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

2018

INTERIM REPORT

CONTENTS

Definitions

"Anlang Syncline Coal Mine"	a coal mine located near Hezhang County, Bijie City, Guizhou Province, the PRC
"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" or "our Company"	CHINA UNIENERGY GROUP LIMITED, an exempted company with limited liability incorporated in the Cayman Islands on 8 January 2014
"Directors" or "our Directors"	directors of the Company
"Group" or "our 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 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
"PRC or "China"	the People's Republic of China
"Prospectus"	the prospectus of the Company dated 30 June 2016

"Reporting Period"	the six months ended 30 June 2018
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"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
"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 also acquired the exploration right of the Anlang Syncline Coal Mine.The steady development in recent years is mainly due to the successful technical upgrade for the coal mines, resulting in a stable production capacity.

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)

Authorized 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

31/F, Fuzhong International Plaza
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

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
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 Advisors

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

Auditor

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

* For identification purpose only.

The summary of the unaudited interim results of the Group for the Reporting Period and the same period ended 30 June 2017 is set forth as follows:

RESULTS

	Six months ended 30 June	
	2018	2017
	RMB'000 (unaudited)	RMB'000 (unaudited)
Revenue	**310,659**	310,555
Cost of sales	**(140,366)**	(133,429)
Gross profit	**170,293**	177,126
Other income	**2,086**	2,782
Net foreign exchange loss	**(165)**	(559)
Distribution and selling expenses	**(1,399)**	(1,787)
Administrative expenses	**(11,115)**	(12,020)
Finance costs	**(11,608)**	(17,654)
Share of results of a joint venture	**(134)**	(192)
Profit before taxation	**147,958**	147,696
Income tax expense	**(37,514)**	(38,123)
Profit and total comprehensive income for the period	**110,444**	109,573
Earnings per share		
Basic	**0.15**	0.15

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

ASSETS, LIABILITIES AND EQUITY

	At 30 June 2018	At 31 December 2017
	RMB'000 (unaudited)	RMB'000 (audited)
Non-current assets	**1,461,195**	1,278,096
Current assets	**207,170**	283,017
Current liabilities	**(418,778)**	(350,177)
Non-current liabilities	**(155,644)**	(227,437)
Total equity	**1,093,943**	983,499

Management Discussion and Analysis

This management discussion and analysis of the Group was prepared by the Board of Directors, and should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Group for the Reporting Period and notes thereto.

BUSINESS REVIEW AND MARKET REVIEW

According to data from the National Bureau of Statistics of the PRC, gross domestic product (GDP) was RMB41,896.1 billion in the first half of 2018, representing a year-on-year growth of 6.8%. The year-on-year growth of the first quarter and the second quarter were 6.8% and 6.7% respectively. The national economy remained in a trend of steady development in the first half of 2018.

The Chinese government continued to implement the production capacity reduction policy in the coal industry. Outdated production capacity of 150 million tonnes were planned to close down in the year of 2018. As the production capacity reduction policy has been implemented for years, its effectiveness was reflected by an overall equilibrium of coal market demand and supply and a growth in the production volume and consumption volume of raw coal. According to data from the National Bureau of Statistics of the PRC, the premium production capacity of coal increased steadily in the first half of 2018. The production capacity of raw coal increased 3.9% year-on-year, and the total profit of coal mining industry was approximately RMB127.9 billion, reaching a year-on-year growth of 14.8%. According to data from the National Energy Administration of the PRC, the national coal consumption improved by 3.1% year-on-year in the first half of 2018, with an obvious increment of coal consumption in power generation and chemical industries. Their strong demand for coal was maintained even in the second quarter which was their low season.

Given an overall steady and active development of the national economy, intensifying production capacity reduction policy in the coal industry, equilibrium of market supply and demand and strong consumption, the coal market would remain stable and reasonable.

The overall performance of the coal industry is also manifested in the performance of coal enterprises. A number of coal enterprises listed in Hong Kong have shown a stable profit growth rate in the first half of 2018. With the investors' confidence in coal enterprises growing strong, the overall performance in share prices of such coal enterprises is also relatively steady. Evidenced by the multiple sources of information, the current supply and demand levels of the coal market are favourable and the market remains active, with 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, they produced 523,000 tonnes of coal in total. The production capacity of the Group during the first half of 2018 year-on-year decreased by 5,000 tonnes, while the revenue increased by RMB0.1million. As the closing inventory of the current period year-on-year decreased by RMB1.75 million, the Group has recorded an increase of RMB0.87 million in consolidated net profit during the Reporting Period, as compared with the unaudited consolidated net profit for the period ended 30 June 2017.

