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CHINA UNIENERGY GROUP LIMITED

中国优质能源集团有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1573)

MEMORANDUM OF UNDERSTANDING IN RELATION TO THE PROPOSED ACQUISITION OF MAJORITY EQUITY INTEREST OF THE TARGET COMPANY

This announcement is made by the Company pursuant to Rule 13.09(2) of the Listing Rules and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the SFO.

The Board is pleased to announce that on 17 August 2018 (after trading hours), the Company, Guizhou Union (a wholly-owned subsidiary of the Company), the Target Company and the Vendor entered into the MOU pursuant to which the Vendor proposed to sell and the Company, through Guizhou Union, proposed to acquire a majority equity interest in the Target Company. Save as the clause on confidentiality, the MOU is not legally binding and is subject to negotiation and execution of the formal agreement in relation to the Proposed Acquisition.

As at the date of this announcement, no definitive agreement in relation to the Proposed Acquisition has been entered into by the Group. As the Proposed Acquisition contemplated under the MOU may or may not materialize, shareholders and potential investors of the Company are reminded to exercise caution when dealing in the shares of the Company.

This announcement is made by the Company pursuant to Rule 13.09(2) of the Listing Rules and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the SFO.

MEMORANDUM OF UNDERSTANDING IN RESPECT OF THE PROPOSED ACQUISITION

The Board is pleased to announce that on 17 August 2018 (after trading hours), the Company, Guizhou Union (a wholly-owned subsidiary of the Company), the Target Company and the Vendor entered into the MOU pursuant to which the Vendor proposed to sell and the Company, through Guizhou Union, proposed to acquire a majority equity interest in the Target Company. Save as the clause on confidentiality, the MOU is not legally binding and is subject to negotiation and execution of the formal agreement in relation to the Proposed Acquisition.

Major terms of the MOU

Date

17 August 2018 (after trading hours)

Parties

- (i) the Company (as investor);
- (ii) Guizhou Union (as investor);
- (iii) the Target Company; and
- (iv) the Vendor (as vendor)

To the best knowledge, information and belief of the Directors having made all reasonable enquiry, the Vendor and its ultimate beneficial owner are third parties independent of the Company and its connected persons.

The Proposed Acquisition

Pursuant to the MOU, the Vendor proposed to sell and the Company, through Guizhou Union, proposed to acquire a majority equity interest in the Target Company. Save as the clause on confidentiality, the MOU is not legally binding and is subject to negotiation and execution of the formal agreement in relation to the Proposed Acquisition.

Consideration

The consideration of the Proposed Acquisition will be further discussed and determined among the parties. As the Vendor is a state-owned enterprise, the parties agree that the valuation of the Target Company shall be with reference to and shall not be lower than the valuation of the Target Company to be conducted by the relevant authorities on state-owned assets or their duly authorised entities.

Due diligence review

Pursuant to the MOU, the Company and Guizhou Union shall carry out due diligence review on the Target Company and its business (the “**Due Diligence Review**”) at their own cost. The Target Company shall use its best endeavours to facilitate the Due Diligence Review.

INFORMATION OF THE TARGET COMPANY

The Target Company is a limited liability company established in the PRC and is principally engaged in the extraction and sale of coal and construction and operation of power plants. It owns eight coal mines in the Guizhou Province covering a total coal mine area of approximately 411.2 sqkm with a total designed annual production capacity of approximately 13.80 million tons of coal . According to the China Solid Mineral Resource/Reserve Classification System, the Target Company owns and controls a total exceeding 320 million tons of coal resources and 50 billion cubic meters of coal bed methane. Four of the coal mines are already in operation and have a total designed annual production capacity of approximately 7.20 million tons and the remaining four are either under development or construction. It has also invested in three thermal power plants with attributable installed capacity of approximately 550,000 kW and has built 42 coal bed methane power plants in its own coal mines that are in operation with installed capacity of approximately 24,800 kW and annual electricity output capacity of approximately 110 million kWh. As such, it has a developed coal and electricity business operation.

As at the date of this announcement, the equity interest of the Target Company is owned as to approximately 51.37% by the Vendor, 2.63% by a subsidiary of the Vendor and 46.00% by an independent third party.

REASONS FOR ENTERING INTO THE MOU

The Group is a producer of anthracite coal based in Guizhou Province of the PRC. The Group engages in the extraction and sale of anthracite coal and possesses scarce anthracite coal resources.

As the Target Company owns eight coal mines in the Guizhou Province, with four of them in operation and the remaining four either under development or construction, the Company considers that the Proposed Acquisition will enable the Group to complement its existing coal mines in Guizhou Province, increase production and reserve of quality coal resources, expand its operation scale and increase its competitiveness in the market. In addition, the Group will benefit from synergies resulting from the operation of the coal mines and power plants of the Target Company and thereby expand the Group’s business.

GENERAL

The MOU is not legally binding on the parties in respect of the Proposed Acquisition and only sets out the initial understanding of the parties in relation to the Proposed Acquisition. The Proposed Acquisition is subject to further negotiations among the parties and the MOU may or may not lead to the entering into of a formal agreement among the parties and the Proposed Acquisition contemplated thereunder may or may not be consummated.

Further announcement(s) will be made by the Company in respect of the Proposed Acquisition as and when required by the Listing Rules.

As at the date of this announcement, no definitive agreement in relation to the Proposed Acquisition has been entered into by the Group. As the Proposed Acquisition contemplated under the MOU may or may not materialize, shareholders and potential investors of the Company are reminded to exercise caution when dealing in the shares of the Company.

DEFINITIONS

In this announcement, the following definitions shall have the meanings set out below unless the context requires otherwise:

“Board”	the board of Directors
“Company”	CHINA UNIENERGY GROUP LIMITED (中國優質能源集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 8 January 2014
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“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

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“kW”	kilowatt
“kWh”	kilowatt per hour
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“MOU”	a non-legally binding memorandum of understanding entered into among the Company, Guizhou Union, the Target Company and the Vendor on 17 August 2018 in relation to the Proposed Acquisition
“Proposed Acquisition”	the proposed acquisition of a majority equity interest in the Target Company by the Company, through Guizhou Union, from the Vendor, subject to the signing of a formal equity transfer agreement
“PRC”	the People’s Republic of China which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“sqkm”	square kilometers
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Yankuang Guizhou Nenghua Company Limited* (兗礦貴州能化有限公司), a limited liability company established in the PRC on 2 December 2002

“Vendor” Yankuang Group Company Limited* (兗礦集團有限公司), a limited liability company established in the PRC

“%” per cent

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

Guiyang, People’s Republic of China
17 August 2018

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

** For identification purposes only*