



**Hidili Industry International Development Limited**

**恒鼎實業國際發展有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 1393)

**UNAUDITED INTERIM RESULTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2008**

**FINANCIAL HIGHLIGHTS**

|                                                         | <b>Six months ended 30 June</b> |                       | <b>Change<br/>%</b> |
|---------------------------------------------------------|---------------------------------|-----------------------|---------------------|
|                                                         | <b>2008</b>                     | <b>2007</b>           |                     |
|                                                         | <b><i>RMB'000</i></b>           | <b><i>RMB'000</i></b> |                     |
|                                                         | <b>(Unaudited)</b>              | <b>(Unaudited)</b>    |                     |
| Turnover                                                | <b>1,190,733</b>                | 398,443               | +198.8%             |
| Gross Profit                                            | <b>778,764</b>                  | 256,921               | +203.1%             |
| Profit before taxation                                  | <b>559,723</b>                  | 153,801               | +263.9%             |
| Profit attributable to equity holders<br>of the Company | <b>534,549</b>                  | 143,477               | +272.6%             |
| Basic earnings per share ( <i>RMB cents</i> )           | <b>25.9</b>                     | 11.4                  | +127.2%             |

The board of directors (the “Board”) of Hidili Industry International Development Limited 恒鼎實業國際發展有限公司 (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (together, the “Group”) for the six months ended 30 June 2008 (the “Review Period”), together with the comparative figures for the corresponding period in 2007.

# CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

|                                                                            |       | Six months ended 30 June |             |
|----------------------------------------------------------------------------|-------|--------------------------|-------------|
|                                                                            |       | 2008                     | 2007        |
|                                                                            | Notes | RMB'000                  | RMB'000     |
|                                                                            |       | (Unaudited)              | (Unaudited) |
| Turnover                                                                   | 4     | 1,190,733                | 398,443     |
| Cost of sales                                                              |       | (411,969)                | (141,522)   |
| Gross profit                                                               |       | 778,764                  | 256,921     |
| Other income and gains                                                     | 5     | 22,847                   | 35,749      |
| Distribution and selling costs                                             |       | (91,286)                 | (21,538)    |
| Administrative expenses                                                    |       | (116,552)                | (35,211)    |
| Fair value loss on financial instruments<br>classified as held-for-trading |       | (10,986)                 | —           |
| Fair value adjustment on convertible note                                  |       | —                        | (65,602)    |
| Finance costs                                                              | 6     | (23,064)                 | (16,518)    |
| Profit before taxation                                                     | 7     | 559,723                  | 153,801     |
| Taxation                                                                   | 8     | (25,470)                 | (10,379)    |
| Profit for the period                                                      |       | 534,253                  | 143,422     |
| Attributable to:                                                           |       |                          |             |
| Equity holders of the Company                                              |       | 534,549                  | 143,477     |
| Minority interests                                                         |       | (296)                    | (55)        |
|                                                                            |       | 534,253                  | 143,422     |
| Dividends                                                                  | 9     | 173,040                  | —           |
| Earnings per share, basic (RMB cents)                                      | 10    | 25.9                     | 11.4        |

# CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008

|                                           |              | <b>30 June<br/>2008</b> | 31 December<br>2007   |
|-------------------------------------------|--------------|-------------------------|-----------------------|
|                                           | <i>Notes</i> | <b><i>RMB'000</i></b>   | <b><i>RMB'000</i></b> |
|                                           |              | <b>(Unaudited)</b>      | <b>(Audited)</b>      |
| <b>NON-CURRENT ASSETS</b>                 |              |                         |                       |
| Property, plant and equipment             |              | <b>3,644,886</b>        | 2,632,821             |
| Prepaid lease payment                     |              | <b>32,077</b>           | 32,414                |
| Deposits for acquisition of coal mines    | 11           | <b>180,750</b>          | 24,000                |
| Advances                                  |              | <b>241,500</b>          | —                     |
|                                           |              | <hr/>                   | <hr/>                 |
|                                           |              | <b>4,099,213</b>        | 2,689,235             |
|                                           |              | <hr/>                   | <hr/>                 |
| <b>CURRENT ASSETS</b>                     |              |                         |                       |
| Inventories                               |              | <b>167,182</b>          | 65,288                |
| Bills and trade receivables               | 12           | <b>728,885</b>          | 274,455               |
| Bills receivable discounted with recourse |              | —                       | 80,600                |
| Other receivables and repayments          |              | <b>157,369</b>          | 122,460               |
| Held-for-trading investments              |              | <b>52,981</b>           | —                     |
| Derivative financial instruments          |              | <b>8,723</b>            | —                     |
| Pledged bank deposits                     |              | <b>29,224</b>           | 1,248,682             |
| Bank balance and cash                     |              | <b>1,279,000</b>        | 2,560,779             |
|                                           |              | <hr/>                   | <hr/>                 |
|                                           |              | <b>2,423,364</b>        | 4,352,264             |
|                                           |              | <hr/>                   | <hr/>                 |