FINANCIAL REVIEW

Revenue

During the Reporting Period, the Group recorded a revenue of approximately RMB310.7 million, representing an increase of RMB0.1 million, or a rise of approximately 0.03%, from approximately RMB310.6 million for the six months ended 30 June 2017. The increase in the revenue was primarily attributable to an increase in productivity. Sales volume increased by 0.36% from approximately 517,000 tonnes for the six months ended 30 June 2017 to approximately 519,000 tonnes for the Reporting Period due to the need to satisfy demand of the government on electricity.

Cost of Sales

The Group's cost of sales increased by 5.2% to approximately RMB140.4 million during the Reporting Period from approximately RMB133.4 million for the six months ended 30 June 2017, which was primarily attributable to an increase in salary of the employees.

The Group's cost of sales per tonne recorded an increase from RMB258 per tonne for the six months ended 30 June 2017 to RMB270 per tonne for the Reporting Period.

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

	Six months ended 30 June	
Cost of sales per tonne	**2018 RMB/Tonne**	2017 RMB/Tonne
Staff costs	**118**	107
Cost of materials, fuel and energy	**74**	75
Depreciation and amortisation	**33**	34
Business taxes and surcharges	**39**	40
Others	**6**	2
Total	**270**	258

Gross Profit and Gross Profit Margin

As a result of the foregoing, the gross profit decreased by 3.8% from approximately RMB177.1 million for the six months ended 30 June 2017 to approximately RMB170.3 million for the Reporting Period, which was primarily attributable to an increase in remuneration of employees. The gross profit margin decreased by 2.2% from 57.0% for the six months ended 30 June 2017 to 54.8% for the Reporting Period, which was primarily attributable to increase in remuneration of employees.

Distribution and Selling Expenses

During the Reporting Period, the Group's distribution and selling expenses were approximately RMB1.4 million, representing a decrease of RMB0.4 million, or a drop of approximately 22%, from approximately RMB1.8 million for the six months ended 30 June 2017, which was primarily attributable to the difference arising from the material consumption of inventory.

Administrative Expenses

During the Reporting Period, the Group's administrative expenses were approximately RMB11.1 million, representing a decrease of RMB0.9 million, or a drop of approximately 7.5%, from approximately RMB12.0 million for the six months ended 30 June 2017, which was primarily attributable to the adjustment of capitalisation cost upon listing, where the proportion of provision decreased from 25% to 16%.

Finance Costs

During the Reporting Period, the Group's finance costs were approximately RMB11.6 million, representing a decrease of RMB6.1 million, or a drop of approximately 34.5%, from approximately RMB17.7 million for the six months ended 30 June 2017, which was primarily attributable to the repayment of part of the loans.

Income Tax Expense

During the Reporting Period, the Group's income tax expense was approximately RMB37.5 million, representing a decrease of RMB0.6 million from approximately RMB38.1 million for the six months ended 30 June 2017, which was primarily attributable to the decrease in taxable income.

Profit and Total Comprehensive Income Attributable to Owners of the Company

During the Reporting Period, profit and total comprehensive income attributable to owners of the Company was approximately RMB110.4 million, representing an increase of RMB0.8 million, or a rise of approximately 0.8%, from approximately RMB109.6 million for the six months ended 30 June 2017. The increase was primarily attributable to a decrease in finance costs of loan.

Liquidity and Capital Resources

As at 30 June 2018, the Group had net current liabilities of approximately RMB211.6 million (31 December 2017: RMB67.2 million).

The Group intends to finance its future capital expenditure requirements mainly with the continuous operating cash flows generated from the Group's business, the net proceeds from the listing and the availability of banking facilities. As of 30 June 2018, the Group had bank balances in the amount of approximately RMB152.2 million (31 December 2017: RMB227.6 million) and unutilized banking facilities in the amount of approximately RMB628.6 million (31 December 2017: RMB557.4 million).

As at 30 June 2018, the Group had bank borrowings of approximately RMB271.5 million (31 December 2017: RMB342.6 million). Bank borrowings carry interest at fixed market rates ranging from 5.5% to 6.6% (31 December 2017: ranging from 4.79% to 6.60%) and are repayable within 1 to 3 years (31 December 2017: 1 to 3 years) and are denominated in RMB.

