CHINA UNIENERGY GROUP LIMITED

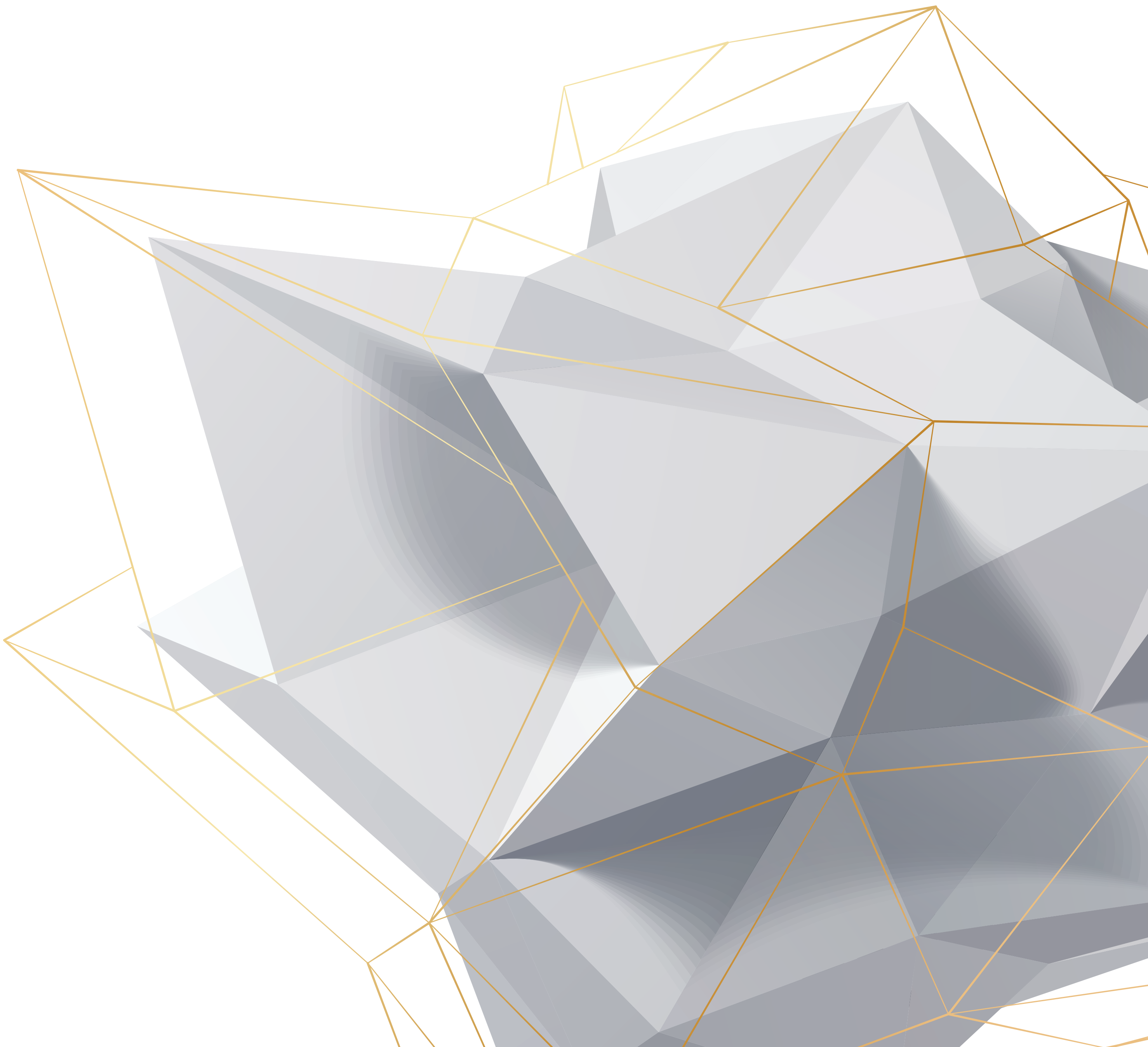
中国优质能源集团有限公司

(incorporated in the Cayman Islands with limited liability)

STOCK CODE : 1573

2016

Annual Report



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Definitions

"AGM"	the forthcoming annual general meeting of the Company to be held on Wednesday, 28 June 2017
"Articles"	the amended and restated articles of association of the Company which became effective on the Listing Date
"Audit Committee"	the Company's 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
"Board"	board of Directors
"CG Code"	Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Company"	CHINA UNIENERGY GROUP LIMITED, an exempted company with limited liability incorporated in the Cayman Islands on 8 January 2014
"Compliance Adviser"	Haitong International Capital Limited
"Controlling Shareholders"	has the meaning ascribed to it under the Listing Rules, and in the context of the Company, refers to the controlling shareholders of the Company, being Lavender Row Limited, Ms. Dai Ling and Mr. Xu Bo
"Directors"	directors of the Company
"Group" or "we" or "our"	the Company and its subsidiaries, or where the context refers to any time prior to the Company becoming the holding company of its present subsidiaries, the present subsidiaries of the Company and the businesses operated by such subsidiaries or their predecessors (as the case may be)
"Guizhou Union"	Guizhou Union (Group) Mining Co., Ltd.* (貴州優能 (集團) 礦業股份有限公司), a limited liability company established in the PRC on 8 June 2011 and a wholly owned subsidiary of the Company
"Lasu Coal Mine"	a coal mine located near the Lasu Township, Hezhang County, Bijie City, Guizhou Province, the PRC, which is wholly-owned by Guizhou Union
"Listing Date"	13 July 2016, being the date on which the shares of the Company are listed on the Stock Exchange
"Listing Rules"	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Luozhou Coal Mine"	a coal mine located in Luozhou Township, Hezhang County, Bijie City, Guizhou Province, the PRC, which is wholly-owned by Guizhou Union
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Nanneng Clean Energy "	Guizhou Nanneng Clean Energy Exploration Ltd.* (貴州南能清潔能源開發有限公司), a company established in the PRC and owned as to 50% by the Company and 50% by Southern Power Grid Integrated Energy Guizhou Company Limited* (南方電網綜合能源貴州有限公司)

"PRC"	the People's Republic of China
"Prospectus"	the prospectus of the Company dated 30 June 2016
"Reporting Period"	the year ended 31 December 2016
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	The Codes on Takeovers and Mergers and Shares Buy-backs approved by the Securities and Futures Commission as may be amended from time to time
"Tiziyan Coal Mine"	a coal mine located near Huangni Township, Dafang County, Bijie City, Guizhou Province, the PRC, which is wholly-owned by Guizhou Union
"Union Guli"	Guizhou Union Guli Mining Machinery and Equipment Company Ltd* (貴州優能固力礦山機械設備有限公司), a company established in the PRC and a wholly owned subsidiary of the Company
"Union Investment"	Guizhou Union Investment Holding Company Limited* (貴州優銀投資控股有限公司), a company established in the PRC and a wholly owned subsidiary of the Company
"Union Wuzhou"	Guizhou Union Wuzhou Energy Development Company Ltd* (貴州優能五洲能源開發有限公司), a company established in the PRC and a wholly owned subsidiary of the Company
"Weishe Coal Mine"	a coal mine located near Weishe Township, Hezhang County, Bijie City, Guizhou Province, the PRC, which is wholly-owned by Guizhou Union

Company Profile

We are a producer of anthracite coal based in Guizhou Province of the PRC. We engage in the extraction and sale of anthracite coal. We possess scarce anthracite coal resources with the characteristics of high calorific value, low sulphur content and low ash content. Most of our coal products are suitable to be used as chemical coal and PCI coal, as well as for further value-added applications, such as premium quality active charcoal. We are one of the less than 100 qualified consolidators in Guizhou Province that are permitted to engage in coal mine acquisition and operation.

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 8 January 2014 and was registered as a non-Hong Kong company under Part 16 of the Hong Kong Companies Ordinance on 29 April 2016. The shares of the Company were listed on the Stock Exchange on 13 July 2016.

Currently, we have four underground anthracite coal mines, three of which, namely Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine, are in commercial production, and the remaining one, Tiziyan Coal Mine, is under development. We have grown rapidly in recent years, primarily as a result of the technological upgrades of our coal mines, which have led to increased production capacity and improved mechanisation rate of operation and recovery rate.

Corporate Information

EXECUTIVE DIRECTORS

Mr. Xu Bo *(Chairman and Chief Executive Officer)*
Mr. Wei Yue
Mr. Xiao Zhijun

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jiang Chenglin
Mr. Choy Wing Hang William
Mr. Lee Cheuk Yin Dannis
Mr. Fu Lui

MEMBERS OF THE AUDIT COMMITTEE

Mr. Fu Lui *(Chairman)*
Mr. Jiang Chenglin
Mr. Choy Wing Hang William

MEMBERS OF THE REMUNERATION COMMITTEE

Mr. Choy Wing Hang William *(Chairman)*
Mr. Xu Bo
Mr. Lee Cheuk Yin Dannis

MEMBERS OF THE NOMINATION COMMITTEE

Mr. Xu Bo *(Chairman)*
Mr. Choy Wing Hang William
Mr. Lee Cheuk Yin Dannis

JOINT COMPANY SECRETARIES

Mr. Zhang Weizhe
Ms. Kam Mei Ha, Wendy *(FCS (PE), FCIS)*

AUTHORISED REPRESENTATIVES

Mr. Xu Bo
Ms. Kam Mei Ha, Wendy

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Xinhua Road, Nanming District
Guiyang City, Guizhou Province
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY'S WEBSITE

www.unienergy.hk

STOCK CODE

1573

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

LEGAL ADVISERS

as to Hong Kong law:
DLA Piper Hong Kong
17th Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

as to PRC law:
Jingtian & Gongcheng
34/F., Tower 3, China Central Place
77 Jianguo Road
Beijing, China

COMPLIANCE ADVISER

Haitong International Capital Limited
8/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

PRINCIPAL BANKERS

Shanghai Pudong Development Bank Co., Ltd.
Guiyang Branch*
(上海浦東發展銀行股份有限公司貴陽分行)
20 Yan'an Road Central, Yunyan District
Guiyang City, Guizhou Province
China

Agricultural Bank of China Guizhou Branch
Hezhang Sub-branch*
(中國農業銀行貴州分行赫章縣支行)
654 Qianhe Road, Chenguan Town
Bijie City, Guizhou Province
China

AUDITOR

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway
Hong Kong

* For identification purpose only

Chairman's Statement

Dear Shareholders,

On behalf of the Board ("Board") of Directors ("Directors") of CHINA UNIENERGY GROUP LIMITED (the "Company"), I am pleased to present the audited results of the Company and its subsidiaries (the "Group") for the financial year ended 31 December 2016.

The year 2016 was an important year of in-depth reformation within the PRC coal industry. As the national economy development maintains a steady growth, the PRC govenment continued to implement the production capacity reduction policies as well as limiting coal import and mining of high-pollution coal resources, resulting in the continuous decrease in production of the coal industry, and a certain degree of reversal of the supply and demand relationship within the coal market, with the overall coal prices bounced back from previous decline. The abovementioned factors also resulted in the supply deficit in relation to the demand within the coal market, in particular the market demand towards high quality and eco-friendly coal resources.

During 2016, the downstream production line of coal mines experienced varies degree of recovery and growth. Firstly, there has been a growth trend for both production and consumption in the steel industry. The integrated price index of steel rose from 56.37 points at the beginning of the year to 99.51 points, up 43.14 points or 76.5%, demonstrating the steel prices rally from the bottom. Meanwhile, there has been a significant price increase in the cement industry, with the price index went up by 23.18% at the end of the year compared to last year. Moreover, the thermal power industry also experienced growth, the 2016 annual installed capacity of thermal power increased by 5.3% to 1.05388 billion kW.

As of 31 December 2016, the Group produced 1,120,052 tonnes of coal products, including 234,971 tonnes of lump coal, 208,376 tonnes of medium lumps, 392,234 tonnes of clean coal and 284,451 tonnes of fine coal, recording an income of RMB691.0 million, a gross profit of RMB403.6 million and earnings attributable to owners of the Company of RMB213.7 million.

Year 2016 is of positive significance for the coal industry. Under the backdrop of favorable policies, the recovery of the coal industry and its downstream industries, the introduction of coal washing facilities and technology upgrades at the coal mines of the Company, and the increase in sales prices of coal products as well as production and sales volume of coal mines, the Group performed well during 2016.

On behalf of the Group, I would like to take this opportunity to express our sincere gratitude towards all of our clients, business partners and investors for their support and trust of the Group. I would also like to extend my upmost gratitude towards our Directors and staff members for their dedication and contributions.

By order of the Board
Mr. Xu Bo
Chairman and Chief Executive Officer

29 March 2017

Financial Highlights

The summary of the audited annual results of the Group for the Reporting Period and the same period ended 31 December 2015 is set forth as follows:

RESULTS

	Year ended 31 December	
	2016 **RMB'000**	2015 RMB'000
Revenue	**690,998**	486,016
Profit before taxation	**302,252**	217,620
Income tax expense	**(88,512)**	(57,155)
Profit and total comprehensive income for the year	**213,740**	160,465
Profit and total comprehensive income for the year attributable to:		
Owners of the Company	**213,740**	160,465
Non-controlling interests	**—**	—
	213,740	160,465

ASSETS, LIABILITIES AND EQUITY

	At 31 December	
	2016 **RMB'000**	2015 RMB'000
Total assets	**1,600,417**	1,390,558
Total liabilities	**846,992**	985,378
	753,425	405,180
Equity attributable to:		
Owners of the Company	**753,425**	405,180
Non-controlling interests	**—**	—
	753,425	405,180

Management Discussion and Analysis

The shares of the Company have been listed on the Main Board of the Stock Exchange on 13 July 2016 and the Board is pleased to present the first annual report of the Group.

This management discussion and analysis prepared as at 29 March 2017 should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2016 and notes thereto.

BUSINESS REVIEW AND MARKET REVIEW AND PROSPECT

According to data from the National Bureau of Statistics of the PRC, China's overall economy maintained a steady growth in 2016. In 2016, the average growth rate of GDP in China was 6.7%, and recorded a GDP of RMB74,412.7 billion. The year-on-year increase in GDP recorded in the first, second, third and fourth quarter was 6.7%, 6.7%, 6.7% and 6.8%, respectively.

The PRC government continued its policy of reducing the production capacity of the coal industry. Based on the data from the National Bureau of Statistics, in 2016, output of raw coal in China has decreased for three consecutive years, down by 9% compared to that of 2015. Based on the data from the National Energy Administration of the PRC, China has planned to close down over 500 backward coal mines across the nation in 2017, reducing the production capacity by approximately 50 million tonnes. As one of the premium coal production base in China, Guizhou Province is also implementing and following the production capacity reduction national policy, and will reduce the production capacity of the province by 15 million tonnes in 2017, and close down coal mines with an annual capacity lower than 300,000 tonnes. In addition, the PRC government has raised the limitation over coal import by prolonging the examination period of five trace elements for imported coal, which would lower the volume of imported coal considerably. As a result of the continuous implementation of production capacity reduction policy and limitation over coal import, supply within the coal market will be further reduced.