**CURRENT LIABILITIES**

|                                     |    |                |           |
|-------------------------------------|----|----------------|-----------|
| Trade payables                      | 13 | <b>129,561</b> | 45,395    |
| Advances drawn on bills receivables |    |                |           |
| discounted with recourse            |    | —              | 80,600    |
| Other payables and accrued expenses |    | <b>583,717</b> | 478,146   |
| Amount due to a related party       |    | <b>1,600</b>   | 1,000     |
| Derivative financial instruments    |    | —              | 47,981    |
| Tax payables                        |    | <b>32,798</b>  | 32,894    |
| Secured bank borrowings             |    | <b>373,000</b> | 1,333,900 |

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|  |  |                  |           |
|--|--|------------------|-----------|
|  |  | <b>1,120,676</b> | 2,019,916 |
|--|--|------------------|-----------|

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**NET CURRENT ASSETS**


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|  |  |                  |           |
|--|--|------------------|-----------|
|  |  | <b>1,302,688</b> | 2,332,348 |
|--|--|------------------|-----------|

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|  |  |                  |           |
|--|--|------------------|-----------|
|  |  | <b>5,401,901</b> | 5,021,583 |
|--|--|------------------|-----------|

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**CAPITAL AND RESERVES**

|               |  |                  |           |
|---------------|--|------------------|-----------|
| Share capital |  | <b>198,605</b>   | 198,605   |
| Reserves      |  | <b>5,171,389</b> | 4,809,880 |

|                                       |  |                  |           |
|---------------------------------------|--|------------------|-----------|
| Equity attributable to equity holders |  |                  |           |
| of the Company                        |  | <b>5,369,994</b> | 5,008,485 |
| Minority interests                    |  | <b>6,986</b>     | 6,982     |

**TOTAL EQUITY**


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|  |  |                  |           |
|--|--|------------------|-----------|
|  |  | <b>5,376,980</b> | 5,015,467 |
|--|--|------------------|-----------|

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**NON-CURRENT LIABILITIES**

|                               |  |               |       |
|-------------------------------|--|---------------|-------|
| Provision for restoration and |  |               |       |
| environmental costs           |  | <b>6,884</b>  | 6,116 |
| Deferred tax liabilities      |  | <b>18,037</b> | —     |

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|  |  |               |       |
|--|--|---------------|-------|
|  |  | <b>24,921</b> | 6,116 |
|--|--|---------------|-------|

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|  |  |                  |           |
|--|--|------------------|-----------|
|  |  | <b>5,401,901</b> | 5,021,583 |
|--|--|------------------|-----------|

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# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. General

Hidili Industry International Development Limited 恒鼎實業國際發展有限公司 (the “Company”) was incorporated in the Cayman Islands under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 1 September 2006. In the opinion of the directors of the Company, the Company’s ultimate holding company is Sanlian Investment Holding Limited (“Sanlian Investment”), a company incorporated in the British Virgin Islands. The Company together with its subsidiaries are hereafter collectively referred to as the Group. The Company acts as investment holding while its subsidiaries are engaged in coal mining, manufacturing and sales of coke and clean coal and provision of transportation services.

## 2. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with International Accounting Standard 34 (IAS 34) “Interim Financial Reporting”.

## 3. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2007, with the following accounting policies newly adopted in the current interim period.

## Financial assets

### *Financial assets at fair value through profit or loss (“FVTPL”)*

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise.

In the current interim period, the Group has applied, for the first time, the following new interpretations (“new Interpretations”) issued by the International Accounting Standards Board, which are effective for the Group’s financial year beginning on 1 January 2008.

|          |                                                                                                   |
|----------|---------------------------------------------------------------------------------------------------|
| IFRIC 11 | IFRS 2: Group and Treasury Share Transactions                                                     |
| IFRIC 12 | Service Concession Arrangements                                                                   |
| IFRIC 14 | IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |

The adoption of these new Interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognized.

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective.

|                                |                                                                                               |
|--------------------------------|-----------------------------------------------------------------------------------------------|
| IFRSs (Amendments)             | Improvements to IFRSs <sup>1</sup>                                                            |
| IAS 1 (Revised)                | Presentation of Financial Statements <sup>2</sup>                                             |
| IAS 23 (Revised)               | Borrowing Costs <sup>2</sup>                                                                  |
| IAS 27 (Revised)               | Consolidated and Separate Financial Statement <sup>3</sup>                                    |
| IAS 32 & 1 (Amendments)        | Puttable Financial Instruments and Obligations<br>Arising on Liquidation <sup>2</sup>         |
| IAS 39 (Amendment)             | Eligible Hedged Item <sup>3</sup>                                                             |
| IFRS 1 and IAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly<br>Controlled Entity or Associate <sup>2</sup> |
| IFRS 2 (Amendment)             | Vesting Conditions and Cancellations <sup>2</sup>                                             |
| IFRS 3 (Revised)               | Business Combinations <sup>3</sup>                                                            |
| IFRS 8                         | Operating Segments <sup>2</sup>                                                               |
| IFRIC 13                       | Customer Loyalty Programmes <sup>4</sup>                                                      |
| IFRIC 15                       | Agreement for the Construction of Real Estate <sup>2</sup>                                    |
| IFRIC 16                       | Hedges of a Net Investment in a Foreign Operaton <sup>5</sup>                                 |

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009 except the amendments to IFRS 5, effective for annual periods beginning on or after 1 July 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>5</sup> Effective for annual periods beginning on or after 1 October 2008

The adoption of IFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first reporting period beginning on or after 1 July 2009. IAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards or interpretations will have no material effect on the results and the financial position of the Group.