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.

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 during the Reporting Period, the Group was not exposed to a materially adverse risk of exchange fluctuation during the Reporting Period.

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

Pledge of Assets

As at 30 June 2018, the Group's mining rights with carrying amounts of approximately RMB869 million (31 December 2017: RMB878 million) were pledged as securities for banking facilities.

Capital Commitments

The Group's capital commitment in relation to the acquisition of the exploration rights was approximately RMB57.6 million (31 December 2017: approximately RMB201.6 million). The Group intends to settle the capital commitment of RMB57.6 million in October 2018.

Gearing Ratio

As at 30 June 2018, the gearing ratio (total bank borrowings over total equity and multiplied by 100%) of the Group was 24.8% (31 December 2017: 34.8%). The decrease in the gearing ratio was primarily attributable to a decrease in bank borrowings.

Employee and Remuneration Policy

As of 30 June 2018, the Group had a total of 1,593 employees.

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

Contingent Liabilities

Between 2013 and 2015, the Group entered into five conditional asset transfer agreements with independent third parties to acquire all the assets and liabilities in five companies (with respect to Dahaizi 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 licences with the increased production capacity, satisfactory completion of the due diligence by the Group as well as consideration determination based on professional valuation.

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

At the end of the Reporting Period, the respective acquisitions are yet to complete, given the fact that many of the key completion precedents are not satisfied. Hence, the Directors consider that it is unlikely that future economic benefits associated with the mines will flow to the Group in the near term and the consideration of the transactions cannot be accurately measured. The Directors concluded that the risks and rewards of those anthracite coal mines are yet to be transferred to the Group. Notwithstanding certain obligations imposed on the Group in the respective asset transfer agreements as well as those mining licence transfer agreements subsequently entered into, the management of the Group, having consulted its PRC legal advisors, considered that contingent liabilities adhered to those agreements are remote and yet to estimate reliably. Hence, no provision has been made in the financial statements in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

Significant Investment Held

There was no other significant investment held by the Company during the Reporting Period.

Acquisition and Disposal

There was no other material acquisition or disposal during the Reporting Period.

Proposed Issue of Warrants

On 27 June 2018, the Company entered into a subscription agreement (the "Subscription Agreement") with Mr. Yang Wei (the "Subscriber"). Subject to the fulfillment of the conditions to the Subscription Agreement, the Company has agreed to issue and the Subscriber has agreed to subscribe for, an aggregate of 5,000,000 warrants (the "Warrants") at the issue price of HK$2.32 per Warrant. Each Warrant carries the right to subscribe at any time during the subscription period for one warrant share at the subscription price of HK$12 per warrant share (subject to certain adjustment events). The aggregate nominal value of the warrant shares amount to US$50,000. The closing price per share of the Company as of the date of the Subscription Agreement is HK$9.50.

The Board considers that the issue of Warrants, with a subscription price at a premium, represents an opportunity to raise additional funds for the Company to cater for its future needs while broadening the shareholder and capital base of the Company. In addition, the Warrants are not interest bearing and will not result in any immediate dilution effect on the shareholding of the existing shareholders of the Company. The total gross proceeds from the subscription of warrants are approximately HK$11,600,000 which will be applied as general working capital.

Assuming the full exercise of the subscription rights attaching to the Warrants, the total gross funds to be raised, including the funds raised by the subscription of Warrants, are approximately HK$71,600,000. The gross proceeds of approximately HK$71,600,000 shall be applied as general working capital and for future possible business expansion in local and overseas and investment opportunities of the Group.

Assuming the full exercise of the subscription rights attaching to the Warrants, the net price to the Company of each Warrant, which is calculated by dividing the aggregate net proceeds from the subscription of Warrants and the exercise of the subscription rights attaching to the Warrants by the total number of the Warrants, is approximately HK$14.28.

As additional time is required for the fulfillment of certain condition(s) under the Subscription Agreement, on 31 July 2018, the parties to the Subscription Agreement entered into a supplemental subscription agreement to extend the date for fulfillment of the conditions set out in the Subscription Agreement to 30 September 2018 (or such other time and date as may be agreed between the parties in writing).