Certain downstream businesses of the coal industry have experienced recovery and growth to a certain extent during the year 2016. According to the data from the National Bureau of Statistics, in 2016, the national crude steel output was 808.37 million tonnes, representing a year-on-year increase of 1.2%; steel output was 1,138.01 million tonnes, representing a year-on-year increase of 2.3%. According to the Ministry of Industry and Information Technology of the PRC, the steel industry has experienced a double increase in production and consumption, with a domestic crude steel apparent consumption returned to 71.0 billion tonnes after a drop for two consecutive years, representing a year-on-year increase of 1.3%. China's crude steel output attributes to 49.6% of the global market, up 0.2%. At the same time, as per the Ministry of Industry and Information Technology, the steel price has hit the trough and is on the way of recovery. In 2016, the domestic steel price started to climb after years of downward movement, with the composite price index of steel increased by 43.14 points from 56.37 points at the beginning of the year to 99.51 points, representing an increase of 76.5% to RMB302.7, returning to the above RMB300 interval. The price index of the cement industry at the end of the year recorded a year-on-year increase of 23.18%. According to the information of the thermal power industry published by the Ministry of Industry and Information Technology, the installed capacity of thermal power generation is 1,053.88 million kW, representing an increase of 5.3%. During the second half year of 2016, with the end of coal destocking stage and the periodic increase in demand within the downstream coal industry, the market has even experienced an expeditious inflation in coal prices and shortage in local coal supply in certain regions.

Recovery in the coal industry has 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 their 2016 interim reports. According to the price profiles of several major coal enterprises, the current spot price is higher than the price index of the latest period. Evidenced by the abovementioned information, the current supply and demand levels of the coal market is favourable and the market remains active, with slight fluctuation but 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, with the installation and operation of the coal washing facilities in the third quarter of 2015, coupled with the increase in current market price of coal products, resulting in an increase in average sales price of clean coal and fine coal of the Group. Moreover, the production capacity of Weishe Coal Mine, Luozhou Coal Mine and Lasu Coal Mine has been increased, which drove up the sales volume. The Group has also implemented technology upgrades at our coal mines, which drove up the annual production capacity of Luozhou Coal Mine and Lasu Coal Mine during the last quarter of 2015 and the first quarter of 2016 respectively. Mining right with increased annual production capacity of Luozhou Coal Mine has been obtained. Since the last quarter of 2015, Weishe Coal Mine has also increased its annual production capacity during the joint trial run, and its mining right has also been obtained for increasing the permitted annual production capacity. Due to the increase in the production volume and sales volume of coal mines, the Group recorded a significant increase in consolidated net profit in the reporting period as compared to the audited consolidated net profit of the year ended 31 December 2015.

As the coal industry continue to reduce its production capacity, the year 2017 will be an important year in terms of deepening the reformation of the industry. As the nation put more focus on the environmental issues, the National Energy Administration Planning Bureau will be promoting environmental friendly mining of coal, and limit the mining of coal resources with a high sulphur, ash, arsenic and fluorine content. As the producer of high energy, low sulphur content and low ash content high quality anthracite coal, the products of the Group enjoy good appeal and competitiveness on the market.

As abovementioned, as China is experiencing steady economic growth, along with the continuous implementation of production capacity reduction policy within the coal industry by the PRC government, the recovery of the coal industry and its downstream businesses, the PRC government imposing higher limits over coal import and limits over the dirtier coal resources, the combination effect of the aforesaid factors resulted in a shortage of market supply over the market demand, especially the higher demand of high quality and more environmental friendly coal resources on the market.

FINANCIAL REVIEW

Revenue

During the Reporting Period, the Group recorded a revenue of approximately RMB691.0 million, representing an increase of approximately RMB205.0 million, or a rise of 42.2%, from approximately RMB486.0 million for the year ended 31 December 2015. The increase in the revenue was primarily attributable to the increase in sales volume of anthracite coal to approximately 1,120,000 tonnes, representing a rise of 39.7% from approximately 802,000 tonnes for the year ended 31 December 2015. Weishe Coal Mine, Luozhou Coal Mine and Lasu Coal Mine have increased the production capacity, hence the sales volume has also increased. With the technology upgrade of the Group's coal mines, the Weishe Coal Mine and Luozhou Coal Mine have both increased the annual production capacity under joint trial run since last quarter of 2015, while the Lasu Coal Mine has increased its annual production capacity under joint trial run since first quarter of 2016.

Cost of Sales

The Group's cost of sales increased by 39.5% to approximately RMB287.4 million during the Reporting Period from approximately RMB206.0 million for the year ended 31 December 2015, which was primarily attributable to the significant increase in anthracite coal production resulting in the increase in (i) staff costs; (ii) depreciation and amortisation of mining rights; and (iii) resources tax and surcharges.

The Group's cost of sales per tonne remained stable at RMB257 per tonne for both years.

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:

	Year ended 31 December	
	2016	2015
Cost of sales per tonne	**RMB/Tonne**	RMB/Tonne
Staff costs	**105**	106
Cost of materials, fuel and energy	**73**	70
Depreciation and amortisation	**35**	30
Business taxes and surcharges	**40**	39
Restoration and environmental costs	**2**	9
Others	**2**	3
Total	**257**	257

Gross Profit and Gross Profit Margin

As a result of the foregoing, the gross profit increased by 44.1% from approximately RMB280.0 million from the year ended 31 December 2015 to approximately RMB403.6 million for the Reporting Period. The gross profit margin increased from approximately 57.6% for the year ended 31 December 2015 to approximately 58.4% for the Reporting Period. This was mainly due to the installation and operation of coal washing facilities at three operating mines of the Group, i.e. the Weishe Coal Mine, Luozhou Coal Mine and Lasu Coal Mine during the third quarter of 2015, resulting the increase in the average sales prices of clean coal and fine coal of the Group.

Distribution and Selling Expenses

During the Reporting Period, the Group's distribution and selling expenses were approximately RMB3.5 million, representing an increase of RMB0.9 million, or a rise of approximately 34.6%, from approximately RMB2.6 million for the year ended 31 December 2015, which was primarily attributable to the increase in salaries and employee benefits expenses for sales and marketing staff as a result of the increase in the number of employees and general level of salaries and benefits for employees.

Administrative Expenses

During the Reporting Period, the Group's administrative expenses were approximately RMB22.8 million, representing an increase of RMB7.1 million, or a rise of approximately 45.2%, from approximately RMB15.7 million for the year ended 31 December 2015, which was primarily attributable to the increase in salaries and employee benefits expenses for administrative staff as a result of the increase in the number of employees and general level of salaries and benefits for employees.

Listing Expenses

Listing expenses in relation to the global offering primarily consist of fees paid or payable to professional parties.

Finance Costs

During the Reporting Period, the Group's finance costs were approximately RMB43.3 million, representing a decrease of RMB0.1 million, or a drop of approximately 0.2%, from approximately RMB43.4 million for the year ended 31 December 2015, which was primarily attributable to the slight decrease in average loan balance.

Income Tax Expenses

During the Reporting Period, the Group's income tax expense was approximately RMB88.5 million, representing an increase of RMB31.3 million from approximately RMB57.2 million for the year ended 31 December 2015, which was primarily attributable to the growth in the Group's business and hence resulting in 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 RMB213.7 million, representing an increase of RMB53.2 million, or a rise of approximately 33.1%, from approximately RMB160.5 million for the year ended 31 December 2015. The increase was primarily attributable to the sales growth during the Reporting Period.

Liquidity and Capital Resources

As at 31 December 2016, the Group had net current liabilities of approximately RMB101.5 million (31 December 2015: RMB347.3 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 of 31 December 2016, the Group had unutilised banking facilities in the amount of approximately RMB325.1 million (31 December 2015: RMB176.8 million). The bank borrowings mainly carry interest rate ranging from 4.79% to 6.60%.

As of 31 December 2016, the Group had cash and cash equivalents of approximately RMB160.7 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

There were no capital commitments as at 31 December 2016 (31 December 2015: Nil).

Gearing Ratio

As at 31 December 2016, the gearing ratio (total bank borrowings over total equity attributable to owners of the Company) was 76.3% (31 December 2015: 178.5%). The decrease in the gearing ratio during the Reporting Period was primarily attributable to (i) the increase in short-term bank deposits and cash and cash equivalents after the listing of the Company's share on the Main Board of the Stock Exchange and (ii) the decrease in total bank borrowings. As at 31 December 2016, the Group had total bank borrowings amounted to approximately RMB574.9 million (31 December 2015: RMB723.2 million).

Capital Structure

On the Listing Date, 116,000,000 new shares of the Company were allotted and issued by the Company. On 5 August 2016, pursuant to the partial exercise of the over-allotment option, 2,000,000 new shares of the Company were allotted and issued by the Company. There has been no change in the capital structure of the Company since then. 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 contains 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 licenses with the increased production capacity, satisfactory completion of the due diligence by the Group as well as consideration determination based on professional valuation. 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 of the Company 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 of the Company 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 license transfer agreements subsequently entered into, the management of the Group, having consulted its PRC legal advisers, considered that contingent liabilities adhered to those agreements are remote and yet to estimate reliably. Hence, no provision has been made in the consolidated financial statements in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

During the Reporting Period, 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.

In addition, in connection with one of the above proposed conditional assets transfer agreements, the Group is a defendant to a claim with a third party regarding the non-payment of outstanding consideration and related liquidated damages of approximately RMB25.2 million in relation to Laowangchong Coal Mine. The outstanding consideration should be paid by the relevant vendor under the proposed conditional assets transfer agreement (the "**Vendor**") as the Group acted as an agent and the contracting party of the Vendor to acquire the coal mine for closure for the purpose of upgrading the annual production capacity of the Vendor's coal mine, which is the subject of the proposed acquisition. The management of the Group, having consulted its PRC legal advisers, considers that the Group's non-payment would not constitute a breach of contract under the Contract Law of the PRC and the Group does not have any obligation to perform the agreement nor pay the outstanding balance due to the third party failing to fulfill a pre-condition of the agreements previously reached. As such, no provision is considered necessary and provision for loss has not been made. Please refer to the prospectus of the Company for further details. As of 31 December 2016, the Company had not received the judgment of the above claim.

Employee and Remuneration Policy

As of 31 December 2016, the Group had a total of 1,563 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.

Significant Acquisition and Disposal of Assets

There was no significant acquisition and disposal of assets during the Reporting Period and up to the date of this report.

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.

Charges over Assets of the Group

As at 31 December 2016, the Group's mining rights with carrying amounts of approximately RMB896.8 million were pledged to secure bank borrowings of the Group from Guiyang Branch of Shanghai Pudong Development Bank.

Foreign Exchange Exposure

The Group's business is mainly located in the PRC with most of its transactions effected in RMB. Other than certain bank balances denominated in HKD, most of the assets and liabilities of the Group are denominated in RMB. As the fluctuation of the exchange rate of RMB against HKD was limited for the year of 2015, the Group was not exposed to a materially adverse risk of exchange fluctuation during the year.

Subsequent Events after the Reporting Period

There is no material event undertaken by the Company or the Group subsequent to 31 December 2016 and up to the date of this report.

EXECUTIVE DIRECTORS

Mr. Xu Bo (徐波), aged 40, is the chairman of the Board, chief executive officer of the Group and an executive Director. Mr. Xu founded the Group in June 2011 and is primarily responsible for the overall strategic planning of the business of the Group. Prior to joining the Group, Mr. Xu was the secretary of the board of directors and the assistant to the chairman of Shenzhen Everbright Investment Company Limited* (深圳光大投資有限公司) during March 1997 to January 2005. He then invested in the real estate industry and established Guiyang Shoucheng Zhidi Real Estate Development Company Limited* (貴陽首城置地房地產開發有限公司) in April 2006, and established Union Investment and invested in the Company since March 2011. Mr. Xu is also the director of Shenzhen Nengchuang New Energy Development Company Ltd.* (深圳能創新能源開發有限公司) since March 2016. Mr. Xu graduated from the Management Institute of the University of International Business and Economics* (對外經濟貿易大學管理幹部學院) with a diploma in international trade in July 1997. Mr. Xu is the spouse of Ms. Dai Ling, one of the Controlling Shareholders.

Mr. Wei Yue (韋越), aged 40, is an executive Director. Mr. Wei joined the Group as general manager of Guizhou Union since July 2012 and is primarily responsible for the day-to-day business operation of the Group. Prior to joining the Group, Mr. Wei was the deputy sales director of Shenzhen Rainbow Group Co., Ltd.* (深圳彩虹集團有限公司), a company principally engaged in the manufacture and sale of fine chemical products from November 2000 to April 2004. He was the deputy general manager of Walmart SZITIC Stores Co. Ltd (沃爾瑪深國投百貨有限公司) in Guizhou Province, a company principally engaged in supermarket retailing from July 2004 to June 2012. Mr. Wei graduated from Guizhou University of Finance and Economics* (貴州財經大學) (formerly known as Guizhou Institute of Finance and Economics* (貴州財經學院)) in June 1995.

Mr. Xiao Zhijun (肖志軍), aged 42, is an executive Director. Mr. Xiao joined the Group as director and financial controller since June 2011 and is primarily responsible for the financial management and public relations of the Group. Prior to joining the Group, Mr. Xiao was the finance manager of Guizhou Shenqi Xingdao Hotel Company Limited* (貴州神奇星島酒店有限公司) from August 1999 to July 2001 and deputy general manager and financial controller of Guiyang Shoucheng Zhidi Real Estate Development Company Limited* (貴陽首城置地房地產開發有限公司) from November 2004 to November 2010. Currently, he is also the director of Union Investment since March 2011, the director of Union Guli since June 2016, the director of Union Wuzhou since June 2016, and the finance manager of Nanneng Clean Energy since April 2014. Mr. Xiao graduated from the University of International Business and Economics* (對外經濟貿易大學) with a bachelor degree in economics, majoring in international trades in November 1999.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jiang Chenglin (蔣承林), aged 61, was appointed as an independent non-executive Director on 22 June 2016. Mr. Jiang is primarily responsible for supervising and providing independent judgment to the Board. He has been teaching at China University of Mining and Technology (中國礦業大學) since 1985 and later become the dean of the Graduate School of Outburst Prediction and Safety Equipment* (突出預測及安全裝備研究所) and he retired in March 2016. Over the years, Mr. Jiang gained intricate expertise in outburst prevention and the development of safety mechanisms relating to coal and gas. He has led two projects under the China National Natural Science Fund* (國家自然科學基金), one China National 15 Technology Key Project* (國家十五科技攻關項目) and one China National Key Basic Research Development Projects (also known as "973 Projects")* (中國國家重點基礎研究發展計劃項目,又名973計劃). Mr. Jiang also holds or held in the past six patents in respect of mining and gas. Mr. Jiang obtained a bachelor degree in engineering (majoring in mine construction) in September 1982 at Huainan Mining School* (淮南礦業學院), a master degree in engineering in October 1985, and a doctoral degree in engineering in July 1994 at China University of Mining and Technology* (中國礦業大學).

Mr. Choy Wing Hang William (蔡穎恒), aged 39, was appointed as an independent non-executive Director on 22 June 2016. He is primarily responsible for supervising and providing independent judgment to the Board. Mr. Choy joined C-Bons International (Holdings) Ltd. ("**C-Bons Group**") in April 2004, a company engages in the manufacturing and trading of sanitary products, properties development, resort and tourism development, and currently serves as the managing director of C-Bons Group. Mr. Choy is responsible for conducting investment research, formulating investment strategies and making investment decisions for C-Bons Group. From January 2008 to June 2012, Mr. Choy was a director of Hubei MaiYa Co., Limited, a company listed on the Shenzhen Stock Exchange principally engaged in manufacturing and distribution of textile products. Mr. Choy obtained a bachelor degree in psychology and economics from the University of British Columbia, Canada in May 2002, and a doctorate degree in business administration from California University of Management in March 2008.

