314
Trade and other receivables	10	**3,941**	81,312
Short-term bank deposits		**50,000**	130,000
Bank balances		**227,584**	160,664
		283,017	373,997
Current liabilities			
Trade and other payables	11	**184,703**	210,661
Tax payable		**23,174**	32,569
Bank borrowings - current portion	12	**142,300**	232,300
		350,177	475,530
Net current liabilities		**(67,160)**	(101,533)
Total assets less current liabilities		**1,210,936**	1,124,887

	NOTES	2017	2016
		RMB'000	RMB'000
Capital and reserves			
Share capital	13	**47,988**	47,988
Reserves		**935,511**	705,437
Total equity		**983,499**	753,425
Non-current liabilities			
Provision for restoration and environmental costs		**18,025**	17,048
Bank borrowings - non-current portion	12	**200,300**	342,600
Deferred tax liabilities		**9,112**	11,814
		227,437	371,462
		1,210,936	1,124,887

NOTES:

1. GENERAL, LISTING, REORGANISATION AND BASIS OF PRESENTATION OF THE 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 are 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 ("Dai BVI"), a limited liability company incorporated in the British Virgin Islands.

The Company is an investment holding company. The principal activity of the Group is 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 under development.

The 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.

The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 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 year ended 31 December 2016 or since their respective dates of acquisition/establishment, whichever is shorter.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017, the Group had net current liabilities of approximately RMB67 million. In preparing the 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 banking facilities, amounting to RMB557 million being unutilised facilities. Accordingly, the directors of the Company are satisfied that the adoption of the going concern basis in preparing the consolidated financial statements is appropriate.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 *"Disclosure Initiative"*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in the note to the consolidated financial statements. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosures in the note to the consolidated financial statements, the application of these amendments has had no impact on the Group's consolidated financial statements.

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) - Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 - 2017 Cycle[2]

[1] Effective for annual periods beginning on or after 1 January 2018

[2] Effective for annual periods beginning on or after 1 January 2019

[3] Effective for annual periods beginning on or after a date to be determined

[4] Effective for annual periods beginning on or after 1 January 2021

4. REVENUE AND SEGMENT INFORMATION

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

	2017	2016
	RMB'000	*RMB'000*
Sale of anthracite coal	**642,432**	690,985
Sale of coalbed methane	**—**	13
	642,432	690,998

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, which are prepared based on the Group's accounting policies. 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 regularly 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.

Geographical information

All of the Group's revenues are derived from the operation in the PRC and all the customers of the Group are located in the PRC. In addition, all of the Group's non-current assets, excluding financial assets, are located in the PRC, which is based on the physical location of assets. Therefore, no geographical information is presented.

Information about major customers

Revenue from customers of the corresponding years individually contributing over 10% of the Group's revenue is as follows:

	2017	2016
	RMB'000	*RMB'000*
Customer A	**204,227**	—*
Customer B	**163,750**	—*
Customer C	**132,352**	—*
Customer D	**—***	100,057
Customer E	**—***	71,963

* They are not the Group's customers for the corresponding year.

5. FINANCE COSTS

	2017	2016
	RMB'000	*RMB'000*
Interest on bank borrowings	**29,282**	40,901
Interest on resources fees payable	**1,423**	1,423
Accretion expenses	**977**	977
	31,682	43,301

6. INCOME TAX EXPENSE

	2017	2016
	RMB'000	*RMB'000*
Current tax:		
PRC Enterprise Income Tax	**85,927**	91,819
Deferred tax	**(2,702)**	(3,307)
	83,225	88,512

During the years ended 31 December 2017 and 2016, the Group had no assessable profit subject to tax in any jurisdictions other than the PRC.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