On 23 Augeust 2018, the Company announced that the issue of the Warrants will be subject to the passing by the shareholders of the Company in accordance with the Listing Rules and all applicable laws, at an extraordinary general meeting (the "EGM") to be convened by the Company of the necessary resolutions approving the Subscription Agreement and the supplemental agreement thereto and the transactions contemplated thereunder, including the issue of the Warrants and grant of a specific mandate to the Directors for issuance of the Warrants and allotment and issuance of the Warrant Shares upon the exercise of the subscription rights attaching to the Warrants.

For details of the proposed issue of Warrants, please refer to the announcements of the Company dated 27 June 2018, 31 July 2018 and 23 August 2018.

Subsequent Events after the Reporting Period

There is no material event undertaken by the Group subsequent to 30 June 2018 and up to the date of this report.

Prospect

With the steady development of the national economy, on-going production capacity reduction policy in the coal industry carried out by the Chinese government, equilibrium of market supply and demand and strong market demand, the coal market in PRC would become stable and reasonable. The management of the Group remains optimistic towards the overall development of the coal industry. The management of the Group has been exploring coal mines with premium coal resources as our target of merger and acquisition. When target is identified, the Group would disclose relevant information according to the Listing Rules and relevant laws and regulations.

COMPLIANCE WITH THE CG CODE

Our Directors recognise the importance of good corporate governance in the management of our Group. The Company has adopted the code provisions set out in the CG Code as its own corporate governance framework.

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

CHAIRMAN AND CHIEF EXECUTIVE

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive of the Company should be performed by separate individuals, but due to Mr. Xu Bo's background, qualifications and experience in the Company, he was considered the most suitable person to take up 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.

CHANGE IN DIRECTOR'S INFORMATION

On 28 February 2018, our independent non-executive Director, Mr. Fu Lui, was appointed as an independent non-executive director of CSMall Group Limited a company listed on the Stock Exchange (stock code: 1815).

Save as disclosed above, as at 30 June 2018, there has been no change in the director's information of the Company.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. The Company has made specific enquiry to all Directors, and all Directors have confirmed that they have complied with the required standards as set out in the Model Code during the Reporting Period.

INTERIM DIVIDEND

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

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee together with the management have reviewed the unaudited interim condensed consolidated financial statements of the Group for the Reporting Period. The Audit Committee has also reviewed the effectiveness of the financial control, internal control and risk management systems of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

USE OF PROCEEDS 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). Such proceeds are intended to be used as disclosed in the Prospectus. As at 31 December 2017, a total of HK$89.21 million had been utilized, of which HK$77.35 million was used in acquisition of Anlang Syncline Coal Mine, HK$0.35 million was used as the capital expenditure of Tiziyan Coal Mine, and HK$11.51 million was used as operating capital. As at 1 January 2018, unutilized proceeds amounted to HK$65.49 million. During the Reporting Period, no proceeds were utilized. The unutilized proceeds from the global offering, being HK$65.49million, will be applied according to the intentions disclosed by the Group in the Prospectus and are expected to be utilised after obtaining approvals for all the newly built coal mines.

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

As at 30 June 2018, 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) (3)	Interest of controlled corporation; Interest of spouse	364,616,000(L)	50.78%
Xiao Zhijun (4) (5)	Interest of 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. On 13 May 2018, Lavender Row Limited (as one of the two sellers) has entered into a share transfer agreement with Moonfun Miracle Limited ("Moonfun") (as one of the two sellers) and Hezhang County Hongyi Construction Engineering Co., Ltd.* (赫章縣宏誼建築工程有限責任公司) (as purchaser) which is wholly-owned by the People's Government of Hezhang (赫章縣人民政府) for the sale and the purchase of 157,960,000 ordinary shares of the Company (the "Sale Shares") (which consist of 123,402,000 ordinary shares and 34,558,000 ordinary shares beneficially owned by Lavender Row and Moonfun, respectively), representing 22% of the issued share capital of the Company as at 13 May 2018. The completion of the sale and purchase of the Sale Shares is subject to conditions as stated on the Company's announcement dated 13 May 2018. As at 30 June 2018, the sale and purchase has not yet been completed.

4. 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.

5. Noble Fox Holdings Limited has provided its interest in the 90,000,000 shares of the Company as security to a person other than a qualified lender.

* *for identification purpose only*

(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 30 June 2018, 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 notify 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.