Mr. Lee Cheuk Yin Dannis (李卓然), aged 46, was appointed as an independent non-executive Director on 22 June 2016. Mr. Lee is primarily responsible for supervising and providing independent judgment to the Board. From March 2004 to March 2010, Mr. Lee was an executive director of AMVIG Holdings Limited (stock code: 2300), a company listed on the Stock Exchange which engages in tobacco packaging business. Mr. Lee serves as the managing director of DLK Advisory Limited, a company engages in financial advisory and investment consulting services since October 2009. Mr. Lee has been an independent non-executive director of Geely Automobile Holdings Limited (stock code: 175) since June 2002 and Tiangong International Company Limited (stock code: 826) since September 2010, both companies are listed on the Stock Exchange. Mr. Lee was also an independent non-executive director of U-Home Group Holdings Limited (stock code: 2327), a company listed on the Stock Exchange, from August 2013 to October 2015. Mr. Lee graduated from Texas A &M University in the United States in August 1992 with a bachelor degree in business administration, and is a member of the Hong Kong Institute of Certified Public Accountants since June 1996 and a member of the American Institute of Certified Public Accountants since April 1995.

Mr. Lee was a non-executive director of Norstar Founders Group Limited ("**Norstar**") (stock code: 2339) from 19 August 2005 to 15 January 2009, during which as a non-executive director, at all relevant times he had no involvement in the day-to-day operation or management of Norstar. Norstar was the subject of a winding up petition and a provisional liquidator was appointed on 6 February 2009. The winding up petition was dismissed and provisional liquidator was discharged in January 2014. According to the announcements published by Norstar, it was the subject of a scheme of arrangement to restructure its debts whereby certain rights and claims of Norstar was assigned to administrators of the scheme of arrangement on behalf of Norstar's creditors ("**Scheme Administrators**"). A writ of summons (the "**Writ**") was issued by the assignees of the rights and claims of Norstar as plaintiffs on 24 June 2014 against several former directors of Norstar, of which Mr. Lee was one of the defendants. The Indorsement of Claim in the Writ alleged, among other things, various breaches of duties, contracts and applicable laws and regulations but it did not set out the basis or the specific incidents supporting the allegations therein. Mr. Lee has confirmed that (i) he was not aware of the matters alleged in the Indorsement of Claim; and (ii) he was never served any notice of proceedings or the Writ. It was informed that the Writ has been extended until 25 June 2016. The plaintiffs have not served the Writ on Mr. Lee by then. In view of (i) his lack of involvement in the day-to-day operation and management in Norstar during his time as non-executive director of Norstar, (ii) the lack of action taken by the Scheme Administrators to serve the Writ within the 12 months as specified, (iii) the lack of specific basis for the allegations made in the Writ, and (iv) Mr. Lee's continuing engagement as director of other companies listed on the Stock Exchange, the Company is of the view that Mr. Lee remains suitable to be an independent non-executive Director under Rules 3.08 and 3.09 of the Listing Rules.

Mr. Fu Lui (府磊), aged 36, was appointed as an independent non-executive Director on 22 June 2016. He is primarily responsible for supervising and providing independent judgment to the Board. Mr. Fu has over 13 years of experience in accounting and financial management. He is the financial controller and company secretary of China Uptown Group Company Limited, a company listed on the Stock Exchange (stock code: 2330) since July 2010. From September 2006 to June 2010, Mr. Fu was the finance manager of CSPC Pharmaceutical Group Limited, a company listed on the Stock Exchange (stock code: 1093), and from September 2002 to September 2006, Mr. Fu served as an accountant in the audit department at Deloitte Touche Tohmatsu. Mr. Fu obtained a bachelor of arts in accountancy from The Hong Kong Polytechnic University in November 2002, and a master of business administration from The Chinese University of Hong Kong in December 2009. Mr. Fu is a member of the Hong Kong Institute of Certified Public Accountants since July 2007 and advance to a fellow since May 2016. He is also a fellow of the Association of Chartered Certified Accountants since August 2011.

SENIOR MANAGEMENT

Mr. Ma Yongcang (馬永倉), aged 48, was appointed as our deputy general manager on 15 April 2016. Mr. Ma joined the Group as director of Guizhou Union since July 2013, and is primarily responsible for the administrative and human resources management of the Group. Prior to joining the Group, Mr. Ma worked at Hezhang County Wumeng Mountain Iron and Steel Company Limited* (赫章縣烏蒙山鋼鐵有限責任公司) from March 2003 to March 2013 as a management executive. Currently, he is also the director of Guizhou Ruilian since May 2013. Mr. Ma graduated from Weining County Vocational Training School* (威寧縣職工培訓學校) majoring in accounting in June 1987.

Mr. Zhang Guoxu (張國旭), aged 53, was appointed as our deputy general manager on 15 April 2016. Mr. Zhang joined the Group as director of Guizhou Union since June 2011, and is primarily responsible for the investment and business development of the Group. Prior to joining the Group, Mr. Zhang has been engaged in trading and coal mines investment and related businesses. Mr. Zhang graduated from Guizhou Normal University* (貴州師範大學) and completed his studies in Chinese literature in July 1991. Mr. Zhang is the father of Mr. Zhang Weizhe (張偉哲), one of our joint company secretaries.

Mr. Tian Yongchang (田永昌), aged 53, was appointed as our deputy general manager on 15 April 2016. Mr. Tian is a mining engineer and joined the Group in June 2011. He was a director of Guizhou Union from June 2011 to July 2013 and a director of Union Guli from June 2011 to June 2016. He is primarily responsible for the production and safety management of the Group. Prior to joining the Group, he worked for two coal mining companies including Lindong Mining Group* (林東礦業集團) and had held various position including head of the mine from July 1985 to July 1998 and Weining County Yinjiachong Coal Company* (威寧縣尹家沖煤礦) as head of the mine from March 1999 to April 2011. Mr. Tian graduated from Guizhou Machinery and Vocational Training School* (貴州省機械職業技術學校) (formerly Guizhou Coal Mining Vocational Training School* (貴州煤炭工業學校) in July 1985.

Mr. Tian Shixiang (田世祥), aged 28, was appointed as our deputy general manager on 15 April 2016. Mr. Tian joined the Group as a production technical specialist of Guizhou Union since 1 June 2011, and is primarily responsible for the new technology research and development of the Group. Mr. Tian obtained a bachelor degree in public administration and management in June 2010 at Huazhong University of Science and Technology* (華中科技大學). He has obtained a doctoral degree in engineering (specialising in safety technology and engineering) at China University of Mining and Technology* (中國礦業大學) in June 2016.

JOINT COMPANY SECRETARIES

Mr. Zhang Weizhe (張偉哲), aged 29, is our joint company secretary. Mr. Zhang joined the Group in October 2012, and was appointed as the secretary to the Board and investment specialist in April 2015. Mr. Zhang was a director of Union Wuzhou from October 2012 to June 2016. Mr. Zhang is primarily responsible for the investment management and company secretarial matters of the Group. Prior to joining the Group, Mr. Zhang was the aircraft financing specialist at Kunming Airlines Ltd.* (昆明航空有限公司) from May 2014 to April 2015. Mr. Zhang graduated from Lanzhou University* (蘭州大學) with a bachelor degree (majoring in world history) in June 2011 and obtained a master of science (specializing in management with international finance) from University of Glasgow, United Kingdom in December 2013. Mr. Zhang is the son of Mr. Zhang Guoxu (張國旭), a member of our senior management.

Ms. Kam Mei Ha, Wendy (甘美霞), aged 49, is our joint company secretary. Ms. Kam has over 20 years of experience in corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. She is currently a director of the Corporate Services Division of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services. Ms. Kam is currently a joint company secretary of six listed companies on the Stock Exchange. Prior to joining Tricor Services Limited, Ms. Kam worked at the Company Secretarial Department of Ernst & Young, Hong Kong from March 1992 to January 2002. Ms. Kam is a Chartered Secretary and a Fellow of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She is a holder of the Practitioner's Endorsement from the Hong Kong Institute of Chartered Secretaries. Ms. Kam graduated from the City Polytechnic of Hong Kong (now known as the City University of Hong Kong) with a professional diploma in company secretaryship and administration in November 1990.

* for identification purposes only

CORPORATE GOVERNANCE PRACTICE

The Company has adopted the code provisions set out in the CG Code as its own corporate governance framework. The Company complied with the code provisions as set out in the CG Code from the Listing Date to 31 December 2016, save for the deviations from code provision A.2.1 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.

COMPLIANCE WITH THE MODEL CODE ON SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. The Company was listed on the Stock Exchange on 13 July 2016. Therefore, the relevant standards set out in the Model Code were not applicable to the Company during the period from 1 January 2016 to 12 July 2016. 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 for the period from the Listing Date to 31 December 2016.

THE BOARD OF DIRECTORS

Board Composition

The Board currently consists of seven Directors comprising three executive Directors and four independent non-executive Directors.

Executive Directors

Mr. Xu Bo *(Chairman and Chief Executive Officer)*
Mr. Wei Yue
Mr. Xiao Zhijun

Independent Non-executive Directors

Mr. Jiang Chenglin
Mr. Choy Wing Hang William
Mr. Lee Cheuk Yin Dannis
Mr. Fu Lui

Brief biographical details of Directors and senior management are set out in the section headed "Directors and Senior Management" of the annual report.

None of the members of the Board is related to one another.

BOARD AND COMMITTEE MEETINGS

Regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors.

As the Company was only listed on the Stock Exchange since 13 July 2016, the relevant standards were not applicable to the Company during 1 January 2016 to 12 July 2016.

The attendance record of each director at the Board and Board Committee meetings of the Company held from the Listing Date and up to 31 December 2016 is set out in the table below:

	Attendance/Number of Meetings			
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee
Mr. Xu Bo	1/1		0/0	0/0
Mr. Wei Yue	1/1			
Mr. Xiao Zhijun	1/1			
Mr. Jiang Chenglin	1/1	1/1		
Mr. Choy Wing Hang William	1/1	1/1	0/0	0/0
Mr. Lee Cheuk Yin Dannis	1/1		0/0	0/0
Mr. Fu Lui	1/1	1/1		

The Directors have attended the meetings via video or telephone conference.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The independent non-executive Directors of the Company are appointed for a specific term of 3 years, subject to renewal after the expiry of the then current term.

The Articles provide that all Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment.

Under the Articles, at each annual general meeting, one-third of the Directors for the time being, or if their number is not three or a multiple of three, the number nearest to but not less than one-third shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The retiring Directors shall be eligible for re-election.

ROLES AND RESPONSIBILITIES OF THE BOARD

The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The independent non-executive directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF THE DIRECTORS

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director has received formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction shall be supplemented by visits to the Company's key plant sites or meetings with senior management of the Company.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

For the year ended 31 December 2016, the Company has organised a training program offered by lawyers for all of our Directors which covers various relevant topics, including the duties and responsibilities of directors, corporate governance, principal regulatory laws and regulations, key obligations and limitations of authorities, briefings on inside information regulations, obligations on announcements, notifications and disclosures and general disclosure obligations, connected transactions, the SFO, Takeovers Code and other relevant regulations. In addition, the Company has provided related reading materials to the Directors for their reference and learning purposes, including concerns to be considered before joining the Board, treatment for suspected conflict of interest, the correct responds to complicated transactions, the roles and functions of the Board committees, diversity of Board members, as well as guidelines to responsibilities of directors.

The record of continuing professional development relating to director's duties and regulatory and business development that have been received by the Directors from the Listing Date to 31 December 2016 and up to date of this report are summarised as follows:

Directors	Type of Training [Note]
Executive Directors	
Mr. Xu Bo	A and B
Mr. Wei Yue	A and B
Mr. Xiao Zhijun	A and B
Independent non-executive Directors	
Mr. Jiang Chenglin	A and B
Mr. Choy Wing Hang William	A and B
Mr. Lee Cheuk Yin Dannis	A
Mr. Fu Lui	A and B

Note:

Types of Training

A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops

B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

From the Listing Date and up to 31 December 2016, the Board at all times exceeded the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written confirmation from each of the independent non-executive Directors confirming his independence and the Company considers that all independent non-executive Directors are independent.

BOARD COMMITTEES

The Board has established three committees, namely the audit committee, the remuneration committee and the nomination committee for overseeing particular aspects of the Group's affairs. All Board committees of the Company are established with defined written terms of reference which are posted on the Company's and the Stock Exchange's websites.

The majority of the members of each Board committee are independent non-executive Directors. The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

AUDIT COMMITTEE

The Audit Committee consists of three independent non-executive Directors, namely Mr. Fu Lui (chairman of the Audit Committee), Mr. Jiang Chenglin and Mr. Choy Wing Hang William.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and appointment of external auditors, and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the Reporting Period, the Audit Committee held one meeting to review the interim financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors and engagement of non-audit services and relevant scope of works and, connected transactions and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee did not meet the external auditors without the presence of the executive Directors.

REMUNERATION COMMITTEE

The Remuneration Committee consists of three members, namely Mr. Choy Wing Hang William, an independent non-executive Director, Mr. Xu Bo, an executive Director, and Mr. Lee Cheuk Yin Dannis, an independent non-executive Director. Mr. Choy Wing Hang William is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration Committee include making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

No Remuneration Committee meetings were held in the Reporting Period.

Details of the emoluments of the Directors are set out in note 12 to the consolidated financial statements for the year ended 31 December 2016.

The Remuneration Committee also approved and made recommendations to the Board on the terms of service contracts or letters of appointment of the new Directors appointed during the year.

NOMINATION COMMITTEE

The Nomination Committee consists of three members, namely Mr. Xu Bo, an executive Director, Mr. Choy Wing Hang William, an independent non-executive Director, and Mr. Lee Cheuk Yin Dannis, an independent non-executive Director. Mr. Xu Bo is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code.

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of Independent Non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience etc. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

No Nomination Committee meetings were held in the Reporting Period.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

During the Reporting Period, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the Group's consolidated financial statements for the Reporting Period.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditors' Report on pages 43 to 47.

Where appropriate, a statement from the Audit Committee explaining its recommendation regarding the selection, appointment, resignation or dismissal of external auditors and the reasons why the Board has taken a different view from that of the Audit Committee.

DIRECTORS' INTERESTS IN SHARES

Details of Directors' interests in the shares of the Company are set out in the section headed "Directors' Report" of the annual report.

AUDITOR'S REMUNERATION

The remuneration paid/payable to the Group's external auditor, Deloitte Touche Tohmatsu for the Reporting Period is set out as follows:

Nature of services	Amount HK$'000
Audit services	1,220
Non-audit services (include acting as reporting accountant for the Listing and consultancy services on environmental, social and governance report)	8,328
Total	9,548

Internal Control and Risk Management

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee oversees the internal audit function of the Company. It also assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions.

The risk management working team conducted internal control assessment at least once a year to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security.

The risk management working team, in coordination with division/department heads, assessed the likelihood of risk occurrence, provides treatment plans, and monitors the risk management progress, and reported to the Audit Committee and the Board on all findings and the effectiveness of the systems.

The risk management working team has reviewed and reported to the Audit Committee on the adequacy and effectiveness of the risk management and internal control systems for the year ended 31 December 2016.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2016, and considered that such systems are effective and adequate.

The annual review also covered the financial reporting and staff qualifications, experiences and relevant resources.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

Control procedures have been implemented to ensure that unauthorised access and use of inside information are strictly prohibited.