7. PROFIT FOR THE YEAR

	2017	2016
	RMB'000	*RMB'000*
Profit for the year has been arrived at after charging:		
Directors' emoluments	**1,548**	1,102
Other staff costs:		
Salaries and other allowances	**108,982**	112,862
Retirement benefits scheme contributions, excluding those of directors	**17,190**	16,313
Total staff costs	**127,720**	130,277
Capitalised in inventories	**(112,937)**	(117,125)
	14,783	13,152
Auditor's remuneration	**1,571**	1,094
Amortisation of mining rights (capitalised in inventories)	**18,785**	20,740
Depreciation of property, plant and equipment	**16,011**	17,176
Capitalised in inventories	**(15,195)**	(16,435)
	816	741
Restoration and environmental costs incurred on an on-going basis during production (capitalised in inventories)	**1,295**	636
Release of prepaid lease payments	**318**	314
Cost of inventories recognised as an expense	**273,184**	287,381

8. EARNINGS PER SHARE

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

	2017	2016
	RMB'000	*RMB'000*
Earnings		
Earnings for the purposes of basic and diluted earnings per share (Profit for the year attributable to owners of the Company)	**230,074**	213,740

	2017	2016
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**718,000,000**	655,344,262
Effect of dilutive potential ordinary shares in respect of over-allotment options	**—**	806,994
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**718,000,000**	656,151,256

For the year ended 31 December 2016, the number of ordinary shares for the purposes of basic and diluted earnings per share was determined assuming the Reorganisation, subdivision of shares and capitalisation issue of the Company as disclosed in note 13 had been effective on 1 January 2016.

No diluted earnings per share for the year ended 31 December 2017 was presented as there were no potential ordinary shares outstanding during the year.

9. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 December 2017, nor has any dividend been proposed since the end of reporting period (2016: Nil).

10. TRADE AND OTHER RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**91**	78,059
Deposits, prepayments and other receivables	**3,850**	3,253
	3,941	81,312

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 their purchases from the Group for the year ended 31 December 2016. No credit period was granted to customers for the year ended 31 December 2017 and no upfront sales deposit was 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 period:

	2017	2016
	RMB'000	*RMB'000*
0 - 30 days	**91**	58,992
31 - 60 days	**—**	19,067
	91	78,059

11. TRADE AND OTHER PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Trade payables	**2,498**	6,311
Upfront sale deposits received	**—**	17,700
Accruals for staff costs	**12,006**	13,710
Advanced sales receipts from customers	**115**	176
Interest payables	**15,433**	14,411
Other payables and accruals	**6,128**	6,142
Other tax payables	**12,022**	15,710
Resources fees payable and accrual (note)	**136,501**	136,501
	182,205	204,350
	184,703	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. Included in the amounts are RMB29,055,000 (2016: RMB29,055,000) as at 31 December 2017 which carry interest at the Benchmark Lending Rate of the People's Bank of China and are payable on demand. The amount also included an amount of RMB107,446,000 (2016: 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 approval of these consolidated financial statements for issurance, 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 period:

	2017	2016
	RMB'000	*RMB'000*
0 - 30 days	**2,498**	6,311

The average credit period on purchase of goods is 30 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

12. BANK BORROWINGS

	2017	2016
	RMB'000	*RMB'000*
Secured fixed-rate bank borrowings	**342,600**	574,900
The carrying amounts of bank borrowings are repayable (note):		
Within one year	**142,300**	232,300
Within a period of more than one year but not exceeding two years	**142,300**	142,300
Within a period of more than two years but not exceeding five years	**58,000**	200,300
	342,600	574,900
Less: Amounts due within one year shown under current liabilities	**(142,300)**	(232,300)
Amounts shown under non-current liabilities	**200,300**	342,600

note: The amounts due are based on scheduled repayment dates set out in the loan agreements.

The ranges of effective interest rates per annum (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2017	2016
Fixed-rate bank borrowings	**4.79% to 6.60%**	4.79% to 6.60%

At 31 December 2017, the Group had pledged its mining rights with a carrying amount of approximately RMB878 million (2016: RMB897 million) to secure general banking facilities granted to the Group.