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

As at 30 June 2018, 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 (2) (3)	Beneficial owner	364,616,000(L)	50.78%
Dai Ling (2)	Interest of controlled corporation; Interest of spouse	364,616,000(L)	50.78%
CMB International Finance Limited (4)	Security interest in shares	143,600,000(L)	20.00%
China Merchants Bank Co., Ltd. (4)	Interest of controlled corporation	143,600,000(L)	20.00%
Noble Fox Holdings Limited (5)	Beneficial owner	90,000,000(L)	12.53%
Hezhang County Hongyi Construction Engineering Co., Ltd.* (赫章縣宏誼建築工程有限責任公司) (3) (6)	Beneficial owner	157,960,000(L)	22.00%
The People's Government of Hezhang (赫章縣人民政府) (3) (6)	Interest of controlled corporation	157,960,000(L)	22.00%

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. On 13 May 2018, Lavender Row Limited (as one of the two sellers) has entered into a share transfer agreement with Moonfun Miracle Limited ("Moonfun") (as one of the two sellers) and Hezhang County Hongyi Construction Engineering Co., Ltd.* (赫章縣宏誼建築工程有限責任公司) (as purchaser) which is wholly-owned by the People's Government of Hezhang (赫章縣人民政府) for the sale and the purchase of 157,960,000 ordinary shares of the Company (the "Sale Shares") (which consist of 123,402,000 ordinary shares and 34,558,000 ordinary shares beneficially owned by Lavender Row and Moonfun, respectively), representing 22% of the issued share capital of the Company as at 13 May 2018. The completion of the sale and purchase of the Sale Shares is subject to conditions as stated on the Company's announcement dated 13 May 2018. As at 30 June 2018, the sale and purchase has not yet been completed.

4. CMB International Finance Limited is wholly-owned by CMB International Capital Corporation Limited, which is wholly-owned by CMB International Capital Holdings Corporation Limited. China Merchants Bank Co., Ltd. has 83.20% of controlling interest in CMB International Capital Holdings Corporation Limited. Therefore, CMB International Capital Corporation Limited, CMB International Capital Holdings Corporation Limited and China Merchants Bank Co., Ltd. are deemed to be interested in 143,600,000 shares of the Company under the SFO.

5. Noble Fox Holdings Limited has provided its interest in the 90,000,000 shares of the Company as security to a person other than a qualified lender.

6. Hezhang County Hongyi Construction Engineering Co., Ltd.* (赫章縣宏誼建築工程有限責任公司) is wholly-owned by the People's Government of Hezhang (赫章縣人民政府). Therefore, the People's Government of Hezhang (赫章縣人民政府) is deemed to be interested in 157,960,000 shares of the Company under the SFO.

* *for identification purpose only*

As at 30 June 2018, 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.

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

	In commercial production *Weishe Coal Mine*	*Lasu Coal Mine*	*Luozhou Coal Mine*	*Under development* *Tiziyan Coal Mine*
Location (within Guizhou Province, the PRC)	Yutang village, WeisheTownship, Hezhang County	Minxiang village, Liuqhe 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 31 December 2017) (Note 4)				
Proved reserve (million tonnes)	6.822	6.132	0	8.9
Probable reserve (million tonnes)	2.0	5.0	14.645	34.1
Total proved and probable reserve (million tonnes)	8.822	11.132	14.645	43
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 30 June 2018) ***(Note 5)***				
Proved reserve (million tonnes)	6.637	5.952	0	8.9
Probable reserve (million tonnes)	2.0	5.0	14.462	34.1
Total proved and probable reserve (million tonnes)	8.637	10.952	14.462	43
Capital expenditure for the six months ended 30 June 2018 (RMB in millions)	0	0	0	0
Output - pilot run for the six months ended 30 June 2018 (million tonnes)	N/A	N/A	N/A	N/A
Output - commercial run for the six months ended 30 June 2018 (million tonnes) ***(Note 6)***	0.185	0.18	0.183	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 2018.

(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 2017 are provided by the Company's internal expert in accordance with the JORC Code.

(5) The reserve data as of 30 June 2018 has been adjusted by the proved reserve data and the probable reserve data as at 30 June 2018, after deducting the reserve data extracted from the mining activity between 1 January 2018 and 30 June 2018.

(6) The data of mining activities of the Group as of 30 June 2018.

(7) There was no exploration and development activity for the Group during the Reporting Period, and that the Group has in-curred RMB140 million, being the cost of sales, for the mining production activities for the six months ended 30 June 2018.