Company Secretary

The Company has engaged Tricor Services Limited, an external service provider, and Ms. Kam Mei Ha, Wendy from Tricor Services Limited and Mr. Zhang Weizhe have been appointed as the Company's joint company secretaries. The primary contact person at the Company is Mr. Zhang Weizhe, the joint company secretary of the Company.

All Directors have access to the advice and services of the joint company secretaries on corporate governance and board practices and matters.

The biographical details of Mr. Zhang Weizhe and Ms. Kam Mei Ha, Wendy are set out in the paragraph headed "Joint Company Secretaries" in the "Directors and Senior Management" section in the annual report.

Communications with Shareholders

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries.

Convening an Extraordinary General Meeting

The Board may whenever it thinks fit call extraordinary general meetings.

Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the joint company secretaries of the Company deposited at the principal place of business of the Company in Hong Kong currently situated at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Proposals at General Meetings

There are no provisions under the Articles or the Companies Law of the Cayman Islands regarding procedures for Shareholders to put forward proposals at general meetings other than a proposal of a person for election as a director. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition. With respect to procedures for Shareholders to propose a person for election as a Director of the Company, please refer to the "Procedures for Shareholders to Propose a Director" which is posted on the Company's website at www.unienergy.hk.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

INVESTOR RELATIONS

Shareholders may send their enquiries or requests as mentioned above to the email address at unienergy@unienergy.hk (for the attention of the Joint Company Secretary).

For the avoidance of doubt, shareholders must send the written requisition, notice or statement, or enquiry (as the case may be) to the above email address, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

ARTICLES

From the Listing Date and up to 31 December 2016, the Company did not make any changes to the memorandum of association and the Articles and the current version of which are available on the websites of the Stock Exchange and the Company.

SHAREHOLDERS' RIGHTS

The Company engages with shareholders through various communication channels and a shareholders' communication policy is in place to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

To safeguard shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

The details of the non-competition undertaking by Controlling Shareholders are set out in the section headed "Directors' Report" of the annual report.

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is a producer of anthracite coal based in Guizhou Province of the PRC, and is principally engaged in the extraction and sale of anthracite coal. There were no significant changes in the nature of the Group's principal activities during the Reporting Period.

BUSINESS REVIEW

The business review of the Group is set out in the section headed "Management Discussion and Analysis" on pages 9 to 10 of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

The operations and business of the Group may be affected by various risks and uncertainties and the principal risks and uncertainties are set out below:

I. During the Reporting Period, the Group derived substantially all of the revenue from the sale of anthracite coal products which the Group primarily sold to trading companies who in turn on-sold to end users including the customers and end users from chemical, metallurgical and constructional industries. The changes in the economic condition of the PRC and the performance of chemical, metallurgical and constructional industries in the PRC may affect the demand for anthracite coal in the PRC and in turn its price, and hence have an adverse impact of the Group.

II. As the Group derived substantially all of the revenue from the sale of anthracite coal products, the Group's business, financial conditions and results of operations substantially relied on the prices of coal products charged by the Group. The Group mainly referred to the domestic market prices of anthracite coal market in the PRC in determining the prices of anthracite coal products, especially in Guizhou Province and the adjacent provinces. Such prices are of periodical nature and have experienced substantial volatility in the past due to various supply and demand factors. The governmental policies also have an impact on coal supply and pricing. Any substantial or extended decline in the market prices of anthracite coal in the PRC and in Guizhou Province could substantially decrease the revenue of the Group, which will affect the profitability as well as cash flow of the Group.

III. Any significant decrease in purchases of the Group's customers or any substantial delay in their payments or any failure to maintain relationships with existing major customers or attracting new customers may materially and adversely impact the Group's operation results and financial conditions.

IV. The Group's coal mining operations may be materially disrupted by operational risks and natural disasters, including earthquakes and other natural disasters, severe weather conditions, unexpected maintenance or technical problems, key equipment failures, unexpected geological variations and underground mining risks such as mine collapse, gas leaks or explosions, fire and flooding. The occurrence of these events may materially disrupt the Group's coal production capacity, disrupt coal transportation or cause significant business interruptions, personal injuries, and cause property or environmental damages as well as reputation damages.

V. The Group's coal mining operations require a reliable supply of electricity, water and other key materials and components, including mining equipment, replacement parts, explosives and roof support materials, and our demand for these resources and materials is expected to grow as our business grows and our production capacity increases. In the case of decrease in supply or increase in costs of electricity, water or other key supplies, the Group's operating costs will be increased if the Group is not able to pass on the increased costs of these resources and supplies to our customers, which may significantly disrupt the Group's business and operations and could have a material adverse effect on our financial conditions and results of operations.

FINANCIAL RESULTS AND PERFORMANCE

The Group's profit for the Reporting Period and the Group's financial position at 31 December 2016 are set out in the consolidated financial statements on pages 49 to 50.

FINAL DIVIDEND

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

SHARE CAPITAL

Details of movements in share capital of the Company during the Reporting Period are set out in note 28 to the consolidated financial statements.

DISTRIBUTABLE RESERVE

Distributable reserves of the Company as at 31 December 2016 amounted to approximately RMB647.0 million.

DONATIONS

During the Reporting Period, the Group donated RMB63,000 to the university students in the surrounding villages of our coal mines and RMB330,555 as living subsidies to the rural area elderly aged over 60 in the surrounding villages of our coal mines.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past four financial years is set out on page 98 of the annual report. This summary does not form part of the audited consolidated financial statements.

USE OF PROCEEDS FROM THE LISTING

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. For the period from the Listing Date to 31 December 2016, a total of HK$3.48 million had been applied to the working capital and other general corporate purposes. Apart from that, the rest of the net proceeds from the gloabl offering had not been utilised.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the aggregate sales attributable to the Group's five largest customers accounted for approximately 52.8% and the largest customer accounted for approximately 14.5% of the Group's total revenue for the year.

During the Reporting Period, the aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 64.6% and the largest supplier accounted for approximately 24.8% of the Group's total purchases for the year.

None of the Directors, their associates or any Shareholders (which to the knowledge of the Directors own more than 5% of the issued Shares) has an interest in the five largest suppliers or customers of the Group.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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.

The Group also understands that it is important to maintain good relationship with its customers and suppliers to fulfil its long-term goals. During the Reporting Period, there was no material and significant dispute between the Group and its customers and suppliers. The following table sets forth the brief background with respect to the five largest customers and their term of relationship with the Company for the year ended 31 December 2016:

Customer's name	Date of establishment	Type of coal products purchased	Major business of customer	Term of relationship with the Group(1) (in months)
Customer A	14 November 2002	Big lump coal, medium lump coal, clean coal and fine coal	Trading of coal products, raw coal, coking coal and minerals, coal preparation, transportation of commodity and mining materials	55
Customer B	29 June 2012	Big lump coal, medium lump coal and clean coal	Coal and minerals trading	51
Customer C(2)	27 May 2010	Clean coal	Construction materials and coal trading, building constructions	52
Customer D	19 August 2003	Big lump coal, medium lump coal,clean coal and fine coal	Coal, minerals and equipment trading	45
Customer E	10 July 2010	Big lump coal, medium lump coal,clean coal and fine coal	Wholesale of coal and coal preparation, processing, electromechanical maintenance, logistics and transportation, sales of mining equipment, sales of agricultural products	30

(1) The information with respect to the term of relationship with our Group is as of 31 December 2016.

(2) Although it was established in Wuhan City, Hubei Province, it is engaged in coal trading business in Guizhou Province.

All of the Group's five largest customers are privately owned enterprises and remained basically the same during the Reporting Period. As of 31 December 2016, the five customers are the key customers of the Group and the percentage of sales to the Group's five largest key customers is 52.8% primarily due to the Group's strategic decision to maintain deeper and long term business relationships with key customers of the Group, who tended to have larger purchase volume and amount and more stable cash flow to satisfy the payment obligations as compared with non-key customers. The Group selected its key customers through a comprehensive evaluation process by taking into account a variety of factors, including historical purchase volume and amounts, credit records, feedback from the on-site visits, reputation within the industry and market, as well as operation scale and status. Generally, a minimum quarterly purchase amount of RMB15 million in 2016, was required to qualify as our key customer, among other conditions. In 2016, the Group granted a credit period of 45 days to the key customers and the other customers should first settle a prepayment.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

For the period from the Listing Date and to 31 December 2016, there was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

DIRECTORS

The Directors during the Reporting Period and up to the date of this report were:

Executive Directors

Mr. Xu Bo *(Chairman and Chief Executive Officer)*
Mr. Wei Yue
Mr. Xiao Zhijun

Independent Non-executive Directors

Mr. Jiang Chenglin
Mr. Choy Wing Hang William
Mr. Lee Cheuk Yin Dannis
Mr. Fu Lui

Brief biographical details of Directors and senior management are set out in the "Directors and Senior Management" section in the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of our executive Directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other.

None of the Directors has entered or proposed to enter into any service contracts with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

There was no transaction, arrangement or contract of significance to which the Company or its subsidiaries, or its holding companies or any of its fellow subsidiaries was a party, and in which a Director or a entity connected with the Director was materially interested, whether directly or indirectly, subsisting during or at the end of the Reporting Period.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors have any interest in a business apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the Group's business and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

The remuneration policy of the Group are formulated on the basis of the performance, work experience and salary level prevailing in the market. Particulars of Directors' emoluments and five highest paid individuals' emoluments are set out in notes 12 and 13 to the consolidated financial statements respectively. No Director waived any emolument during the Reporting Period.

SENIOR MANAGEMENT'S EMOLUMENTS

Details of the emoluments by band of the senior management who are not the Group's Directors for the Reporting Period is set out below:

Fees by band	No. of individuals
Not exceeding HK$1,000,000	4

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the following Directors of the Company had interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required to be entered in the register under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code:

(i) The Company

Name of Director	Nature of Interest	Number of Shares(1)	Approximate Percentage of Shareholding Interest
Xu Bo(2)	Interest in controlled corporation; Interest of spouse	360,000,000(L)	50.14%
Xiao Zhijun(3)	Interest in controlled corporation	90,000,000(L)	12.53%

Notes:

1. The letter "L" denotes long position in the shares.

2. Pursuant to the declaration of trust dated 11 April 2016 executed by Ms. Dai Ling, being one of the Company's controlling shareholders and the spouse of Mr. Xu Bo, Ms. Dai Ling, as the sole legal owner of all the issued shares of Lavender Row Limited, holds the beneficial interest of all the issued shares of Lavender Row Limited in trust for the benefit of the family comprising Mr. Xu Bo, Ms. Dai Ling and their children ("Xu Family"). Accordingly, Mr. Xu Bo is deemed to be interested in the shares of the Company held by Lavender Row Limited by virtue of the SFO.

3. As the entire issued share capital of Noble Fox Holdings Limited is held by Mr. Xiao Zhijun, Mr. Xiao Zhijun is deemed to be interested in the shares of the Company held by Noble Fox Holdings Limited under the SFO.

(ii) Associated Corporation

Lavender Row Limited

Name of Director	Nature of Interest	Number of Shares[1]	Approximate Percentage of Shareholding Interest
Xu Bo[2]	Beneficial owner; Interest of spouse	50,000(L)	100%

Notes:

1. The letter "L" denotes long position in the shares.

2. These shares are held by Ms. Dai Ling in trust for the benefit of Xu Family including Mr. Xu Bo.

As at 31 December 2016, save as disclosed above, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which would otherwise be required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENT FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Reporting Period was the Company or any of its subsidiaries a party to any arrangement to enable a Director to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2016, to the best of the knowledge of the Company and the Directors, the following persons (other than Directors or chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be entered in the register under section 336 of the SFO:

Name of Shareholder	Nature of Interest	Number of Shares[1]	Approximate Percentage of Shareholding Interest
Lavender Row Limited	Beneficial owner	360,000,000(L)	50.14%
Dai Ling[2]	Interest in controlled corporation; Interest of spouse	360,000,000(L)	50.14%
Noble Fox Holdings Limited	Beneficial owner	90,000,000(L)	12.53%
Moonfun Miracle Limited	Beneficial owner	87,000,000(L)	12.12%
Ma Dang[3]	Interest in controlled corporation	87,000,000(L)	12.12%

Notes:

1. The letter "L" denotes long position in the shares.

2. Ms. Dai Ling is the sole legal owner of all the issued shares of Lavender Row Limited, holding such shares in trust for the benefit of Xu Family including her spouse, Mr. Xu Bo who is an executive Director and the Chairman of the Company. Accordingly, Ms. Dai Ling is deemed to be interested in the shares of the Company held by Lavender Row Limited by virtue of the SFO.

3. As the entire issued share capital of Moonfun Miracle Limited is held by Mr. Ma Dang, Mr. Ma Dang is deemed to be interested in the shares of the Company held by Moonfun Miracle Limited under the SFO.

As at 31 December 2016, save as disclosed above, the Company was not aware of any other person (other than the Directors and chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are required to be entered in the register under section 336 of the SFO.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during the Reporting Period are set out in note 35 to the consolidated financial statements. Such transactions were either (i) fully exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements under Rule 14A.76(1) of the Listing Rules; or (ii) did not constitute connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

MANAGEMENT CONTRACTS

No contracts, other than the service contracts with the Directors, concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float as required under the Listing Rules at any time for the period from the Listing Date to 31 December 2016.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to its existing Shareholders.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company during the Reporting Period or subsisted at the end of the Reporting Period.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS AND SIMILAR RIGHTS

The Company had no outstanding convertible securities, options, warrants or similar rights as at 31 December 2016. There has been no issue or exercise of any convertible securities, options, warrants or similar rights during the Reporting Period.

PENSION SCHEME ARRANGEMENTS

Pursuant to the labor regulations in the PRC, the Group participated in a number of fixed retirement benefits programs managed by the municipal and provincial governments for the employees. The Group contributed annually to the retirement benefits plan based on the wage standard of the urban workers in Guizhou Province required by the Municipal Human Health Resources and Social Security Bureau and the Provincial Human Resources and Social Security Office.

PERMITTED INDEMNITY PROVISION

Pursuant to the Article 164 of the Articles, Directors shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

The Controlling Shareholders entered into a deed of non-competition in favor of the Company dated 27 June 2016 as set out in section headed "Relationship with Controlling Shareholders – Deed of Non-competition" in the Prospectus. The Controlling Shareholders confirmed their compliance with all the undertakings provided under the deed of non-competition. The independent non-executive Directors, based on the confirmation from the Controlling Shareholders, consider that, from the Listing Date and up to 31 December 2016, the terms of the Deed of Non-Competition have been complied with by the Controlling Shareholders.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

There were no contract of significance with any member of the Group as the contracting party and in which any of the Controlling Shareholders possessed direct or indirect substantial interests, and which was still valid on 31 December 2016 or any time during such year and related to the business of the Group.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group considers the importance of environmental affairs and believes business development and environment affairs are highly related. During the Reporting Period, the Group implemented certain environmental protection measures to save energy and reduce the consumption of resources. These policies were supported by our staff and were implemented effectively.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group is subject to various laws and regulations including the Companies Law of the Cayman Islands, the Companies Ordinance (Chapter 622) and Business Registration Ordinance (Chapter 310), etc. Our Group has put in place internal controls to ensure compliance of the same. In addition, as the Group engages business in the PRC, compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, the mining-related rules and regulations which have significant impact on the Group. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units in the Company and subsidiaries from time to time.