13. SHARE CAPITAL/PAID-IN CAPITAL

	Number of shares	**Amount**
		US$
Authorised:		
Ordinary shares of US$1.00 each upon acquisition of the Company (note i)	50,000	50,000
Subdivision of shares (note ii)	4,950,000	—
Increase during the year (note ii)	4,995,000,000	49,950,000
Ordinary shares of US$0.01 each as at 31 December 2016 and 2017	5,000,000,000	50,000,000
Issued and fully paid:		
Ordinary shares of US$1.00 each upon acquisition of the Company (note i)	50,000	50,000
Subdivision of shares (note ii)	4,950,000	—
Issue of new shares by the Company:		
- upon reorganisation (note iii)	5,000,000	50,000
- upon global offering (note iv)	116,000,000	1,160,000
- upon capitalisation issue (note v)	590,000,000	5,900,000
- upon exercise of over-allotment option (note vi)	2,000,000	20,000
Ordinary shares of US$0.01 each as at 31 December 2016 and 2017	718,000,000	7,180,000
		RMB'000
Shown in the consolidated financial statements as		47,988

notes:

(i) The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 8 January 2014. The initial authorised share capital of the Company was US$50,000 divided into 50,000 shares of US$1.00 each. Upon incorporation, 50,000 shares, representing the entire issued share capital of the Company, were issued at par to and held by an independent third party and subsequently transferred to Dai BVI, a limited liability company wholly owned by Ms. Dai (the spouse of Mr. Xu Bo, controlling shareholder of the Company), on 29 March 2016.

(ii) On 15 April 2016, each of the 50,000 shares with par value of US$1.00 each in the authorised share capital of the Company was subdivided into 100 shares with par value of US$0.01 each, resulting in an authorised share capital of the Company of US$50,000 consisting of 5,000,000 shares. Immediately following the subdivision, the authorised share capital of the Company was further increased from US$50,000 consisting of 5,000,000 shares to US$50,000,000 consisting of 5,000,000,000 shares.

(iii) On 15 April 2016, the Company issued and allotted 1,000,000, 1,450,000, 1,500,000, 500,000, 250,000, 200,000, 100,000 shares representing 10.0%, 14.5%, 15.0%, 5.0%, 2.5%, 2.0% and 1.0% of the then issued share capital of the Company, respectively, to Dai BVI, Moonfun Miracle Limited, Noble Fox Holdings Limited, Hidden Goals Limited, Angelzone Holdings Limited, Jubilee One Limited and Fortune Dynamic Investment Limited, at par for a total consideration of US$50,000.

(iv) On 13 July 2016, the Company was listed on the Stock Exchange following the completion of its global offering of 116,000,000 new shares of US$0.01 each issued at a price of HK$1.80 per share. Proceeds of US$1,160,000 (equivalent to RMB7,759,000), representing the par value of the shares issued, was credited to the share capital of the Company. The remaining proceeds of US$25,609,000 (equivalent to RMB172,031,000) was credited to the share premium account.

(v) On 22 June 2016, pursuant to a written resolution of the shareholders of the Company, the Company allotted and issued 590,000,000 shares of US$0.01 each to the then existing shareholders of the Company. This resolution was conditional on the share premium account being credited as a result of the global offering of the Company and pursuant to this resolution, a sum of US$5,900,000 (equivalent to RMB39,466,000) standing to the credit of the share premium account was subsequently applied in paying up this capitalisation in full upon the Listing.

(vi) On 2 August 2016, the sole global coordinator partially exercised the over-allotment option as described in the prospectus of the Company dated 30 June 2016 on behalf of the international underwriters in respect of 2,000,000 additional new shares. The shares were issued and alloted by the Company at HK$1.80 per share. Proceeds of US$20,000 (equivalent to RMB134,000), representing the par value of the shares issued, was credited to the share capital of the Company. The remaining proceeds of US$441,000 (equivalent to RMB2,966,000) was credited to the share premium account.