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF CHINA UNIENERGY GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of CHINA UNIENERGY GROUP LIMITED (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 22 to 40, which comprise the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 August 2018

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2018

	NOTES	Six months ended 30 June 2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Revenue	3	**310,659**	310,555
Cost of sales		**(140,366)**	(133,429)
Gross profit		**170,293**	177,126
Other income		**2,086**	2,782
Net foreign exchange loss		**(165)**	(559)
Distribution and selling expenses		**(1,399)**	(1,787)
Administrative expenses		**(11,115)**	(12,020)
Finance costs	4	**(11,608)**	(17,654)
Share of results of a joint venture		**(134)**	(192)
Profit before taxation		**147,958**	147,696
Income tax expense	5	**(37,514)**	(38,123)
Profit and total comprehensive income for the period	6	**110,444**	109,573
		RMB	RMB
Earnings per share			
Basic	8	**0.15**	0.15

Condensed Consolidated Statement of Financial Position

At 30 June 2018

	NOTES	At 30 June 2018 RMB'000 (unaudited)	At 31 December 2017 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	9	**272,069**	279,898
Mining rights	9	**868,896**	878,274
Exploration right	9	**288,000**	—
Deposit paid for acquisition of an exploration right	9	**—**	86,400
Rehabilitation deposits		**16,873**	17,874
Interest in a joint venture		**9,427**	9,561
Prepaid lease payments - non-current portion		**5,930**	6,089
		1,461,195	1,278,096
Current assets			
Inventories		**2,293**	1,174
Prepaid lease payments - current portion		**318**	318
Trade and other receivables	10	**2,356**	3,941
Short-term bank deposits		**50,000**	50,000
Bank balances		**152,203**	227,584
		207,170	283,017
Current liabilities			
Trade and other payables	11	**251,160**	184,703
Contract liabilities		**86**	—
Tax payable		**25,232**	23,174
Bank borrowings - current portion	12	**142,300**	142,300
		418,778	350,177
Net current liabilities		**(211,608)**	(67,160)
Total assets less current liabilities		**1,249,587**	1,210,936
Capital and reserves			
Share capital	13	**47,988**	47,988
Reserves		**1,045,955**	935,511
Total equity		**1,093,943**	983,499
Non-current liabilities			
Provision for restoration and environmental costs		**18,513**	18,025
Bank borrowings - non-current portion	12	**129,150**	200,300
Deferred tax liabilities		**7,981**	9,112
		155,644	227,437
		1,249,587	1,210,936

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	Share capital	Share premium	Statutory reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000 (note)	RMB'000	RMB'000
At 1 January 2017 (audited)	47,988	121,517	58,455	525,465	753,425
Profit and total comprehensive income for the period	—	—	—	109,573	109,573
Transfer to statutory reserve	—	—	11,955	(11,955)	—
At 30 June 2017 (unaudited)	47,988	121,517	70,410	623,083	862,998
At 1 January 2018 (audited)	**47,988**	**121,517**	**82,872**	**731,122**	**983,499**
Profit and total comprehensive income for the period	**—**	**—**	**—**	**110,444**	**110,444**
Transfer to statutory reserve	**—**	**—**	**11,593**	**(11,593)**	**—**
At 30 June 2018 (unaudited)	**47,988**	**121,517**	**94,465**	**829,973**	**1,093,943**

note: 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.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	RMB'000 **(unaudited)**	RMB'000 (unaudited)
NET CASH FROM OPERATING ACTIVITIES	**149,028**	187,747
INVESTING ACTIVITIES		
Placement of short-term bank deposits	**(50,000)**	(330,000)
Purchase of an exploration right	**(144,000)**	—
Purchase of property, plant and equipment	**(25)**	(953)
Withdrawal of short-term bank deposits	**50,000**	410,000
Interest received	**1,355**	2,227
Deposit paid for acquisition of property, plant and equipment	**—**	(291)
Additions to prepaid lease payments	**—**	(143)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(142,670)**	80,840
FINANCING ACTIVITIES		
Repayment of bank borrowings	**(71,150)**	(161,150)
Interest paid on bank borrowings	**(10,589)**	(16,788)
CASH USED IN FINANCING ACTIVITIES	**(81,739)**	(177,938)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(75,381)**	90,649
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**227,584**	160,664
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances	**152,203**	251,313

1. BASIS OF PREPARATION

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

At 30 June 2018, the Group had net current liabilities of approximately RMB212 million. In preparing the condensed consolidated financial statements, the directors of the Company have carefully considered the future liquidity of the Group and concluded that the Group has sufficient working capital to meet in full its financial obligations as and when they fall due in the foreseeable future, after taking into account (i) the continuous operating cash inflows generated from the Group's business; (ii) the Group's capital expenditure plan for its future business development; and (iii) the availability of banking facilities, amounting to approximately RMB629 million. Accordingly, the directors of the Company are satisfied that the adoption of the going concern basis in preparing the condensed consolidated financial statements is appropriate.