#### **4. Turnover and Segment Information**

The Group is engaged in coal mining and manufacturing and sales of coke, clean coal, alloy pig iron and related by-products.

Turnover is related to revenue earned from the sales described above and excluded applicable value-added tax in the People's Republic of China (the "PRC").

All of the Group's turnover is derived from the operation in the PRC and all customers of the Group are located in the PRC. In addition, the Group's assets are substantially located in the PRC. Therefore, no geographical segment is presented.

##### **Business segments**

For management purposes, the Group is currently organized into two main operating divisions — coal mining and coking. These divisions are the basis on which the Group reports its primary segment information.

Principal activities of the Group are as follows:

Coal mining — Coal mining and sales of raw coal, clean coal and its by-products

Coking — Manufacturing and sales of coke and its by-products

Others — Manufacturing and sales of alloy pig iron and others



Consolidated income statement

Six months ended 30 June 2008 (unaudited)

|                                                                               | Coal           |                |              | Inter-           |                  |
|-------------------------------------------------------------------------------|----------------|----------------|--------------|------------------|------------------|
|                                                                               | Mining         | Coking         | Others       | segment          | Consolidated     |
|                                                                               | RMB'000        | RMB'000        | RMB'000      | eliminations     | RMB'000          |
|                                                                               |                |                |              | RMB'000          |                  |
| <b>GROSS REVENUE</b>                                                          |                |                |              |                  |                  |
| External                                                                      | 503,616        | 680,437        | 6,680        | —                | 1,190,733        |
| Inter-segment                                                                 | 360,041        | —              | —            | (360,041)        | —                |
| <b>Total</b>                                                                  | <b>863,657</b> | <b>680,437</b> | <b>6,680</b> | <b>(360,041)</b> | <b>1,190,733</b> |
|                                                                               |                |                |              |                  |                  |
| Inter-segment transactions were carried out at cost.                          |                |                |              |                  |                  |
| <b>RESULTS</b>                                                                |                |                |              |                  |                  |
| Segment results                                                               | 286,668        | 398,421        | 2,389        | —                | 687,478          |
|                                                                               |                |                |              |                  |                  |
| Unallocated corporate expenses                                                |                |                |              |                  | (116,552)        |
| Unallocated corporate income                                                  |                |                |              |                  | 22,847           |
| Fair value loss on financial<br>instruments classified<br>as held-for-trading |                |                |              |                  | (10,986)         |
| Finance costs                                                                 |                |                |              |                  | (23,064)         |
|                                                                               |                |                |              |                  |                  |
| Profit before taxation                                                        |                |                |              |                  | 559,723          |
| Taxation                                                                      |                |                |              |                  | (25,470)         |
| <b>Profit for the period</b>                                                  |                |                |              |                  | <b>534,253</b>   |

**Six months ended 30 June 2007 (unaudited)**

|                      | <b>Coal</b>    |                |                | <b>Inter-</b>       |                     |
|----------------------|----------------|----------------|----------------|---------------------|---------------------|
|                      | <b>Mining</b>  | <b>Coking</b>  | <b>Others</b>  | <b>segment</b>      | <b>Consolidated</b> |
|                      | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>eliminations</i> | <i>RMB'000</i>      |
|                      |                |                |                | <i>RMB'000</i>      | <i>RMB'000</i>      |
| <b>GROSS REVENUE</b> |                |                |                |                     |                     |
| External             | 158,396        | 225,481        | 14,566         | —                   | 398,443             |
| Inter-segment        | 97,994         | —              | —              | (97,994)            | —                   |
|                      | <u>256,390</u> | <u>225,481</u> | <u>14,566</u>  | <u>(97,994)</u>     | <u>398,443</u>      |
| <b>Total</b>         | <u>256,390</u> | <u>225,481</u> | <u>14,566</u>  | <u>(97,994)</u>     | <u>398,443</u>      |

Inter-segment transactions were carried out at cost.

**RESULTS**

|                                              |               |                |              |          |                 |
|----------------------------------------------|---------------|----------------|--------------|----------|-----------------|
| Segment results                              | <u>95,275</u> | <u>137,035</u> | <u>3,073</u> | <u>—</u> | 235,383         |
| Unallocated corporate expenses               |               |                |              |          | (35,211)        |
| Unallocated corporate income                 |               |                |              |          | 35,749          |
| Fair value adjustment on<br>convertible note |               |                |              |          | (65,602)        |
| Finance costs                                |               |                |              |          | <u>(16,518)</u> |
| Profit before taxation                       |               |                |              |          | 153,801         |
| Taxation                                     |               |                |              |          | <u>(10,379)</u> |
| <b>Profit for the period</b>                 |               |                |              |          | <u>143,422</u>  |

## 5. Other Income and Gains

|                                                       | Six months ended 30 June |                |
|-------------------------------------------------------|--------------------------|----------------|
|                                                       | 2008                     | 2007           |
|                                                       | <i>RMB'000</i>           | <i>RMB'000</i> |
|                                                       | (Unaudited)              | (Unaudited)    |
| Bank interest income                                  | 22,383                   | 1,600          |
| Government grant ( <i>Note</i> )                      | —                        | 30,000         |
| Net gain on disposal of property, plant and equipment | —                        | 2,059          |
| Net gain on exchange                                  | —                        | 1,530          |
| Others                                                | 464                      | 560            |
|                                                       | <u>22,847</u>            | <u>35,749</u>  |

*Note:* The amount represented the unconditional grants from the PRC government specifically for encouraging the Group's business development in Sichuan province, the PRC. For the six months ended 30 June 2007, a subsidy of RMB30 million was granted to a subsidiary of the Company from Panzhihua City Economic Committee, Panzhihua City Development and Reformation Committee and Panzhihua City Science and Technology Bureau to appraise and in recognition of the achievement of the Group in having successfully developed the new products combining vanadium, titanium and magnet which would encourage new business development in Panzhihua.