MANAGEMENT DISCUSSION AND ANALYSIS

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 13 July 2016 (the "**Listing Date**").

This management discussion and analysis is prepared as of 28 March 2018. It should be read in conjunction with the audited consolidated financial statements and notes thereto of the Group for the year ended 31 December 2017.

Business Review, Market Review and Prospect

In 2017, China's economy maintained a steady growth as a whole, its development was better than expected. According to data from the National Bureau of Statistics of China, the average growth rate of China's GDP in 2017 was 6.9%, and the gross domestic product (GDP) was RMB82,712.2 billion, representing an increase of 0.2 percentage point from that of 2016.

In 2017, the global economy has been recovering as bulk product prices rebounded, whereas China's overall economy was on a stable upward trend, and the Chinese government continued to implement structural reforms on the supply side, which led to the optimization of industrial restructuring. In addition, some of the preliminary prices of industrial products further declined, and the prices of such industrial products also showed signs of recovery. In 2017, the industrial sector as a whole was on the rise. According to the data from the National Bureau of Statistics of China, the Producer Price Index (PPI) has increased significantly year-on-year in 2017, with an increase of 7.8% in February, marking the highest point for the whole year. After March, due to the price drop in key sectors, the increment in PPI has gone down, but maintained a 5.5% increase for three consecutive months from May through July. After August, the increase in PPI gone back up but did not surpass that in February. During the fourth quarter, the price of steel, cement and chemical products rose significantly, but slowed down in December with an increase of 4.9%, the lowest for the year but still maintained a year-on-year upward trend. In 2017, the coal mining and washing industry recorded an overall growth rate of 28.2% year-on-year.

In 2017, the Chinese government continued to implement the production capacity reduction policy in the coal industry. According to data from the National Energy Administration of the PRC, in 2017, production capacity of over 150 million tonnes has been closed down nationwide, which exceeded the capacity reduction target. As one of the important coal production bases in China, Guizhou Province is also implementing and observing the national capacity reduction policy. According to the Guizhou Provincial Energy Administration, Guizhou Province has closed down 120 coal mines with a production capacity of 17.49 million tonnes per year in 2017. With the continuous elimination of outdated production capacity, the supply and demand within the coal industry has gradually restored balance, certain areas are even facing a supply shortage, resulting in a significant increase in the profits of coal enterprises. According to the data of the National Bureau of Statistics, the total profit of the coal mining and washing industry in 2017 was up 2.9 times than that in 2016.

The overall upward trend of the coal industry is also manifested in the performance of coal enterprises. A number of coal enterprises listed on the domestic A shares market have shown a considerable profit growth rate in 2017. With the investors' confidence in coal enterprises growing strong, the overall performance in share prices of such coal enterprises also stood out. Evidenced by the multiple sources of information, the current supply and demand levels of the coal market is favourable and the market remains active, with an overall steady coal prices.

In regard to the three coal mines of the Group, namely the Weishe Coal Mine, Luozhou Coal Mine and Lasu Coal Mine, production was halted for various period of time under the influence from governmental policies, resulting in a decrease of production capacity of the Group and the corresponding drop in revenue in 2017 as compared to 2016. However, due to the absence of listing fees during the year and the corresponding decrease in finance costs resulted from the reduction in loans, the Group has recorded an increase in consolidated net profit during the reporting period as compared with the audited consolidated net profit for the year ended 31 December 2016.

As abovementioned, the steady economic growth in China, along with the continuous implementation of production capacity reduction policy within the coal industry by the PRC government, and coupled with the recovery of the coal industry, have resulted in the relatively steady results performance of the Group in 2017.