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies which became first applicable during the current interim period and resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

In addition, the Group has applied the following accounting policy which became first applicable during the current interim period:

Exploration right

Exploration right is stated at cost less subsequent accumulated impairment losses. Exploration right includes the cost of acquiring exploration license.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group solely recognises revenue from the sale of anthracite coal.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- 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 Group satisfies a performance obligation

Under HKFRS 15, the Group 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.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (continued)

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

2.1.2 Summary of effects arising from initial application of HKFRS 15

The revenue of the Group is recognised at a point in time. Under HKFRS 15, revenue from sale of anthracite coal is recognised when the goods are delivered and titles have passed, which is the point of time when the customer obtains control of the goods.

Upon adoption of HKFRS 15, advanced sales receipts from customers included in trade and other payables amounting to RMB115,000 was reclassified to contract liabilities as at the date of initial application, 1 January 2018.

Other than reclassification to contract liabilities mentioned above, there is no impact from the adoption of HKFRS 15 on the amounts reported on the condensed consolidated financial statements.

2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments"

In the current interim period, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, and 2) expected credit losses ("ECL") for financial assets, and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 2.2.2.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, rehabilitation deposits, short-term bank deposits and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Impairment under ECL model (continued)

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Impairment under ECL model (continued)

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amounts with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in Note 2.2.2.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (continued)

2.2.2 Summary of effects arising from initial application of HKFRS 9

(a) Classification and measurement of financial assets and financial liabilities

The adoption of HKFRS 9 does not have any impact on the classification and measurement of financial assets and financial liabilities.

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which used a lifetime ECL for trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprise of rehabilitation deposits, short-term bank deposits and bank balances, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the Group has assessed and reviewed the existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9 and no additional impairment loss was identified.

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

3. REVENUE AND SEGMENT INFORMATION

All revenues are generated in the People's Republic of China (the "PRC"). The following is an analysis of the Group's revenue in the reporting periods.

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Sale of anthracite coal	**310,659**	310,555

The sale of anthracite coal is recognised at point-in-time.

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

Segment assets and liabilities

Information 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.

4. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on bank borrowings	**10,408**	16,454
Interest on resources fees payable	**712**	712
Accretion expenses	**488**	488
	11,608	17,654

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	RMB'000 (unaudited)	RMB'000 (unaudited)
Current tax:		
PRC Enterprise Income Tax ("EIT")	**38,645**	38,984
Deferred tax	**(1,131)**	(861)
	37,514	38,123

During the six months ended 30 June 2018 and 2017, 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 periods.

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

6. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2018	2017
	RMB'000 (unaudited)	RMB'000 (unaudited)
Profit for the period has been arrived at after charging (crediting):		
Amortisation of mining rights (capitalised in inventories)	**9,378**	9,468
Depreciation of property, plant and equipment	**7,855**	8,114
Capitalised in inventories	**(7,601)**	(7,773)
	254	341
Release of prepaid lease payments	**159**	127
Cost of inventories recognised as an expense	**140,366**	133,429
Bank interest income	**(1,355)**	(2,227)

7. DIVIDEND

No dividend was paid, declared or proposed for the six months ended 30 June 2018 and 2017 by the directors of the Company.

8. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2018	2017
	RMB'000 (unaudited)	RMB'000 (unaudited)
Earnings		
Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	**110,444**	109,573

	Six months ended 30 June	
	2018	2017
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	**718,000,000**	718,000,000

No diluted earnings per share for the six months ended 30 June 2018 and 2017 was presented as there were no potential ordinary shares outstanding during both periods.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, MINING RIGHTS AND EXPLORATION RIGHT

During the six months ended 30 June 2018, the Group had additions to property, plant and equipment amounted to RMB25,000 (six months ended 30 June 2017: RMB953,000).

During the six months ended 30 June 2018, the Group purchased an exploration right amounted to RMB288,000,000 (31 December 2017: Deposit paid of RMB86,400,000).