## 6. Finance Costs

|                                                                     | Six months ended 30 June |                |
|---------------------------------------------------------------------|--------------------------|----------------|
|                                                                     | 2008                     | 2007           |
|                                                                     | <i>RMB'000</i>           | <i>RMB'000</i> |
|                                                                     | (Unaudited)              | (Unaudited)    |
| Interest expenses on borrowings wholly repayable within five years: |                          |                |
| — bank borrowings                                                   | 23,064                   | 5,058          |
| — advances drawn on bills receivables discounted                    | —                        | 8,366          |
| — other loan                                                        | —                        | 3,094          |
|                                                                     | <u>23,064</u>            | <u>16,518</u>  |

## 7. Profit Before Taxation

|                                                                                | Six months ended 30 June |                   |
|--------------------------------------------------------------------------------|--------------------------|-------------------|
|                                                                                | 2008                     | 2007              |
|                                                                                | <i>RMB'000</i>           | <i>RMB'000</i>    |
|                                                                                | (Unaudited)              | (Unaudited)       |
| Profit before taxation has been arrived at after charging (crediting):         |                          |                   |
| Amortization of prepaid lease payment                                          | 337                      | 67                |
| Provision for restoration and environmental costs                              | 768                      | 880               |
| Depreciation and amortization of property, plant and equipment                 | 31,538                   | 24,325            |
| Fair value adjustment on convertible note                                      | —                        | 65,602            |
| Loss on fair value changes on held-for-trading investments                     | 14,927                   | —                 |
| Allowance for bad and doubtful debts in respect of bills and trade receivables | 2,087                    | —                 |
| Loss on derivative financial instruments which matured during the period       | 4,782                    | —                 |
| Exchange loss (included in administrative expenses)                            | 41,629                   | —                 |
| Gain on fair value changes of outstanding derivative financial instruments     | (8,723)                  | —                 |
|                                                                                | <u>          </u>        | <u>          </u> |

## 8. Taxation

|                           | Six months ended 30 June |                   |
|---------------------------|--------------------------|-------------------|
|                           | 2008                     | 2007              |
|                           | <i>RMB'000</i>           | <i>RMB'000</i>    |
|                           | (Unaudited)              | (Unaudited)       |
| Current tax:              |                          |                   |
| PRC Enterprise Income Tax | 7,433                    | 10,379            |
| Deferred taxation         | 18,037                   | —                 |
|                           | <u>          </u>        | <u>          </u> |
|                           | <u>25,470</u>            | <u>10,379</u>     |

The Company is not subject to any taxation in the Cayman Islands as the Cayman Islands levies no tax on the income of the Group.

No provision for Hong Kong Profits Tax has been made as the Group's income is not assessable to tax in Hong Kong.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changed the tax rate from 33% to 25% for the Group's subsidiaries from 1 January 2008.

Taxation arising in the PRC is calculated at 25% (2007: 33%) on the estimated assessable profit of those subsidiaries that are subject to Enterprise Income Tax in the PRC, except for certain PRC subsidiaries which are exempted from EIT in accordance with the approval from the relevant tax bureaus.

Pursuant to "Application of preferential tax treatment for Foreign Investment Enterprise", 四川恒鼎實業有限公司 (Sichuan Hidili Industry Company Limited\*) ("Sichuan Hidili"), 攀枝花市恒鼎煤焦化有限公司 (Panzhihua City Hidili Coke Company Limited\*) ("Hidili Coal"), 攀枝花市天道勤工貿有限公司 (Panzhihua City Tiandaoqin Industry & Trading Company Limited\*) ("Tiandaoqin"), 攀枝花沿江實業有限責任公司 (Panzhihua Yanjiang Industrial Company Limited\*) ("Yanjiang"), 攀枝花市天酬工貿有限公司 (Panzhihua City Tianchou Industry & Trading Company Limited\*) ("Tianchou") and 攀枝花市揚帆工貿有限公司 (Panzhihua Yangfan Industry & Trading Company Limited\*) ("Yangfan") were entitled to 2 years exemption from State EIT from 2007 to 2008 and a 50% deduction of State EIT for three years from 2009 to 2011. Therefore, all of them were subject to tax exemption in the current period (2007: 3% local EIT with exemption of 30% state EIT).

攀枝花市三聯運輸有限公司 (Panzhihua City Sanlian Transportation Company Limited\*) ("Sanlian Transportation") was entitled to the tax incentives in connection with the development of the western part of the PRC. According to the official approval issued by State Administration of Taxation of Sichuan province, Sanlian Transportation is entitled to the policy of 2 years exemption and 3 years deduction from 2005 to 2009. The applicable tax rate for 2008 is 12.5% (2007: 16.5%).