Financial Review

Revenue

During the Reporting Period, the Group recorded a revenue of approximately RMB642.4 million, representing a decrease of RMB48.6 million, or a drop of approximately 7.0%, from approximately RMB691.0 million for the year ended 31 December 2016. The decrease in the revenue was primarily attributable to suspension of production for different period of time at three of the Group's coal mines due to national policies, resulting in decrease in both production volume and sales volume.

Cost of Sales

The Group's cost of sales decreased by 4.9% to approximately RMB273.2 million during the Reporting Period from approximately RMB287.4 million for the year ended 31 December 2016, which was primarily attributable to decrease in sales volume.

The Group's cost of sales per tonne had an increase during the Reporting Period, from RMB257 per tonne for the year ended 31 December 2016 to RMB263 per tonne for the year ended 31 December 2017.

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:

Cost of sales per tonne

	Year ended 31 December	
	2017	**2016**
	RMB/Tonne	*RMB/Tonne*
Staff costs	**109**	105
Cost of materials, fuel and energy	**76**	73
Depreciation and amortisation	**33**	35
Business taxes and surcharges	**41**	40
Restoration and environmental costs	**1**	2
Others	**3**	2
Total	**263**	257

Gross Profit and Gross Profit Margin

As a result of the foregoing, the gross profit decreased by 8.5% from approximately RMB403.6 million from the year ended 31 December 2016 to approximately RMB369.2 million for the Reporting Period. The gross profit margin decreased from approximately 58.4% for the year ended 31 December 2016 to approximately 57.5% for the Reporting Period. This was mainly due to increase in staff compensation and unit prices of raw material.

Distribution and Selling Expenses

During the Reporting Period, the Group's distribution and selling expenses were approximately RMB3.3 million, representing a decrease of RMB0.2 million, or a drop of approximately 5.7%, from approximately RMB3.5 million for the year ended 31 December 2016, which was primarily attributable to decrease in sales volume, which resulted to the decrease in diesel consumption.

Administrative Expenses

During the Reporting Period, the Group's administrative expenses were approximately RMB26.7 million, representing an increase of RMB3.9 million, or a rise of approximately 17.1%, from approximately RMB22.8 million for the year ended 31 December 2016, which was primarily attributable to the increase in staff compensation, stock registration fees and legal consultation fees.

Finance Costs

During the Reporting Period, the Group's finance costs were approximately RMB31.7 million, representing a decrease of RMB11.6 million, or a drop of approximately 26.8%, from approximately RMB43.3 million for the year ended 31 December 2016, which was primarily attributable to partial repayment of loans.

Income Tax Expense

During the Reporting Period, the Group's income tax expense was approximately RMB83.2 million, representing a decrease of RMB5.3 million from approximately RMB88.5 million for the year ended 31 December 2016, which was primarily attributable to the decrease in taxable income.

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 RMB230.1 million, representing an increase of RMB16.4 million, or a rise of approximately 7.7%, from approximately RMB213.7 million for the year ended 31 December 2016. The increase was primarily attributable to the decrease in finance costs for loans and no listing costs has occurred during the period.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2017, the Group had net current liabilities of approximately RMB67.2 million (31 December 2016: RMB101.5 million).

The Group intends to finance its future capital expenditure requirements mainly with the net proceeds from the global offering, cash from operating activities and bank borrowings. As at 31 December 2017, the Group had unutilised banking facilities in the amount of approximately RMB557.4 million (31 December 2016: RMB325.1 million). The bank borrowings mainly carry interest rate ranging from 4.79% to 6.60%.

As of 31 December 2017, the Group had cash and cash equivalents of approximately RMB227.6 million. 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.

Capital Commitments

The Group had capital commitments in respect of the acquisition of an exploration right amounting to approximately RMB201.6 million (31 December 2016: Nil). The Group plans to settle the capital commitments by payment of RMB144 million and RMB57.6 million in April and October, 2018 respectively.