As at 30 June 2018 and 31 December 2017, the Group had pledged its mining rights with carrying amounts of RMB868,896,000 and RMB878,274,000, respectively, to secure banking facilities granted to the Group.

10. TRADE AND OTHER RECEIVABLES

	At 30 June 2018	At 31 December 2017
	RMB'000 (unaudited)	RMB'000 (audited)
Trade receivables	92	91
Deposits, prepayments and other receivables (note)	2,264	3,850
	2,356	3,941

note: Included in other receivables as at 30 June 2018 and 31 December 2017 was an amount of RMB305,000 due from ultimate holding company, which is unsecured, interest-free and repayable on demand.

Before accepting any new customers, the Group assesses the customers' credit quality and reputation. This exercise is also performed on a regular basis by the Group. In general, the Group requests advance payments from customers before delivering the goods and no credit period is granted.

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:

	At 30 June 2018	At 31 December 2017
	RMB'000 (unaudited)	RMB'000 (audited)
0 - 30 days	72	91
31 - 60 days	20	—
	92	91

11. TRADE AND OTHER PAYABLES

	At 30 June 2018 RMB'000 (unaudited)	At 31 December 2017 RMB'000 (audited)
Trade payables	**6,156**	2,498
Accruals for staff costs	**12,762**	12,006
Advanced sales receipts from customers	**—**	115
Consideration payable for purchase of an exploration right	**57,600**	—
Interests payables	**15,964**	15,433
Other payables and accruals	**6,906**	6,128
Other tax payables	**15,271**	12,022
Resources fees payable and accrual (note)	**136,501**	136,501
	245,004	182,205
	251,160	184,703

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 as at 30 June 2018 and 31 December 2017 which carry interest at the Benchmark Lending Rate of the People's Bank of China and are payable on demand. The amount as at 30 June 2018 and 31 December 2017 also included an amount of RMB107,446,000 estimated and accrued by the management upon the PRC local government authority approving the upgrade of the annual production capacity of Lasu Coal Mine, Weishe Coal Mine and Luozhou Coal Mine in late 2015. Such accrual did not bear interest and the Group is in the process of finalising the actual resources fees to be paid and applying for deferring the payment and agreeing an instalment plan with the relevant authority. Up to the date of approval of these condensed consolidated financial statements, the approval is yet to obtain.

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

	At 30 June 2018 RMB'000 (unaudited)	At 31 December 2017 RMB'000 (audited)
0 - 30 days	**6,156**	2,498

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

12. BANK BORROWINGS

During the current interim period, the Group repaid bank borrowings of approximately RMB71 million (six months ended 30 June 2017: RMB161 million). The borrowings carry interest at fixed market rates ranging from 5.50% to 6.60% (31 December 2017: ranging from 4.79% to 6.60%) per annum and are repayable within one to three years (31 December 2017: one to three years).

Details of the assets pledged for the bank borrowings are further set out in Note 9.

13. SHARE CAPITAL

	Number of shares	Amount US$
Authorised:		
Ordinary shares of US$0.01 each as at 1 January 2017, 30 June 2017, 1 January 2018 and 30 June 2018	5,000,000,000	50,000,000
Issued and fully paid:		
Ordinary shares of US$0.01 each as at 1 January 2017, 30 June 2017, 1 January 2018 and 30 June 2018	718,000,000	7,180,000
		RMB'000
Shown in the condensed consolidated financial statements as		47,988

14. 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.

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.

As at 30 June 2018, 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.

14. CONTINGENT LIABILITIES (CONTINUED)

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 accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

15. OPERATING LEASE COMMITMENTS

The Group as lessee

	Six months ended 30 June	
	2018	2017
	RMB'000 (unaudited)	RMB'000 (unaudited)
Minimum lease payments paid under operating leases during the period	**874**	913

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:

	At 30 June 2018	At 31 December 2017
	RMB'000 (unaudited)	RMB'000 (audited)
Within one year	**1,482**	1,859
In the second to fifth year inclusive	**2,415**	2,804
	3,897	4,663

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.

16. 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, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

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

17. RELATED PARTY DISCLOSURES

(a) Transactions/balances

Save as disclosed in Note 10, there were no other significant related party transactions/balances.

(b) Compensation of key management personnel

The emoluments of directors and other members of key management members of the Group during the period are as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000 (unaudited)	RMB'000 (unaudited)
Salaries and other allowances	**1,766**	905
Retirement benefits scheme contribution	**47**	24
	1,813	929