Starting from 1 January 2008, the Tax Law of the PRC requires withholding tax upon the distribution of undistributed retained profits earned by the PRC subsidiaries to the shareholders. Deferred tax of approximately RMB18,037,000 has been provided for in the condensed consolidated financial statements in respect of the temporary differences attributable to such profits.

There was no significant unprovided deferred taxation for both periods or at the respective balance sheet date.

## **9. Dividends**

On 18 June 2008, the payment of a dividend of RMB8.4 cents per share (2007: nil) to the Company's shareholders as the final dividend for 2007 was approved.

The directors do not propose the payment of an interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: nil).

## **10. Earnings Per Share**

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company for the six months ended 30 June 2008 and the six months ended 30 June 2007 and on the number of 2,060,000,000 shares and the weighted average number of 1,261,326,000 shares in issue, respectively.

No diluted earnings per share has been presented for the six months ended 30 June 2008 as there are no outstanding potential ordinary shares during the period. No diluted earnings per share has been presented for the six months ended 30 June 2007 as the inclusion of the effect of potential ordinary shares would increase the earnings per share for that period.

## **11. Deposits for Acquisition of Coal Mines**

Included in balance as at 30 June 2008 was deposits of approximately RMB156,750,000 paid for acquisition of an additional coal mine in Guizhou, the PRC. Up to the date of this announcement, the Group is still negotiating with the coal mine owners to agree the final amount of consideration which will not be more than RMB160 million.

In addition, included in balance as at 30 June 2008 and 31 December 2007 was deposit of RMB24 million paid for acquisition of a coal mine in Guizhou, the PRC. Up to the date of this announcement, the Group is still negotiating with the coal mine owner to agree the final amount of consideration which will not be more than RMB50 million.

## 12. Bills and Trade Receivables

|                            | 30 June<br>2008<br><i>RMB'000</i><br>(Unaudited) | 31 December<br>2007<br><i>RMB'000</i><br>(Audited) |
|----------------------------|--------------------------------------------------|----------------------------------------------------|
| Trade receivables          | 418,119                                          | 123,034                                            |
| Impairment loss recognized | (2,614)                                          | (3,460)                                            |
|                            | <hr/>                                            | <hr/>                                              |
|                            | 415,505                                          | 119,574                                            |
| Bills receivables          | 313,380                                          | 154,881                                            |
|                            | <hr/>                                            | <hr/>                                              |
|                            | <b>728,885</b>                                   | <b>274,455</b>                                     |
|                            | <hr/>                                            | <hr/>                                              |

The Group generally allows an average credit period ranging from 90-120 days to its trade customers. The aged analysis of trade receivables and bills receivables, net of allowance, is as follows:

|              | 30 June<br>2008<br><i>RMB'000</i><br>(Unaudited) | 31 December<br>2007<br><i>RMB'000</i><br>(Audited) |
|--------------|--------------------------------------------------|----------------------------------------------------|
| Aged:        |                                                  |                                                    |
| 0-90 days    | 688,626                                          | 273,055                                            |
| 91-120 days  | 29,717                                           | 863                                                |
| 121-180 days | 5,412                                            | 386                                                |
| 181-365 days | 5,130                                            | 151                                                |
|              | <hr/>                                            | <hr/>                                              |
|              | <b>728,885</b>                                   | <b>274,455</b>                                     |
|              | <hr/>                                            | <hr/>                                              |

### 13. Trade Payables

The aged analysis of the Group's trade payables is as follows:

|               | <b>30 June<br/>2008<br/>RMB'000<br/>(Unaudited)</b> | <b>31 December<br/>2007<br/>RMB'000<br/>(Audited)</b> |
|---------------|-----------------------------------------------------|-------------------------------------------------------|
| Aged:         |                                                     |                                                       |
| 0-90 days     | <b>99,430</b>                                       | 42,987                                                |
| 91-180 days   | <b>23,445</b>                                       | 897                                                   |
| 181-365 days  | <b>4,818</b>                                        | 361                                                   |
| Over 365 days | <b>1,868</b>                                        | 1,150                                                 |
|               | <b><u>129,561</u></b>                               | <b><u>45,395</u></b>                                  |

### 14. Capital Commitments

At the balance sheet date, the Group had the following commitments:

|                                                                                                                                                                   | <b>30 June<br/>2008<br/>RMB'000<br/>(Unaudited)</b> | <b>31 December<br/>2007<br/>RMB'000<br/>(Audited)</b> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|-------------------------------------------------------|
| Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment | <b><u>72,286</u></b>                                | <b><u>48,565</u></b>                                  |

During the period, the Group entered into a memorandum of undertaking with a coal mine owner to acquire a coal mine in Guizhou, the PRC, whereas the consideration of not more than RMB160 million. Up to 30 June 2008, the Group had paid approximately RMB157 million as the deposit.