Gearing Ratio

As at 31 December 2017, the gearing ratio (total bank borrowings over total equity attributable to owners of the Company) was 34.8% (31 December 2016: 76.3%). The decrease in the gearing ratio during the Reporting Period was primarily attributable to the decrease in loans. As at 31 December 2017, the Group had total bank borrowings amounted to approximately RMB342.6 million (31 December 2016: RMB574.9 million).

Capital Structure

During the Reporting Period and up to the date of this announcement, there has been no change in the capital structure of the Company. The capital of the Company comprises ordinary shares and other reserves.

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”.

Employee and Remuneration Policy

As of 31 December 2017, the Group had a total of 1,573 employees. The employee's remuneration policy of the Group are 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.

Material Acquisition and Disposal of Assets

On 21 December 2017, Guizhou Union (Group) Mining Co. Ltd. (貴州優能 (集團) 礦業股份有限公司) (the "**Purchaser**"), a wholly-owned subsidiary of the Company, entered into an exploration right purchase agreement with Mr. Peng Song (彭松) and Mr. Zhang Liming (張力明) (together as the "**Sellers**"), pursuant to which the Purchaser agreed to purchase and the Sellers agreed to sell the exploration right for the Anlang Syncline Coal Mine in Hezhang County, Guizhou Province, the PRC at the total consideration of RMB288,000,000. For details, please refer to the announcements of the Company dated 21 December 2017 and 4 January 2018.

Save as disclosed above, there was no material acquisition and disposal of assets during the Reporting Period and up to the date of this announcement.

Off-balance Sheet Arrangement

The Group has not entered into, nor does it expect to enter into, any off-balance sheet arrangement. The Group also has not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties.

SUBSEQUENT EVENTS AFTER REPORTING PERIOD

Save as disclosed in the section "Material Acquisition and Disposal of Assets", there is no other material event undertaken by the Company or the Group subsequent to 31 December 2017 and up to the date of this announcement.

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). Such proceeds are intended to be used as disclosed in the prospectus of the Company.

As at 31 December 2017, a total of HK$89.21 million had been utilized, of which HK$77.35 million was used in acquisition of Anlang Syncline Coal Mine, HK$0.35 million was used as the capital expenditure of Tiziyan Coal Mine, and HK$11.51 million was used as operating capital.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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 "**Listing Rules**") as its own corporate governance framework. The Company complied with the code provisions as set out in the CG Code during the Reporting Period, save for the deviations from code provisions A.2.1 and C.1.2 as disclosed below.

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.

Under code provision C.1.2 of the CG Code, the management should provide all members of the Board with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules. However, in view of the Company's business nature and the steady operations growth, there is no significant monthly fluctuation in the Company's performance, position and prospects. Our executive directors are aware of the Company's monthly operations position. Therefore, starting from the second half year of 2017, the management reports to the Board on the half-year/full-year financial condition once every six months. If there is a significant change to the Company's performance, position and prospects, the management will report the Board accordingly.

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 standards 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, namely Mr. Fu Lui (chairman), Mr. Jiang Chenglin and Mr. Choy Wing Hang William.

The Audit Committee had reviewed, with the management and the external auditor of the Company, the audited consolidated financial statements for the year ended 31 December 2017 of the Group, the accounting principles and policies adopted by the Group. The Audit Committee has also reviewed the effectiveness of the financial control, internal control and risk management systems of the Company.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2017 as set out in this preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this preliminary announcement.

FINAL DIVIDEND

The Board does not recommend the distribution of any final dividend for the Reporting Period (2016: Nil).

ANNUAL GENERAL MEETING

The forthcoming annual general meeting (the "**AGM**") of the Company will be held on Thursday, 28 June 2018. The notice of the AGM will be published and dispatched in due course in the manner as required by the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the shareholders' eligibility to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 25 June 2018 to Thursday, 28 June 2018, both days inclusive, during which no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all duly completed share transfer forms accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 22 June 2018.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.unienergy.hk), and the annual 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 March 2018

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.