PROFESSIONAL TAX ADVICE RECOMMENDED

If the shareholders of the Company are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the shares of the Company, they are advised to consult an expert.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by the Compliance Adviser, except for the compliance adviser agreement entered into between the Company and the Compliance Adviser effective on the Listing Date, neither the Compliance Adviser nor its directors, employees or associates had any interests in relation to the Company as at 31 December 2016 which is required to be notified to the Company pursuant to the Listing Rules.

AUDITOR

Deloitte Touche Tohmatsu will retire, and being eligible, offer themselves for re-appointment at the AGM. A resolution for their re-appointment as auditor of the Company will be proposed at the AGM.

By order of the Board
Mr. Xu Bo
Chairman and Chief Executive Officer

29 March 2017

Environmental, Social and Governance Report

CHINA UNIENERGY GROUP LIMITED (the "**Group**", "**we**" or "**us**") prepares the Environmental, Social and Governance Report for the financial year 2016 (the "**Report**") in accordance to the general disclosure requirements of "Environmental, Social and Governance Reporting Guide" under the Appendix 27 of the Listing Rules on the Main Board of HKEX. Several operation departments of the Group were involved in the preparation for this Report, so as to identify the environmental and social impact of the Group and evalue the importance of such impact towards the business and stakeholders of the Group.

The Report covers the major environmental and social policies and compliance with our coal production business.

A. ENVIRONMENTAL

A1: Emissions

As a coal production enterprise, the Group implements strict monitoring and control over pollutants emission, and complies with the relevant State environmental protection regulations. The Group continues to invest in environmental protection engineering in order to reduce pollutants from the source, and continues to monitor and enhance our production efficiency in the course of production, installs filters and blockage at the discharge locations to implement multiple measures to limit the emission of several pollutants. For example, coalbed methane (gas) that is produced during the mining process would cause air pollution if emitted directly. The Group jointly established Guizhou Nanneng Clean Energy Exploration Ltd.* (Nanneng Clean Energy) in cooperation with Southern Power Grid, through which we set up gas-powered stations near coal mines, and utilized the wastes for power generation with the gas produced in the process of extraction.

During the coal mining process, we need to use the large machineries for drilling and transportation. Smog and dust is also produced during the blasting process. To lower the air pollutants emission, we employ low-emission machineries and low-sulphur fuel to control the pollutants and greenhouse gas content in the exhaustion. We also work on our work flow to optimise the production process and procedures, so as to enhance transportation efficiency. We also continue to implement dust control measures at our production facilities, in order to control the air-borne dust concentration up to safe standard.

In regard to sewage disposal, we endeavor to minimise the usage of water resources and monitor the pollutants concentration in the water. To avoid contamination of the water resources near our production facilities, we impose strict control over sewage collection and conduct fitration and purification to avoid uncontrolled sewage disposal. In designing the production facilities, we have engaged environment evaluation experts to evaluate the ecological influences on our production for the avoidance of contamination to the underground water.

In regard to solid wastes, we conduct waste classification and store any harmful wastes separately, which would be collected by qualified waste treatment subcontractors. We also recycle and reuse any reusable wastes; for example, coal dust is used in power generation. We value the optimisation of our production process with a view to reducing waste generation.

During this reporting period, the Group is not aware of any substantial non-complicance with of the relevant environmental protection laws and regulations.

A2: Use of Resources

The Group encourages reserving resources, and has issued various procedural documents to give guidelines to our employees on reducing resources consumption and environmental protection principles, so as to minimise use of resources from the habitual prospective. In regard to use of energy, we optimise our production procedures and acquire more eco-friendly production facilities with a view to increasing our energy efficiency. The management of the Group monitors our resources consumption on a regular basis, and analysis and research any abnormalities, so as to rectify any over-consumption of resources in a timely manner. As an energy producer, we endeavor to set an example at the source, and produce green coal that is eco-friendly and efficient for public consumption.

A3: Environment and Natural Resources

The Group pays attention to the impact of our businesses on the environment and natural resources. Before commencement of production at our coal mines, the Group would engage environmental evaluation experts to conduct an impact evaluation on the surrounding ecosystem from various perspectives, and formulate the long-term plan in respect of the sustainability and reclamation of our production facilities. Besides complying with the relevant environmental regulations and international standards and properly protecting the natural environment accordingly, the Group also integrate the concept of environmental protection in our internal management and daily operations, and endeavors to achieve the objective of a sustainable environmental future.

With the aim of actively promoting environmental protection and efficient use of resources, we monitor the potential impact on the environmental from our business operations. We promote the four basic principles of reduction, reuse, recycling and replacement, in advocating a green office and production environment, and in minimising the environmental impact of our operation. We would employ the most practically available technologies under the circumstances in the effort of preserving natural resources.

B. SOCIAL ASPECTS

B1: Employment

Employees form the cornerstone of the long-term development of the Group. We aim to provide a comfortable and ideal work environment for all of our staff, so as to grow and advance along with our staff members.

As an equal opportunities employer, the Group employs its staffers based on merits, and strives to provide a working environment free from discriminations. The principle applies to all aspects in regard to our employees, including hiring, reassignment, recruitment, training, promotion, behavioral conduct, salaries and benefits, etc., so as to ensure equal opportunities and fair treatment for all of our staff members and job applicants.

The remuneration of our employees are determined with reference to the market level and industry practice. We would also consider granting of performance-based bonuses to certain employees. Our staff benefits package includes social security funds, provident funds and medical insurances. According to the Labor Laws, employees are entitled to paid annual leaves, paid sick leaves and paid maternity leaves.

To foster the sense of belonging among the staff, the Group would organise various social gatherings, sports activities, recreation and fitness events as well as employees caring programs. The Group has set up communication channels for collecting employees' feedback should they have any concerns or opinions.

During the reporting period, the Group is not aware of any violation of employment-related laws and regulations.

B2: Safety and Health

The safety of our employees is of highest priority of the Group. In order to protect the health and safety of our employees, we have set up the occupation safety management system for the comprehensive supervision and control over the work safety issues, so as to provide our employees with a safe working environment. We aim to prevent accidents at the source, and strictly comply with the work safety principles to minimise accidents occurrence. The Group has also set up appropriate incidents reporting and investigation systems, and encourages employees to report any incidents or safety concerns. The management would inspect the working environment on a regular basis, and rectify any potential problems in a timely manner.

Our frontline employees receive regular job trainings, and the Group provides necessary safety equipment to minimise accidents occurrence. We closely monitor jobs with higher risks, for example, mining workers are required to carry with them self-help equipment and safety hats. We would continuously monitor the behaviors of our employees inside the mining wells, and require them to follow the employees' manual at all times. The Group arranges first-aid demonstrations, fire drills, evacuation drills, mock leakage drills, as well as escape drill, in the effort to enhance the safety awareness of our staff. The Group also arranges body-checks for the employees, so as to ensure the staff working under healthy conditions, and to safeguard the long-term health of our employees. We also employ advanced technologies, such as semi-mechanic long-wall mining, to ensure higher efficiency and safety of our mining process.

During the reporting period, the Group is not aware of violation of safety and health related laws and regulations.

B3: Development and Training

Our employees are the force that drives the Group forward. The Group is eager to provide staff trainings related to production safety, allowing our staffers to understand their strengths, and to outline the long-term development plan of their own. In this regard, the Group set out the yearly training programs, and pass on different theories, skills and knowledge to our staff through internal and external training programs. We provide training to our staff through talks, seminars, group demonstrations and tests. In order to allow our employees to apply what they have learnt, our staff members are provided with on-the-job training under the leadership of seasoned staffers, in order to ensure our employees are able to work independently. The management would assess the results of our training programs and make suitable improvements, so as to enhance the working efficiency of our staff and help with their continuous development.

B4: Labor Regulations

The Group strictly follows Labor Laws requirements, and recruit persons over 18 years old with valid residential identifications issued by the Ministry of Public Security. The Group recruits its employees on a fair, open and voluntary basis, and enters into legal employment contracts with the staff members. No forced labor is employed.

During the reporting period, the Group is not aware of any contravention of anti-child-labor and forced-labor laws and regulations.

B5: Supply-chain Management

To promote a more environmental friendly production, we control different aspects of our production activities, and apply the same principles in our supplier management. We believe that our suppliers have great influences on our production. We implement strict selection system in picking our suppliers, and evaluate their environmental, social and governance performance. For example, we would check if our suppliers have complied with the requirements of the national environmental protection regulations, work safety, product quality control, and past material violations. As the suppliers are shortlisted on the "approved suppliers list", we would regularly review their performance, so as to ensure their continuous compliance with our standards, and conform with our standings in terms of sustainable community development.

B6: Products Responsibilities

The Group has high regard for our product quality. We have established the quality monitoring unit to control the quality of our coal. We have also introduced the coal-washing facilities to further improve the quality of our coal products to meet clients' requirements.

We did not sell any electric coal in 2016. Our anthracite coal has high calorific value, low sulphur content, low ash, and low volatile matter content, which generates energy in a more eco-friendly way for our customers.

The Group strives to provide quality services to satisfy clients' needs. Should our clients have any feedbacks, our professional customer service team would help solve the clients' problem. For incidents concerning service and product quality issues, we would provide treatment in a timely manner.

The Group values the privacy of our clients. We have set strict rules for handling the privacy issues, and provide multiple layers of both physical and computer security protection to safeguard clients' information.

During the reporting period, the Group is not aware of any violation of laws and regulations related to product responsibility.

B7: Anti-corruption

The Group strives to adhere to the principle of openness, responsibility and honesty, and requires all staff members to strictly comply with personal and professional code of ethics. We provide regular professional ethics trainings to our staff to ensure their understanding of relevant laws. Besides the relevant anti-bribery and anti-corruption policies set out in the employees' code of conduct, the Group has also set up external reporting procedures, and would regularly review the internal management system of the Group.

During the reporting period, the Group is not aware of any violation of the laws and regulations related to anti-corruption.

B8: Community Investments

As an active force in continuously supporting the development of the community, the Group organise various voluntary activities and donations outside our corporate businesses, in an effort to help the disadvantaged in the community recover from natural and manmade disasters. We organise regular voluntary activities and provide assistance to encourage our staff members to actively join the volunteer works, and to cultivate the caring atmosphere. We regularly communicate and cooperate with community organisations to better understand the needs of our community, and to provide the appropriate assistance. When making substantial decisions, the management would also consider the impact on our community, in order to support the long-term development of the community.

During 2016, the Group distributed living subsidies to elderlies aged over 60 living in the surrounding villages of our mines. Meanwhile, the Group also actively donated to student funds, and distributed a once-off subsidy of RMB3,000 to RMB5,000 to each of the students who are admitted by full-time university programs in our surrounding villages.

* for identification purposes only

Deloitte. 德勤

TO THE MEMBERS OF CHINA UNIENERGY GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of CHINA UNIENERGY GROUP LIMITED (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 48 to 97, which comprise the consolidated statement of financial position as at 31 December 2016, and 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 then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters - continued

Key audit matter	How our audit addressed the key audit matter
1. Depreciation and amortisation of mining related assets	
We identified the depreciation and amortisation of mining related assets calculating using the unit-of-production method as a key audit matter due to the involvement of significant estimation and management's judgement in determining the reserves of the coal mines. As explained in note 5 to the consolidated financial statements, the Group determines the depreciation and amortisation of mining related assets by the actual units of production over the estimated reserves of the mines. The amortisation of mining rights amounting to RMB20,740,000 and depreciation of mining structures amounting to RMB7,947,000 are recognised for the year ended 31 December 2016. The estimated reserves are the estimates of the quantity of coal that can be economically and legally extracted from the Group's mining properties, determined according to an independent technical review report with the consideration of recent production and technical information of each mine. In addition, fluctuations in factors including the price of coal, production costs and transportation costs of coal, a variation on recovery rates or unforeseen geological or geotechnical perils may render the management to change the production plan based on the management's judgement and estimation, resulting a revision on the estimates of coal reserves.	Our procedures in relation to the depreciation and amortisation of mining related assets: • Examining the production plan prepared by the management of the Group and checking the consistency of estimated production volume throughout the life of the mines against the estimated coal reserves based on an independent technical review report from an external specialist; and • Assessing the appropriateness of management assumptions including the future coal price, production costs and right to extract coal mines in estimating the production volume by reference to the Group's historical experiences and our knowledge of the coal mining industry in the People's Republic of China.

Key Audit Matters - continued

Key audit matter	How our audit addressed the key audit matter
2. Carrying amount of non-mining related property, plant and equipment	
We identified the carrying amount of non-mining related property, plant and equipment as a key audit matter due to the significant judgements in determining the useful economic lives of items of property, plant and equipment and identification of indicators of impairment. As at 31 December 2016, the Group's non-mining related property, plant and equipment amounted to RMB73,111,000, net of accumulated depreciation and impairment loss, if any. As explained in note 5 to the consolidated financial statements, it requires the management of the Group to estimate the useful economic lives to write off the costs of property, plant and equipment through depreciation charges, and assess whether any impairment indicators are present, such as redundant events. The Group reviews the estimated useful lives of the assets regularly based on the Group's historical experience with similar assets after taking into account the anticipated technological changes. In addition, the Group reviews internal and external resources of information to identify indicators that the non-mining related property, plant and equipment may be impaired.	Our procedures in relation to the carrying amount of non-mining related property, plant and equipment included: • Obtaining an understanding of the process in assessing indicators of impairment by the management of the Group and evaluating whether there are any events that would give rise to indicators of impairment such as redundant events; and • Evaluating managements' assessment over the useful economic lives of key assets by considering internal and external available data and our knowledge of the business.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements - continued

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Tsz Wai.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
Revenue	6	**690,998**	486,016
Cost of sales		**(287,381)**	(206,029)
Gross profit		**403,617**	279,987
Other income	7	**2,242**	928
Other loss, net	8	**(964)**	(84)
Distribution and selling expenses		**(3,500)**	(2,569)
Administrative expenses		**(22,814)**	(15,743)
Listing expenses		**(32,774)**	(1,254)
Finance costs	9	**(43,301)**	(43,447)
Share of loss of a joint venture		**(254)**	(198)
Profit before taxation		**302,252**	217,620
Income tax expense	10	**(88,512)**	(57,155)
Profit and total comprehensive income for the year	11	**213,740**	160,465
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**213,740**	160,465
Non-controlling interests		**—**	—
		213,740	160,465

		RMB	RMB
Earnings per share	14		
Basic		**0.33**	0.27
Diluted		**0.33**	N/A

Consolidated Statement of Financial Position

At 31 December 2016

	NOTES	2016	2015
		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment	16	293,982	312,695
Mining rights	17	896,759	921,614
Rehabilitation deposits	18	19,874	19,874
Interest in a joint venture	19	9,537	9,791
Prepaid lease payments - non-current portion	20	6,268	6,582
		1,226,420	1,270,556
Current assets			
Inventories	21	1,707	1,503
Prepaid lease payments - current portion	20	314	314
Trade and other receivables	22	81,312	86,290
Short-term bank deposits	23	130,000	—
Bank balances	23	160,664	31,895
		373,997	120,002
Current liabilities			
Trade and other payables	24	210,661	201,597
Provision for restoration and environmental costs	25	—	1,850
Tax payables		32,569	25,529
Bank borrowings - current portion	26	232,300	238,300
		475,530	467,276
Net current liabilities		(101,533)	(347,274)
Total assets less current liabilities		1,124,887	923,282