During the year ended 31 December 2007, the Group entered into a memorandum of undertaking with a coal mine owner to acquire a coal mine in Guizhou, the PRC at a consideration of not more than RMB50 million. Up to 30 June 2008, the Group had paid RMB24 million as the deposit.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

#### *Turnover*

During the Review Period, turnover of the Group amounted to approximately RMB1,190.7 million, representing an increase of 198.8%, as compared with approximately RMB398.4 million for the corresponding period in 2007. The increase was primarily attributable to the increase in sales volume of the principal products and by-products resulting from the expansion of operation in Pan county, Guizhou province and the continuing growth in average selling prices of clean coal and coke during the Review Period. The sales volume recorded for clean coal and coke during the Review Period amounted to approximately 371,000 tonnes and 373,700 tonnes respectively as compared to the corresponding period in 2007 of 220,800 tonnes and 240,400 tonnes respectively. During the Review Period, the average selling price of both clean coal and coke increased sharply by 95.0% and 95.9% respectively.

The following table sets forth the Group's turnover contribution and the average selling price by products and as a percentage of total turnover for the Review Period, together with the comparative figures for the corresponding period in 2007:

|                           | Six months ended 30 June 2008      |                                        |                             | Six months ended 30 June 2007      |                                        |                             |
|---------------------------|------------------------------------|----------------------------------------|-----------------------------|------------------------------------|----------------------------------------|-----------------------------|
|                           | Average<br>selling<br>price<br>RMB | Turnover<br>RMB million<br>(Unaudited) | % of total<br>turnover<br>% | Average<br>selling<br>price<br>RMB | Turnover<br>RMB million<br>(Unaudited) | % of total<br>turnover<br>% |
| <b>Principal products</b> |                                    |                                        |                             |                                    |                                        |                             |
| Coke                      | 1,776.4                            | 663.8                                  | 55.7%                       | 906.8                              | 218.0                                  | 54.7%                       |
| Clean coal                | 1,233.5                            | 457.6                                  | 38.4%                       | 632.7                              | 139.7                                  | 35.1%                       |
| Principal products total  |                                    | 1,121.4                                | 94.1%                       |                                    | 357.7                                  | 89.8%                       |
| <b>By-products</b>        |                                    |                                        |                             |                                    |                                        |                             |
| High-ash thermal coal     | 157.2                              | 37.8                                   | 3.2%                        | 119.4                              | 18.7                                   | 4.7%                        |
| Coal tar                  | 1,718.2                            | 16.6                                   | 1.4%                        | 1,293.3                            | 7.4                                    | 1.9%                        |
| Titanium slag             | —                                  | —                                      | —                           | 846.9                              | 2.4                                    | 0.6%                        |
| Other by-products         | N/A                                | 14.9                                   | 1.3%                        | N/A                                | 0.4                                    | 0.1%                        |
| By-products total         |                                    | 69.3                                   | 5.9%                        |                                    | 28.9                                   | 7.3%                        |
| Other products            |                                    |                                        |                             |                                    |                                        |                             |
| Alloy pig iron            | —                                  | —                                      | —                           | 1,968.7                            | 11.8                                   | 2.9%                        |
| <b>Total turnover</b>     |                                    | 1,190.7                                | 100.0%                      |                                    | 398.4                                  | 100.0%                      |

## *Cost of sales*

Cost of sales for the Review Period was approximately RMB412.0 million, representing an increase of approximately RMB270.5 million, or approximately 191.1%, as compared with approximately RMB141.5 million for the corresponding period in 2007. The increase was primarily due to the increase in cost of material, fuel and power, staff costs, depreciation and amortization and rental expenses during the Review Period.

Material, fuel and power costs in the Review Period were approximately RMB285.7 million, representing an increase of approximately RMB224.2 million, or approximately 364.6%, as compared with approximately RMB61.5 million in the corresponding period in 2007. The sharp increase was primarily due to (i) increase in the production volumes of coke and clean coal resulting from the expansion of operation in Pan county, Guizhou province and (ii) purchase of raw coal and clean coal from external suppliers for further production in Guizhou province. The following table sets forth the production volume of the principal products in Panzhihua, Sichuan province and Pan county, Guizhou province.

| Principal products | Six months ended<br>30 June 2008 |                | Six months ended<br>30 June 2007 |                |
|--------------------|----------------------------------|----------------|----------------------------------|----------------|
|                    | Panzhihua                        | Pan county     | Panzhihua                        | Pan county     |
|                    | Production                       | Production     | Production                       | Production     |
|                    | volume                           | volume         | volume                           | volume         |
|                    | ( '000 tonnes)                   | ( '000 tonnes) | ( '000 tonnes)                   | ( '000 tonnes) |
| Raw coal           | 1,036.3                          | 211.4          | 1,041.7                          | —              |
| Clean coal         | 528.3                            | 333.2          | 549.9                            | —              |
| Coke               | 285.5                            | 101.8          | 255.6                            | —              |

Staff costs in the Review Period were approximately RMB72.9 million, representing an increase of approximately RMB30.7 million, or approximately 72.7%, as compared with approximately RMB42.2 million for the corresponding period in 2007. The increase was mainly attributable to the increase in the number of workers employed in the coal mines, coal washing plants and coking plant in Pan county, Guizhou province.

Depreciation and amortization in the Review Period were approximately RMB28.6 million, representing an increase of approximately RMB6.0 million, or approximately 26.5%, as compared with approximately RMB22.6 million for the corresponding period in 2007. The increase was in line with the additional fixed assets acquired in connection with coal mines in Pan county, Guizhou province.

Rental expenses in the Review Period were approximately RMB13.4 million as compared with approximately RMB0.3 million for the corresponding period in 2007. The increase mainly arose from the rental for the coal washing plants and coking plant from an independent third party in Pan county, Guizhou province.

#### *Gross profit*

As a result of the foregoing, the gross profit in the Review Period was approximately RMB778.8 million, representing an increase of approximately RMB521.9 million, or approximately 203.1%, as compared with approximately RMB256.9 million for the corresponding period in 2007. The gross profit margin was maintained at approximately 65.4% in the Review Period as compared with approximately 64.5% in the corresponding period in 2007.

#### *Other income and gains*

Other income and gains in the Review Period was approximately RMB22.8 million, representing a decrease of approximately RMB12.9 million, as compared with approximately RMB35.7 million in the corresponding period in 2007. The drop in other income and gains was mainly due to the absence of a one-time unconditional subsidy granted by the Panzhihua municipal government in the amount of RMB30.0 million which was paid to the Group in support of the successful development in its new products combining vanadium, titanium and magnet in the corresponding period in 2007. On the other hand, the bank interest income increased from approximately RMB1.6 million in the corresponding period in 2007 to approximately RMB22.4 million in the Review Period arising from the increase in average bank balances.

#### *Distribution and selling costs*

Distribution and selling costs in the Review Period were approximately RMB91.3 million, representing an increase of approximately RMB69.8 million, or approximately 324.7%, as compared with approximately RMB21.5 million for the corresponding period in 2007. The increase resulted from (i) the increase in sales volumes of clean coal and coke, (ii) the expansion of operation in Pan county, Guizhou province and (iii) the increase in government levies on raw coal, clean coal and coke.

### *Administrative expenses*

Administrative expenses in the Review Period were approximately RMB116.5 million, representing an increase of approximately RMB81.3 million, or approximately 231.0%, as compared with approximately RMB35.2 million for the corresponding period in 2007. The increase was primarily attributable to (i) the exchange loss of approximately RMB41.6 million resulting from the appreciation of Renminbi (“RMB”) for the proceeds arising from the Company’s global offering before the completion of remittance of the proceeds back to the PRC for the period from January to March 2008; and (ii) the administrative expenses of approximately RMB30.9 million incurred in the expansion of operation in Pan county, Guizhou province.

### *Fair value loss on financial instruments classified as held-for-trading*

The amount represented (i) loss on fair value changes on held-for-trading investments of approximately RMB18.5 million; (ii) gain on disposal of held-for-trading investments of approximately RMB3.6 million; (iii) gain on fair value changes of outstanding derivative financial instruments of approximately RMB8.7 million; and (iv) loss on derivative financial instruments which matured during the Review Period of approximately RMB4.8 million. During the Review Period, the Group invested in certain A shares for an amount of approximately RMB71.6 million and provided for a loss on fair value of approximately RMB18.5 million for the devaluation of the A shares as at 30 June 2008. The derivative financial instruments mainly represented foreign currency forward exchange contracts entered into by the Group during the Review Period for hedging against the appreciation of RMB.

### *Finance costs*

Finance costs in the Review Period amounted to approximately RMB23.1 million, representing an increase of approximately RMB6.6 million, or 40.0%, as compared with approximately RMB16.5 million for the corresponding period in 2007. The increase was primarily due to special arrangements made by the Group with banks for local borrowings with pledged deposits in Hong Kong (內保外貸) to ease the funding requirements for the acquisition of coal mines in Guizhou province before the completion of remittance of the proceeds arising from the Company’s global offering before March 2008.

## *Taxation*

Taxation in the Review Period was approximately RMB25.5 million, representing an increase of approximately RMB15.1 million, or 145.2%, as compared with approximately RMB10.4 million for the corresponding period in 2007. The amount of taxation represented PRC Enterprise Income Tax of around RMB7.4 million which arose from 25% on the estimated assessable profit of those subsidiaries newly established in the PRC during the Review Period and deferred tax of around RMB18.0 million which resulted from the timing difference on withholding tax levied on the final dividend for the year ending 31 December 2008 to be payable to the holding company outside the PRC.

## *Profit for the period*

As a result of the foregoing, profit attributable to equity holders of the Company for the Review Period amounted to approximately RMB534.5 million, representing an increase of approximately RMB391.0 million, or 272.6%, as compared with approximately RMB143.5 million for the corresponding period in 2007. During the Review Period, the adjusted profit attributable to equity holders of the Company amounted to approximately RMB605.1 million after the adjustments for items which were exceptional in nature, being (i) the exchange loss of approximately RMB41.6 million, (ii) fair value loss on financial instruments classified as held-for-trading of approximately RMB11.0 million and (iii) deferred tax on PRC withholding tax of approximately RMB18.0 million. The adjusted profit attributable to equity holders of the Company for the corresponding period in 2007 amounted to approximately RMB209.1 million after the adjustment for an item that was exceptional in nature, being the fair value adjustment on convertible note of approximately RMB65.6 million. The net profit margin calculated on the adjusted profit attributable to equity holders of the Company for the Review Period was 50.8%, as compared to 52.5% for the corresponding period in 2007.

## Liquidity, Financial Resources and Capital Structure

The Group adopted stringent financial management policies and maintained a healthy financial condition. The Group continued to fund operations principally with internally generated cash flow from operating activities and short-term bank borrowings. The expansion of operation in Guizhou province was mainly funded by the proceeds arising from the Company's global offering in September 2007.