Consolidated Statement of Financial Position

At 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
Capital and reserves			
Share capital/paid-in capital	28	**47,988**	35,000
Reserves		**705,437**	370,180
Equity attributable to owners of the Company		**753,425**	405,180
Non-controlling interests		**—**	—
Total equity		**753,425**	405,180
Non-current liabilities			
Provision for restoration and environmental costs	25	**17,048**	18,081
Bank borrowings - non-current portion	26	**342,600**	484,900
Deferred tax liabilities	27	**11,814**	15,121
		371,462	518,102
		1,124,887	923,282

The consolidated financial statements on pages 48 to 97 were approved and authorised for issue by the board of directors on 29 March 2017 and signed on its behalf by:

Mr. Xu Bo
DIRECTOR

Mr. Xiao Zhijun
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Equity attributable to owners of the Company						
	Paid-in capital/ share capital	Share premium	Statutory reserve	Retained profits	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000 (note i)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	35,000	—	18,189	191,526	244,715	2,997	247,712
Profit and total comprehensive income for the year	—	—	—	160,465	160,465	—	160,465
Transfer to statutory reserve	—	—	14,182	(14,182)	—	—	—
Disposal of a subsidiary (note ii)	—	—	—	—	—	(2,997)	(2,997)
At 31 December 2015	35,000	—	32,371	337,809	405,180	—	405,180
Profit and total comprehensive income for the year	—	—	—	213,740	213,740	—	213,740
Effect of reorganisation (note iii)	(35,000)	—	—	—	(35,000)	—	(35,000)
Acquisition of the Company (note 28(i))	305	—	—	—	305	—	305
Issue of new shares by the Company:							
– upon reorganisation (note 28(iii))	324	—	—	—	324	—	324
– upon global offering (note 28(iv))	7,759	172,031	—	—	179,790	—	179,790
– upon capitalisation issue (note 28(v))	39,466	(39,466)	—	—	—	—	—
– upon exercise of over-allotment option (note 28(vi))	134	2,966	—	—	3,100	—	3,100
Transaction costs directly attributable to the issue of new shares	—	(14,014)	—	—	(14,014)	—	(14,014)
Transfer to statutory reserve	—	—	26,084	(26,084)	—	—	—
At 31 December 2016	47,988	121,517	58,455	525,465	753,425	—	753,425

Notes:

(i) According to the relevant requirements in the memorandum of association of 貴州優能(集團)礦業股份有限公司 (Guizhou Union (Group) Mining Co. Ltd.) ("Guizhou Union"), a wholly owned subsidiary of the Company established in the People's Republic of China, a portion of its profits after taxation has to be transferred to the statutory reserve. The transfer to this reserve must be made before the distribution of a dividend to the equity owners. The transfer can be ceased when balance of the reserve reaches 50% of the registered capital of Guizhou Union. The reserve can be applied either to set off accumulated losses or to increase capital.

(ii) In July 2015, the Group disposed of its entire 90% equity interest in 貴州省赫章縣六曲河鎮拉蘇優能煤業有限公司 ("Lasu Coal Business") to an independent third party at a consideration of RMB27 million, resulting in a gain of RMB27,000. The consideration of RMB27 million was settled by offsetting the balance due by Guizhou Union to Lasu Coal Business of the same amount.

(iii) Upon execution of a group reorganisation for the purpose of the Company's listing as set out in note 1, the Company acquired the entire 100% equity interest in the major operating subsidiary, Guizhou Union, through acquisition of two investment holding vehicles, for a total consideration of approximately RMB35 million. The consideration paid to the then shareholders (who subsequently became the shareholders of the Company) was deemed as distribution to the shareholders.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016	2015
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Profit before taxation	302,252	217,620
Adjustments for:		
Amortisation of mining rights	20,740	11,646
Depreciation of property, plant and equipment	17,176	13,298
Finance costs	43,301	43,447
Gain on disposal of a subsidiary	—	(27)
Interest income	(767)	(300)
Loss on disposal of property, plant and equipment	4	111
Restoration and environmental costs incurred on an ongoing basis during production	636	5,499
Release of prepaid lease payments	314	543
Share of loss of a joint venture	254	198
Operating cash flows before movements in working capital	383,910	292,035
Decrease in rehabilitation deposits	—	4,534
(Increase) decrease in inventories	(204)	1,919
Decrease (increase) in trade and other receivables	6,044	(45,027)
Increase in trade and other payables	9,945	19,842
Decrease in provision for restoration and environmental costs	(1,850)	(5,259)
Cash generated from operations	397,845	268,044
PRC Enterprise Income Tax paid	(84,779)	(36,111)
NET CASH FROM OPERATING ACTIVITIES	313,066	231,933
INVESTING ACTIVITIES		
Placement of short-term bank deposits	(130,000)	—
Purchases of property, plant and equipment	(3,109)	(28,711)
Additions to mining rights	(225)	(8,721)
Government grants received	4,340	2,000
Interest received	330	300
Acquisition of assets and liabilities through acquisition of subsidiaries in prior years	—	(14,483)
Proceeds on disposal of property, plant and equipment	—	1,112
NET CASH USED IN INVESTING ACTIVITIES	(128,664)	(48,503)

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016	2015
	RMB'000	RMB'000
FINANCING ACTIVITIES		
Repayment of bank borrowings	(238,300)	(204,300)
Interest paid on bank borrowings	(41,209)	(40,762)
Repayment to directors	(40,955)	(19,010)
Deemed distribution to shareholders	(35,000)	—
Transaction cost directly attributable to the issue of new shares	(14,014)	—
Issue of new shares upon global offering, including the exercise of over-allotment option	182,890	—
New bank borrowing raised	90,000	386,000
Advance from directors	40,955	20,000
Repayment to shareholders	—	(331,054)
NET CASH USED IN FINANCING ACTIVITIES	(55,633)	(189,126)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	128,769	(5,696)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	31,895	37,591
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances	160,664	31,895

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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 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 Codan 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 "BVI").

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 ("Unienergy BVI"), China Unienergy Development Co., Limited ("Unienergy Hong Kong") 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.

1. GENERAL, LISTING, REORGANISATION AND BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Basis of presentation

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended 31 December 2015 and 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 periods or since their respective dates of acquisition/establishment, or up to the respective dates of disposal, whichever is shorter.

The consolidated statement of financial position of the Group as at 31 December 2015 has been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at that date, taking into account the respective dates of disposal.

2. BASIS OF PREPARATION

At 31 December 2016, the Group had net current liabilities of approximately RMB102 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, amounted to RMB325 million being unitilised 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 AMENDMENTS TO 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 (the "HKICPA") for the first time in the current year:

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

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.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") - CONTINUED

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to 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]
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 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle[5]

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 2017.
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

HKFRS 9 "Financial Instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 "Financial Instruments: Recognition and Measurement". The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost. However, it is not practicable to provide a resonable estimate of the effect of HKFRS 9 until the Group performs a detailed review.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") - CONTINUED

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") - CONTINUED

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised an asset for prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of the asset depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group had non-cancellable operating lease commitments of HK$6,150,000 as disclosed in note 33. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

Amendments to HKAS 7 "Disclosure Initiative"

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 changes arising from cash flows and non-cash changes. Specifically, the amendments require the following changes in liabilities arising from financing activities 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.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") - CONTINUED

Amendments to HKAS 7 "Disclosure Initiative" - continued

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with early application permitted. The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

In the opinion of the directors, the application of these amendments will not result in any impact on the financial performance or financial position of the Group in these consolidated financial statements, except for the disclosure of changes arising from financing cash flows, such as bank borrowings.

The directors of the Company anticipate that the application of the other amendments to HKFRSs will have no material impact on these consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Loss of control of subsidiary

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/ permitted by applicable HKFRSs).

Merger accounting for business combination involving businesses under common control

The consolidated financial statements incorporate the financial statements items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period.

4. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Investment in a joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of the joint venture are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of the joint venture used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Appropriate adjustments have been made to conform the joint venture's accounting policies to those of the Group. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease.

4. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of good or services, or for administrative purposes are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Mining structures are stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses. Mining structures for which proved and probable reserves have been established are depreciated upon production based on actual units of production over the estimated proved and probable reserves of the relevant mines.

Reserve estimates are reviewed when information becomes available that indicates a reserve change is needed, or at a minimum once a year. Any material effect from changes in estimates is considered in the period the change occurs.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than mining structures, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Mining rights

Mining rights are stated at cost less subsequent accumulated amortisation and subsequent accumulated impairment losses. Mining rights include the cost of acquiring mining licenses. The mining rights are amortised using the units of production method based on the proved and probable coal mining reserves.

A mining right is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of a mining right, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Impairment of non-financial assets

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Provision for restoration and environmental costs

Provision for the Group's restoration and environmental costs is based on estimates of required expenditure at the mines in accordance with the PRC rules and regulations. The Group estimates its liabilities for final reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash expenditure to perform the required work, the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation and is capitalised at the start of each project, as soon as the obligation to incur such costs arises. These costs are charged to profit or loss over the life of the operation through the depreciation of the assets.

4. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Provisions - continued

Provision for restoration and environmental costs - continued

Restoration and environmental costs which are caused on an ongoing basis during production and shall incur during production are charged to profit or loss as extraction progresses.

Retirement benefit costs

Payments to defined contribution scheme are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution scheme where the Group's obligations under the schemes are equivalent to those arising in a defined contributed retirement benefit plan.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as salaries) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interest in a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interest are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

4. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Taxation - continued

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including rehabilitation deposits, trade and other receivables, short-term bank deposits and bank balances) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

4. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Financial instruments - continued

Financial assets - continued

Loans and receivables - continued

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

4. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Financial instruments - continued

Financial liabilities and equity instruments - continued

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction cost and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at amortised cost

The Group's financial liabilities including trade and other payables and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and further periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY - CONTINUED

Units-of-production depreciation and amortisation for mining related assets

As at 31 December 2016, the carrying amounts of mining rights and mining structures were RMB896,759,000 (2015: RMB921,614,000) and RMB220,872,000 (2015: RMB230,829,000), respectively. The Group recognised amortisation of mining rights amounting to RMB20,740,000 (2015: RMB11,646,000) and depreciation of mining structures amounting to RMB7,947,000 (2015: RMB5,173,000) for the year ended 31 December 2016. The Group determines the depreciation and amortisation of mining related assets by the actual units of production over the estimated reserves of the mines. Further details about the reserve estimates are set out below.

Reserve estimates

Proved and probable coal reserve estimates are estimates of the quantity of coal that can be economically and legally extracted from the Group's mining properties, determined according to an independent technical review report with the consideration of recent production and technical information of each mine.

Fluctuations in factors including the price of coal, production costs and transportation costs of coal, a variation on recovery rates or unforeseen geological or geotechnical perils may render the management to change the production plan, resulting in a revision on the estimates of coal reserves.

Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- Asset carrying values may be affected due to changes in estimated future cash flows.
- Depreciation and amortisation charged to profit or loss may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change.
- The carrying value of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

Depreciation and impairment of non-mining related property, plant and equipment

As at 31 December 2016, the carrying amount of non-mining related property, plant and equipment was RMB73,110,000 (2015: RMB81,866,000), net of accumulated depreciation and impairment loss, if any. Non-mining related property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods would be adjusted if there are significant changes from previous estimates. In addition, the Group reviews internal and external resources of information to identify indicators that the non-mining related property, plant and equipment may be impaired.

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2016, the carrying amount of trade receivables was RMB78,059,000 (2015: RMB84,399,000).

5. KEY SOURCES OF ESTIMATION UNCERTAINTY - CONTINUED

Provision for restoration and environmental costs

The provision for restoration and environmental costs as set out in note 25 has been determined by the directors of the Company based on current regulatory requirements and their best estimates. The management of the Group estimate this liability for final reclamation and mine closure based on detailed calculations of the amounts and timing of future cash flows that required to perform the required work. The provision reflects the present value of the expenditures expected to be required to settle the obligation. However, as the effect on the land and the environment from mining activities becomes apparent only in future periods, the estimate of the associated costs may be subject to change in the future. The provision is reviewed regularly to properly reflect the present value of the obligation arising from the current and past mining activities.

6. REVENUE AND SEGMENT INFORMATION

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

	2016	2015
	RMB'000	RMB'000
Sale of anthracite coal	690,985	485,874
Sale of coalbed methane	13	142
	690,998	486,016

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 is prepared based on the same accounting policies set out in note 4. During each of the year ended 31 December 2016 and 2015, 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.

6. REVENUE AND SEGMENT INFORMATION - CONTINUED

Information about major customers

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

	2016 RMB'000	2015 RMB'000
Customer A	**100,057**	99,111
Customer B	**N/A (note)**	71,860
Customer C	**N/A (note)**	66,214
Customer D	**71,963**	61,005

Note: The corresponding revenues did not contribute over 10% of the total revenue of the Group.

7. OTHER INCOME

	2016 RMB'000	2015 RMB'000
Scrap sales	**1,197**	554
Bank interest income	**767**	300
Others	**278**	74
	2,242	928

8. OTHER LOSS, NET

	2016 RMB'000	2015 RMB'000
Net exchange loss	**960**	—
Loss on disposal of property, plant and equipment	**4**	111
Gain on disposal of a subsidiary	**—**	(27)
	964	84

9. FINANCE COSTS

	2016	2015
	RMB'000	RMB'000
Interest expenses on bank borrowings	40,901	41,019
Interest on resources fees payable (note 24)	1,423	1,781
Accretion expenses (note 25)	977	647
	43,301	43,447

10. INCOME TAX EXPENSE

	2016	2015
	RMB'000	RMB'000
Current tax:		
PRC Enterprise Income Tax	91,819	51,081
Deferred taxation (note 27)	(3,307)	6,074
	88,512	57,155

During the years ended 31 December 2016 and 2015, 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.

The income tax expense for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2016	2015
	RMB'000	RMB'000
Profit before taxation	302,252	217,620
Tax at the PRC Enterprise Income Tax rate of 25%	75,563	54,405
Tax effect of share of loss of a joint venture	64	49
Tax effect of income not taxable for tax purpose	(192)	(82)
Tax effect of expenses not deductible for tax purpose	13,077	2,783
Income tax expense for the year	88,512	57,155

Details of deferred taxation are set out in note 27.

11. PROFIT FOR THE YEAR

	2016 RMB'000	2015 RMB'000
Profit for the year have been arrived at after charging:		
Directors' emoluments (note 12)	**1,102**	564
Other staff costs:		
Salaries and other allowances	**112,862**	82,526
Retirement benefits scheme contributions, excluding those of directors	**16,313**	12,915
Total staff costs (included in cost of sales, distribution and selling expenses and administrative expenses)	**130,277**	96,005
Auditor's remuneration	**1,094**	63
Amortisation of mining rights (included in cost of sales)	**20,740**	11,646
Depreciation of property, plant and equipment		
– included in cost of sales	**16,435**	12,454
– included in distribution and selling expenses	**258**	268
– included in administrative expenses	**483**	576
	17,176	13,298
Restoration and environmental costs incurred on an ongoing basis during production (included in cost of sales)	**636**	5,499
Release of prepaid lease payments	**314**	543
Cost of inventories recognised as an expense	**287,381**	206,029

12. DIRECTORS' AND CHIEF EXECUTIVE EMOLUMENTS

Directors' and chief executive's emoluments for the year, disclosed pursuant to the applicable Listing Rules and the Hong Kong Companies Ordinance, is as follows:

	Directors' fees	Salaries and other allowances	Discretionary bonus	Retirement benefits scheme contributions	Total
	RMB'000	RMB'000	RMB'000 (note ii)	RMB'000	RMB'000
For the year ended 31 December 2016					
Executive directors:					
Mr. Xu Bo (note i)	86	—	—	—	86
Mr. Wei Yue	—	351	30	12	393
Mr. Xiao Zhijun	—	246	21	12	279
Independent non-executive directors:					
Mr. Jiang Chenglin (note iii)	86	—	—	—	86
Mr. Choy Wing Hang William (note iii)	86	—	—	—	86
Mr. Lee Cheuk Yin Dannis (note iii)	86	—	—	—	86
Mr. Fu Lui (note iii)	86	—	—	—	86
Total	430	597	51	24	1,102
For the year ended 31 December 2015					
Executive directors:					
Mr. Xu Bo (note i)	—	—	—	—	—
Mr. Wei Yue	—	286	25	8	319
Mr. Xiao Zhijun	—	218	19	8	245
Total	—	504	44	16	564

Notes:

(i) Mr. Xu Bo is the chairman and chief executive of the Company.

(ii) Discretionary bonus is determined based on individual performance.

(iii) They were appointed as the Company's independent non-executive directors with effect from 22 June 2016 and their emoluments shown above were for their services as directors of the Company.

(iv) The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

There was no arrangement under which a director or the chief executive waived or agreed to waive any emolument during the year.

13. FIVE HIGHEST PAID EMPLOYEES

No director is included in the five highest paid individuals of the Group during the current year (2015: Nil), details of whose emoluments are set out in note 12 above. Details of the emoluments of the five (2015: five) highest paid individuals for the year are as follows:

	2016	2015
	RMB'000	RMB'000
Salaries and other allowances	**2,238**	2,013
Retirement benefits scheme contribution	**49**	42
	2,287	2,055

The emoluments within the following bands:

	2016	2015
	No. of employees	No. of employees
Not exceeding HK$1,000,000	**5**	5

During both years, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

14. 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.

	2016 RMB'000	2015 RMB'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share (Profit for the year attributable to owners of the Company)	213,740	160,465

	2016	2015
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	655,344,262	600,000,000
Effect of dilutive potential ordinary shares in respect of over-allotment options	806,994	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	656,151,256	N/A

The number of ordinary shares for the purposes of basic and diluted earnings per share for both years have been determined assuming the Reorganisation, subdivision of shares and capitalisation issue of the Company as disclosed in note 28 had been effective on 1 January 2015.

No diluted earnings per share for the year ended 31 December 2015 is presented as there were no potential ordinary shares outstanding.

15. DIVIDEND

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

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Mining structures RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Total RMB'000
COST						
At 1 January 2015	31,539	242,418	40,432	997	1,647	317,033
Additions	10,602	200	24,440	—	462	35,704
Disposals	—	—	(2,076)	—	(177)	(2,253)
At 31 December 2015	42,141	242,618	62,796	997	1,932	350,484
Additions	—	—	394	—	83	477
Written-off/disposals	—	(2,010)	—	—	(72)	(2,082)
At 31 December 2016	42,141	240,608	63,190	997	1,943	348,879
ACCUMULATED DEPRECIATION						
At 1 January 2015	4,850	6,616	12,500	803	752	25,521
Provided for the year	2,374	5,173	5,248	144	359	13,298
Eliminated on disposals	—	—	(905)	—	(125)	(1,030)
At 31 December 2015	7,224	11,789	16,843	947	986	37,789
Provided for the year	2,384	7,947	6,522	50	273	17,176
Eliminated on disposals	—	—	—	—	(68)	(68)
At 31 December 2016	9,608	19,736	23,365	997	1,191	54,897
CARRYING VALUES						
At 31 December 2016	32,533	220,872	39,825	—	752	293,982
At 31 December 2015	34,917	230,829	45,953	50	946	312,695

The following estimated useful lives are used for the depreciation of property, plant and equipment, other than mining structures:

Buildings	Over the shorter of the terms of the relevant lease or 10 to 20 years
Machinery	4 to 10 years
Motor vehicles	4 years
Office equipment	3 years

The mining structures include the main and auxiliary mine shafts and underground tunnels. The mining rights have legal lives ranging from 10 to 20 years but in the opinion of the directors of the Company, the Group will be able to renew the mining rights without incurring significant costs. Depreciation is provided to write off the cost of the mining structures using the units of production method over the total proved and probable reserves of the relevant coal mines.

17. MINING RIGHTS

	RMB'000
COST	
At 1 January 2015	833,260
Additions	116,167
Government grants (note iv)	(2,000)
At 31 December 2015	947,427
Additions	225
Government grants (note iv)	(4,340)
At 31 December 2016	943,312
ACCUMULATED AMORTISATION	
At 1 January 2015	14,167
Charged for the year	11,646
At 31 December 2015	25,813
Charged for the year	20,740
At 31 December 2016	46,553
CARRYING VALUES	
At 31 December 2016	896,759
At 31 December 2015	921,614

Notes:

(i) The mining rights represent:

(a) the right to extract from Lasu coal mine situated at Hezhang County, Guizhou Province ("Lasu Coal Mine") and to perform such activity for a period of 10 years ending in 2021 with annual production capacity of 300,000 tonnes and the Group has obtained the approval of the upgrade of the annual production capacity of 450,000 tonnes during year 2015 but yet to obtain respective mining license as at 31 December 2016;

(b) the right to extract from Weishe coal mine situated at Hezhang County, Guizhou Province ("Weishe Coal Mine") and to perform such activity for a period of 10 years ending in 2026 with an upgraded annual production capacity of 450,000 tonnes;

(c) the right to extract from Luozhou coal mine situated at Hezhang County, Guizhou Province ("Luozhou Coal Mine") and to perform such activity for a period of 20 years ending in 2036 with an upgraded annual production capacity of 450,000 tonnes; and

(d) the right to extract from Tiziyan coal mine situated at Dafang County, Guizhou Province ("Tiziyan Coal Mine") and to perform such activity for a period of 16 years ending in 2030 with annual production capacity of 450,000 tonnes and the Group is in the progress to obtain the approval of the upgrade of the annual production capacity of 900,000 tonnes and respective mining license.

No amortisation has been provided for Tiziyan Coal Mine, which is still under development.

17. MINING RIGHTS - CONTINUED

Notes: - continued

(ii) The mining rights have legal lives ranging from 10 to 20 years but in the opinion of the directors of the Company, the Group will be able to renew the mining rights without incurring significant costs.

(iii) At 31 December 2016, the Group had pledged its mining rights with carrying amounts of approximately RMB897 million (2015: RMB922 million) to secure banking facilities granted to the Group.

(iv) During the year, the Group received one-off and unconditional government grants of RMB4,340,000 (2015: RMB2,000,000) from the local government authority as an incentive to the Group for the closure of not-up-to-standard coal mines in the PRC for the purpose of upgrading the Group's annual production capacity, which are recognised as a deduction from the cost of the relevant mining rights.

18. REHABILITATION DEPOSITS

Rehabilitation deposits are paid to the local government authority in the PRC with respect to the future environmental rehabilitation works of the Group's coal mines. Upon completion of qualified rehabilitation works, the Group can apply for the release of the rehabilitation deposits which amounted to the costs the Group has incurred. The entire amount will be fully refunded at the cessation of mining activities or closure of mines if and only if the rehabilitation works of the relevant coal mines meet the requirements imposed by the local government authority.

19. INTEREST IN A JOINT VENTURE

Details of the Group's interest in a joint venture are as follows:

	2016	2015
	RMB'000	RMB'000
Cost of unlisted investment	**10,000**	10,000
Share of post-acquisition losses	**(463)**	(209)
	9,537	9,791

Details of the Group's joint venture at the end of the reporting period are as follow:

Name of joint venture	Place of establishment and operation	Proportion of ownership interest and voting power held by the Group		Principal activity
		2016	2015	
貴州南能清潔能源開發有限公司 ("Nanneng Clean Energy")	The PRC	50%	50%	Generation of electricity with coalbed methane

19. INTEREST IN A JOINT VENTURE - CONTINUED

Summarised financial information in respect of the Group's joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

The joint venture is accounted for using the equity method in the consolidated financial statements.

	2016 RMB'000	2015 RMB'000
Current assets	**9,039**	9,788
Non-current assets	**10,098**	10,732
Current liabilities	**(62)**	(938)
Non-current liabilities	**—**	—
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**8,947**	9,684
Current financial liabilities (excluding trade and other payables and provision)	**—**	—
Non-current financial liabilities (excluding trade and other payables and provision)	**—**	—

	2016 RMB'000	2015 RMB'000
Revenue	**95**	1,107
Loss and other comprehensive expense for the year	**(507)**	(396)
The above loss for the year includes the followings:		
Depreciation and amortisation	**634**	641
Interest income	**94**	215
Interest expense	**—**	—
Income tax expense	**—**	—

19. INTEREST IN A JOINT VENTURE - CONTINUED

Reconciliation of the above summarised financial information to the carrying amount recognised in the consolidated financial statements:

	2016	2015
	RMB'000	RMB'000
Net assets of Nanneng Clean Energy	**19,075**	19,582
Proportion of the Group's ownership interest in Nanneng Clean Energy	**50%**	50%
Carrying amount of the Group's interest in Nanneng Clean Energy	**9,537**	9,791

20. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise leasehold land interests in the PRC held under medium-term land use rights.

	2016	2015
	RMB'000	RMB'000
Analysed for reporting purposes:		
Non-current assets	**6,268**	6,582
Current assets	**314**	314
	6,582	6,896

21. INVENTORIES

	2016	2015
	RMB'000	RMB'000
Spare parts and consumables	**759**	675
Anthracite coal	**948**	828
	1,707	1,503

22. TRADE AND OTHER RECEIVABLES

	2016	2015
	RMB'000	RMB'000
Trade receivables	**78,059**	84,399
Deposits, prepayments and other receivables (note)	**3,253**	1,891
	81,312	86,290

Note: Included in other receivables as at 31 December 2016 was an amount of RMB305,000 (2015: Nil) due from ultimate holding company, which is unsecured, interest-free and repayable on demand.

22. TRADE AND OTHER RECEIVABLES - CONTINUED

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 (2015: 40 days) for purchases from the Group.

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:

	2016	2015
	RMB'000	RMB'000
0 - 30 days	58,992	64,209
31 - 60 days	19,067	20,190
	78,059	84,399

At 31 December 2016, included in the Group's trade receivables balance are debtors with an aggregate amount of RMB6,000 (2015: RMB5,798,000) which were past due at the end of the reporting period of which the Group has not provided for impairment loss.

Ageing of trade receivables which were past due but not impaired:

	2016	2015
	RMB'000	RMB'000
31 - 60 days	6	5,798

The management considers that no impairment loss on the above amounts is necessary in view of the upfront sales deposits already received, the financial background of these customers and their subsequent settlement. Majority of trade receivables that are neither past due nor impaired have no default payment history.

23. BANK BALANCES/SHORT-TERM BANK DEPOSITS

Short-term bank deposits with maturity of more than three months amounted to RMB130,000,000 (2015: Nil) and were carrying interest at prevailing market rates ranging from 1.55% to 1.84% (2015: N/A) per annum.

Bank balances carry interest at prevailing market rates ranging from 0.3% to 0.35% (2015: 0.3% to 0.35%) per annum and have original maturity of three months or less.

The bank balances that are denominated in a currency other than the functional currency of the relevant group entities are as follows:

	2016	2015
	RMB'000	RMB'000
Hong Kong dollar ("HKD")	**6,941**	—

24. TRADE AND OTHER PAYABLES

	2016	2015
	RMB'000	RMB'000
Trade payables	**6,311**	3,260
Upfront sale deposits received	**17,700**	8,500
Accruals for staff costs	**13,710**	11,488
Advanced sales receipts from customers	**176**	7,010
Interest payables	**14,411**	13,296
Other payables and accruals	**6,142**	1,610
Payables for acquisition of property, plant and equipment	—	2,632
Other tax payables	**15,710**	17,300
Resources fees payable and accrual (note)	**136,501**	136,501
	204,350	198,337
	210,661	201,597

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 (2015: RMB29,055,000) as at 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 also included an amount of RMB107,446,000 (2015: 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 issuance, the approval is yet to obtain.

24. TRADE AND OTHER PAYABLES - CONTINUED

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

	2016	2015
	RMB'000	RMB'000
0 - 30 days	**6,311**	3,260

The average credit period for 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.

25. PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

	2016	2015
	RMB'000	RMB'000
At beginning of the year	**19,931**	15,063
Accretion expenses (note 9)	**977**	647
Provision for the year	**—**	5,499
Change in estimation	**(2,010)**	3,981
Payments	**(1,850)**	(5,259)
At end of the year	**17,048**	19,931

	2016	2015
	RMB'000	RMB'000
Analysed for reporting purposes:		
Current liabilities	**—**	1,850
Non-current liabilities	**17,048**	18,081
	17,048	19,931

In accordance with the relevant PRC rules and regulations, if any damage is caused to cultivated land, grassland or forest as a result of exploration or mining activities, the responsible mining enterprise must restore the land to a condition appropriate for use by reclamation, re-planting trees or grasses or such other measures, as appropriate, when the mining activities progress and after the mining activities have been completed. The Group provides for the present obligation of the cost of the restoration.

25. PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS - CONTINUED

The provision for restoration and environmental costs has been determined by the management based on their past experience and best estimates for the restoration upon the closure of the mine sites based on the amounts and timing of future cash flows that required to perform the required work of restoration, including material costs and labour costs, and discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability to reflect the present value of the expenditures expected to be required to settle such obligations.

Included in the provision are the amounts of RMB2,010,000 (2015: RMB3,981,000) recognised as written-off (2015: addition) in property, plant and equipment upon changes in estimation during the current year.

26. BANK BORROWINGS

	2016	2015
	RMB'000	RMB'000
Secured fixed-rate bank borrowings	574,900	723,200
Carrying amount of bank borrowings repayable (note):		
Within one year	232,300	238,300
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	200,300	342,600
	574,900	723,200
Less: Amounts due within one year shown under current liabilities	(232,300)	(238,300)
Amounts shown under non-current liabilities	342,600	484,900

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:

	2016	2015
Fixed-rate bank borrowings	4.79% to 6.60%	5.50% to 6.60%

Details of the assets pledged for the secured bank borrowings are further set out in note 34.

27. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years.

	Depreciation of mining structures and amortisation of mining rights	Provision for restoration and environmental costs	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	10,101	(888)	(166)	9,047
Charge (credit) to profit or loss	7,168	(429)	(665)	6,074
At 31 December 2015	17,269	(1,317)	(831)	15,121
(Credit) charge to profit or loss	(2,720)	507	(1,094)	(3,307)
At 31 December 2016	14,549	(810)	(1,925)	11,814

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB568,629,000 (2015: RMB341,820,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

28. SHARE CAPITAL/PAID-IN CAPITAL

At 31 December 2016

	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	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	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.

28. SHARE CAPITAL/PAID-IN CAPITAL - CONTINUED

Notes: - continued

(iv) On 13 July 2016, the Company was successfully 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.

At 31 December 2015

At 1 January and 31 December 2015, the amount represented the combined amount of paid-in capital of Union Investment of RMB30,000,000 and half of the paid-in capital of Guizhou Ruilian of RMB5,000,000.

29. RETIREMENT BENEFIT PLANS

The Group's subsidiaries in the PRC are members of the state-managed retirement benefits scheme operated by the government of the PRC. The retirement scheme contributions, which are based on certain percentage of the salaries of the relevant subsidiaries' employees, are charged to the consolidated statement of profit or loss and other comprehensive income in the period to which they relate and represent the amount of contributions paid or payable by these subsidiaries to the scheme.

30. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes bank borrowings disclosed in note 26, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising share capital, retained profits and other reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debts and redemption of existing debts.

31. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2016	2015
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**390,410**	136,168
Financial liabilities		
Amortised cost	**646,515**	779,943

(b) Financial risk management objectives and policies

The Group's financial instruments include rehabilitation deposits, trade and other receivables, short-term bank deposits, bank balances, trade and other payables and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The Group mainly operates in the PRC and the exposure to exchange rate risks mainly arises from fluctuations of foreign currencies against the functional currency of the relevant group entities, including HKD. Exchange rate fluctuations and market trends have always been the concern of the Group. The Group currently does not enter into any derivative contracts to minimise the currency risk exposure. However, the management will consider hedging significant currency risk should the need arise.

31. FINANCIAL INSTRUMENTS - CONTINUED

(b) Financial risk management objectives and policies - continued

Market risk - continued

(i) Currency risk - continued

At the end of the reporting period, the carrying amount of the Group's monetary assets denominated in a currency other than the functional currency of the relevant group entities are as follows:

Assets

	2016	2015
	RMB'000	RMB'000
HKD	6,941	—

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currency. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel. The sensitivity includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates a decrease in post-tax profit where RMB strengthens 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit.

	2016	2015
	RMB'000	RMB'000
Post-tax profit	347	—

(ii) Interest rate risk

The Group's bank balances and the resources fees payable carry floating-rate interests and the Group has exposure to cash flow interest rate due to the fluctuation of the prevailing market interest rates. No sensitivity analysis is presented as the effect is insignificant as assessed by the management.

The Group's short-term bank deposits and bank borrowings carry fixed-rate interest and the Group has exposure to fair value interest rate risk.

The Group currently does not have a hedging policy on interest rate risk. However, management closely monitors interest rate exposure and will consider hedging significant interest rate change exposure should the need arise.

31. FINANCIAL INSTRUMENTS - CONTINUED

(b) Financial risk management objectives and policies - continued

Credit risk

As at 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

At 31 December 2016, the Group had a concentration of credit risk as the top five trade debtors, which are private entities located in the PRC and engaged in the trading of coal products, accounted for approximately 83% (2015: 97%) of its total trade debts balance. In view of this, senior management members regularly visit these customers to understand their business operations and cash flows position and request upfront sales deposits from them. In this regard, management considers that this credit concentration risk has been significantly mitigated.

The bank balances and short-term bank deposits are deposited in two banks in the PRC and Hong Kong. However, the credit risk is considered limited because the counterparties are with good reputation.

Liquidity risk

In the management of the liquidity risk, 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 loan covenants.

At 31 December 2016, the Group had net current liabilities of approximately RMB102 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. Accordingly, the directors of the Company are satisfied that the adoption of the going concern basis in preparing the consolidated financial statements is appropriate.

At 31 December 2016, the Group had available banking facilities of RMB900 million (2015: RMB900 million), out of which approximately RMB325 million (2015: RMB177 million) remained unutilised.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for certain non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows.

31. FINANCIAL INSTRUMENTS - CONTINUED

(b) Financial risk management objectives and policies - continued

Liquidity risk - continued

Liquidity tables

	Weighted average interest rate	On demand or less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Total undiscounted cash flows	Carrying amount at 31.12.2016
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2016							
Trade and other payables	—	71,615	—	—	—	71,615	71,615
Bank borrowings	5.99	—	—	240,297	393,496	633,793	574,900
		71,615	—	240,297	393,496	705,408	646,515

	Weighted average interest rate	On demand or less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Total undiscounted cash flows	Carrying amount at 31.12.2015
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2015							
Trade and other payables	—	56,743	—	—	—	56,743	56,743
Bank borrowings	6.11	36,128	—	209,976	572,038	818,142	723,200
		92,871	—	209,976	572,038	874,885	779,943

Fair value measurement of financial instruments

The fair values of the financial assets and financial liabilities have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

The management considers that the carrying amounts of the financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

32. CONTINGENT LIABILITIES

In prior years, the Group entered into five conditional asset transfer agreements with independent third parties to acquire all the assets and liabilities in five companies, each of which is inactive but holding the mining right of an anthracite coal mine in Guiyang, the PRC. The agreements contain a number of completion precedents including, but not limited to, transfer of mining right title to the Group, technology improvement and related application for upgrading the annual production capacity of the mine by the vendors, obtaining the updated mining right licenses with the enhanced production capacity, satisfactory completion of the due diligence works by the Group as well as consideration determination based on professional valuation and consideration settlement. As at 31 December 2016, the respective acquisitions are yet to complete given the fact that many of the key completion precedents are yet to complete. Hence, the directors of the Company consider that it is not probable that future economic benefits associated with the mines will flow to the Group and the consideration of the transactions cannot be measured reliably. The directors of the Company concluded that the risks and rewards of those anthracite coal mines are yet to be transferred to the Group.

Notwithstanding there are certain obligations imposed on the Group in the respective sale and purchase agreements as well as those mining license transfer agreements subsequently entered into, the management of the Group, having consulted its 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 consolidated financial statements in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

During the year ended 31 December 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 continues to hold the above-mentioned stance and no provision is considered necessary.

In addition, in connection with one of the above proposed conditional assets transfer agreements, the Group is a defendant to a claim by a third party regarding the non-payment of outstanding consideration and related liquidated damages of approximately RMB25.2 million (2015: RMB25.2 million) as at 31 December 2016. The outstanding consideration should be paid by the relevant vendor under the proposed conditional assets transfer agreement (the "Vendor") as the Group acted as an agent and the contracting party of the Vendor to acquire a not-up-to-standard coal mine for closure for the purpose of upgrading the annual production capacity of the Vendor's coal mine, which is the subject of the proposed acquisition. The management of the Group, having consulted its legal advisors, considers that the Group's non-payment would not constitute a breach of contract under the Contract Law of the PRC and the Group does not have any obligation to perform the agreement nor pay the outstanding balance due to the third party failing to fulfil a pre-condition of the agreements previously reached. As such, no provision is considered necessary and provision for loss has not been made in the consolidated financial statements.

33. OPERATING LEASE COMMITMENTS

The Group as lessee

	2016 RMB'000	2015 RMB'000
Minimum lease payments paid under operating leases during the year	**1,591**	1,237

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	**1,759**	1,381
In the second to fifth year inclusive	**4,391**	4,176
	6,150	5,557

Operating lease payments represent rentals payable by the Group for certain of its office properties and staff quarters. Leases are negotiated for terms ranging from three to five years.

34. PLEDGE OF ASSETS

At 31 December 2016, the Group had pledged its mining rights with a carrying amount of approximately RMB897 million (2015: RMB922 million) to secure general banking facilities granted to the Group.

35. RELATED PARTY DISCLOSURES

(a) Transactions

During each of the year ended 31 December 2016 and 2015, the Group entered into the following transactions with related parties:

	2016 RMB'000	2015 RMB'000
Joint venture		
Sale of coalbed methane	**13**	142
Purchase of electricity	**95**	1,093

35. RELATED PARTY DISCLOSURES - CONTINUED

(b) Compensation of key management personnel

The emoluments of directors and other members of key management members of the Group during each of the year ended 31 December 2016 and 2015 are as follows:

	2016 RMB'000	2015 RMB'000
Salaries and other allowances	**3,316**	2,561
Retirement benefits scheme contribution	**73**	58
	3,389	2,619

36. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of the Company's subsidiaries as at 31 December 2016 and 2015 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid registered capital	Effective equity interest attributable to the Group at 31 December 2016	2015	Principal activities
Directly owned					
Unienergy BVI (note i)	The BVI 21 January 2014	Ordinary shares US dollar 50,000	**100%**	N/A	Investment holding
Indirectly owned					
Unienergy Hong Kong (note i)	Hong Kong 25 April 2014	Ordinary shares HKD10,000	**100%**	N/A	Investment holding
Shenzhen WFOE* (note ii)	The PRC 7 March 2016	Registered capital RMB50,000,000	**100%**	N/A	Investment holding
Union Investment (note iii)	The PRC 14 March 2011	Registered capital RMB30,000,000	**100%**	100%	Investment holding
Guizhou Ruilian (note iii)	The PRC 31 May 2013	Registered capital RMB10,000,000	**100%**	100%	Investment holding
Guizhou Union (note iii)	The PRC 8 June 2011	Registered capital RMB200,000,000	**100%**	100%	Extraction and sale of anthracite coal in the PRC
貴州優能固力礦山機械設備有限公司(note iii)	The PRC 21 June 2011	Registered capital RMB10,000,000	**100%**	100%	Inactive
貴州優能迅達儲運有限公司(note iii)	The PRC 21 June 2011	Registered capital RMB10,000,000	**100%**	100%	Inactive
貴州優能五洲能源開發有限公司(note iii)	The PRC 21 June 2011	Registered capital RMB10,000,000	**100%**	100%	Inactive

36. PARTICULARS OF SUBSIDIARIES OF THE COMPANY - CONTINUED

Notes:

(i) These subsidiaries were acquired upon the Reorganisation during the year.

(ii) This subsidiary is a wholly foreign owned enterprise established in the PRC.

(iii) These subsidiaries are limited liability companies established in the PRC.

None of the subsidiaries had issued any debt securities at the end of the year.

37. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2016 RMB'000	2015 RMB'000
Non-current assets		
Investment in a subsidiary	36,792	—
Amount due from a subsidiary	107,435	—
	144,227	—
Current assets		
Other receivables	1,376	261
Bank balances	6,505	—
	7,881	261
Current liabilities		
Other payable and accruals	5,984	—
Amounts due to subsidiaries	9,827	—
	15,811	—
Net current (liabilities) assets	(7,930)	261
Total assets less current liabilities	136,297	261
Capital and reserves		
Share capital	47,988	305
Reserves	88,309	(44)
	136,297	261

37. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY - CONTINUED

Movements in the Company's reserves

	Share premium RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2015	—	(26)	(26)
Loss and total comprehensive expense for the year	—	(18)	(18)
At 31 December 2015	—	(44)	(44)
Loss and total comprehensive expense for the year	—	(33,164)	(33,164)
Issue of new shares by the Company:			
– upon global offering (note 28(iv))	172,031	—	172,031
– upon capitalisation issue (note 28(v))	(39,466)	—	(39,466)
– upon exercise of over-allotment option (note 28(vi))	2,966	—	2,966
Transaction costs directly attributable to the issue of new shares	(14,014)	—	(14,014)
At 31 December 2016	121,517	(33,208)	88,309

Financial Summary

	Year ended 31 December			
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	190,776	378,854	486,016	**690,998**
Profit before taxation	84,913	184,204	217,620	**302,252**
Income tax expense	(13,144)	(39,723)	(57,155)	**(88,512)**
Profit and total comprehensive income for the year	71,769	144,481	160,465	**213,740**
Profit and total comprehensive income for the year attributable to:				
Owners of the Company	71,769	144,481	160,465	**213,740**
Non-controlling interests	—	—	—	**—**
	71,769	144,481	160,465	**213,740**

	At 31 December			
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	973,643	1,238,295	1,390,558	**1,600,417**
Total liabilities	870,412	990,583	985,378	**846,992**
	103,231	247,712	405,180	**753,425**
Equity attributable to:				
Owners of the Company	100,234	244,715	405,180	**753,425**
Non-controlling interests	2,997	2,997	—	**—**
	103,231	247,712	405,180	**753,425**

Note: Four-year financial summary is presented as the Company was newly listed on 13 July 2016 and it is not practicable for the Company to present the financial summary of the Group prior to 2013.

Summary of Mine Properties

The following table sets forth certain information relating to each of the Group's coal mines as at the date of this report:

	Weishe Coal Mine *(In commercial production)*	Lasu Coal Mine *(In commercial production)*	Luozhou Coal Mine *(In commercial production)*	Tiziyan Coal Mine *(Under development)*
Location (within Guizhou Province, the PRC)	Yutang village, Weishe Township, Hezhang County	Minxiang village, Liuquhe Township, Hezhang County	Shishan village, Luozhou Township, Hezhang County	Caomen Village, Huangni Township, Dafang County, Bijie City
Equity interest held by the Group	100%	100%	100%	100%
Date of initial/expected commercial production	23 October 2012	17 March 2014	17 February 2013	April 2019
Mining area (square kilometres)	1.9	4.8 (Note 1)	2.3	6.9
Number of mineable	5	4	5	6
Designed annual production capacity (tonnes)	450,000	450,000	450,000	900,000
Permitted annual production capacity under trial run (tonnes) (Note 2)	450,000	450,000	450,000	N/A
Permitted annual production capacity (tonnes) (Note 3)	450,000	300,000	450,000	450,000
Expiry date of the mining right	June 2026	December 2021	September 2036	January 2030
Reserve data (as at 15 February 2016) (Note 4)				
Proved reserve (million tonnes)	7.6	6.9	0.0	8.9
Probable reserve (million tonnes)	2.0	5.0	15.4	34.1
Total proved and probable reserve (million tonnes)	9.6	11.9	15.4	43.0
Average coal quality of raw coal				
Moisture (%)	3~8	3~8	3~8	3~8
Ash content (%)	23	23	30	32
Volatile matter (%)	6.6	6.5	6.2	5.9
Sulphur (%)	0.6	0.7	1.1	2.2
Calorific value (MJ/kg)	27	27	24	22
Density (tonnes/m^3)	1.5	1.5	1.6	1.7
Reserve data (as at 31 December 2016) (Note 5)				
Proved reserve (million tonnes)	7.218	6.514	0.0	8.9
Probable reserve (million tonnes)	2.0	5.0	15.015	34.1
Total proved and probable reserve (million tonnes)	9.218	11.514	15.015	43
Capital expenditure for the year ended 31 December 2016 (RMB in millions)	1.33	1.04	0.75	N/A
Output - pilot run for the year ended 31 December 2016 (million tonnes)	N/A	N/A	N/A	N/A
Output - commercial run for the year ended 31 December 2016 (million tonnes) (Note 6)	0.4192	0.4191	0.4198	N/A

Notes:

(1) 4.8 sq.km. is the reserved mining area of Lasu Coal Mine, which includes its licensed mining area of 1.6 sq.km..

(2) Although the permitted annual production capacity specified in the current mining licenses of Lasu Coal Mine is still at its initial level, the coal mine obtained the approval from Guizhou Energy Administration for joint trial run at the new annual production capacity of 450,000 tonnes on 12 January 2016. The mine has been under joint trial run at the increased capacity since then, and we expect Lasu Coal Mine to obtain the new mining licenses with the increased permitted annual production capacity in late 2017.

(3) The annual production capacity in relation to relevant mining licenses, of which Weishe Mine has obtained the mining lisence with permitted annual production capacity of 450,000 tonnes on 23 June 2016 and Luozhou Coal Mine has obtained the mining licence with permitted annual production capacity of 450,000 tonnes on 12 September 2016.

(4) The reserve data as of 31 December 2016 are provided by the Company's internal expert in accordance with the JORC Code. The reserve data as of 15 February 2016 are extracted from the Competent Person' s Report prepared by SRK Consulting China Limited in accordance with the JORC Code in June 2016.

(5) The reserve data as of 31 December 2016 has been adjusted upon exclusion of the reserve data extracted from the mining activities of the Group from 16 February 2016 to 31 December 2016 from the proved reserve data and probable reserve data as of 15 February 2016.

(6) The data of mining activities of the Group as of 31 December 2016.