The net current assets as at 30 June 2008 were approximately RMB1,302.7 million (At 31 December 2007: RMB2,332.3 million). As at 30 June 2008, the bank balances and cash of the Group amounted to approximately RMB1,279.0 million (At 31 December 2007: RMB2,560.8 million).

As at 30 June 2008, the total bank and other borrowings of the Group were approximately RMB373.0 million (At 31 December 2007: RMB1,333.9 million), which are repayable within one year, carrying interest at market rates ranging from 6.62% to 7.21% per annum.

As at 30 June 2008, the Group's bank balances and cash, except amounts of approximately HK\$9.0 million and approximately US\$617, were held in RMB and all of its borrowings were made in RMB.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Group as at 30 June 2008 was 5.8% (At 31 December 2007: 18.9%).

## **Pledge of Assets of the Group**

As at 30 June 2008, the Group's assets in an aggregate amount of approximately RMB508 million (at 31 December 2007: RMB1,686 million) in forms of property, plant and equipment, bank deposits, prepaid lease payment and bills receivables were pledged to banks for credit facilities granted to the Group.

As at 30 June 2008, the bank loans of RMB90 million were secured by the Group's 100% interests in Tiandaoqin, Yanjiang and Yangfan.

As at 31 December 2007, the bank loans of RMB48 million were secured by the Group's 100% interests in Tiandaoqin, Yangfan and Yanjiang.

## **Employees**

As at 30 June 2008, the Group had an aggregate of 9,984 employees, representing an increase of 3,804 employees from 6,180 employees at 31 December 2007. The increase was in line with the continuing development of the Group's operations in Guizhou province.

During the Review Period, the staff costs (including directors' remuneration in the form of salaries and other allowances) were approximately RMB101.8 million (corresponding period in 2007: RMB55.0 million).

The salary and bonus policy of the Group are principally determined by the performance and working experience of the individual employee and with reference to prevailing market conditions.

## **Risk in Foreign Exchange**

Since all of the Group's business activities are transacted in RMB, the directors of the Company (the "Directors") consider that the Group's risk in foreign exchange is insignificant. However, during the Review Period, the Group was exposed to exchange rate risk mainly arising from the foreign currency bank balances of approximately HK\$9.0 million and US\$617 after the completion of the remittance of the proceeds arising from the Company's global offering in March 2008.



## **Significant Investment Held**

The Group had invested in certain A shares in the PRC which amounted to approximately RMB53.0 million as at 30 June 2008.

## **Material Acquisition and Disposal**

During the Review Period, the Group entered into various sales and purchase agreements for the acquisition of three coal mines in Guizhou province at an aggregate consideration of RMB863.8 million. Saved as disclosed above, there was no material acquisition or disposal of subsidiaries and associated companies by the Group.

## **Contingent Liabilities**

As at 30 June 2008, the Group did not have any material contingent liabilities.

## **Connected Transaction**

During the Review Period, rental expenses amounting to RMB0.6 million were paid to Mr. Xian Jilun, father of Mr. Xian Yang, a Director, for the lease of the Company's head office located at 16th and 17th Floor, Dingli Mansion, No. 81 Renmin Road, Panzhihua, Sichuan province, the PRC. The rent paid by the Group is determined with reference to the market rent of comparable properties in the market.

## **Subsequent Events**

On 14 July 2008, the Group entered into agreements for acquisition of 70% equity interests in each of Panxian Panxin Coking Company Limited and Panxian Panyi Coal Washing Company Limited with an aggregate consideration of RMB127.5 million. The acquisition was completed on 31 July 2008.

On 14 July 2008, the Group acquired a consecutive right for the provision of railway logistic service jointly rendered by two logistic companies in Pan county, Guizhou province for a guarantee delivery volume of not less than 900,000 tonnes per annum of the Group's clean coal and coke for a term of 30 years. The consideration for the consecutive right amounted to RMB114 million. The acquisition was completed on 31 July 2008.

## BUSINESS REVIEW

During the first half of 2008, we overcame adverse impacts from snow storms in the spring and heavy rainfall in March and April in southern China, and recorded stable growth in production and continuing construction of our production facilities in Pan county, Guizhou province. In sales, the average selling prices of the Group's principal products (clean coal and coke) for the Review Period had experienced sustained rise which led to its encouraging interim results. However, price hike in coal market had resulted in considerable increase in our coal mine acquisition cost and posed certain impact on the implementation of our acquisition strategy in Guizhou. From January to June 2008, the Company acquired three coal mines in Pan county, Guizhou province, with an aggregate reserve of approximately 85 million tonnes (based on PRC coal reserves standard) and the average acquisition price of RMB10.2 per tonne.

During the first half of 2008, the Group further enhanced production safety management. As a result, fatality rate of the Group's raw coal production was 0 per million tonnes, while national average for the same period was 1.05 per million tonnes (according to Xinhua News Agency).

Significant events of the Group for the first half of 2008 are as follows:

In January 2008, the Group leased two coal washing plants and one coking plant in Pan county, Guizhou province, to process raw coal that the Group produced in Guizhou province. The Group acquired one coal mine in Guizhou in the same month with a total reserves of around 5 million tonnes (based on the PRC coal reserves standard).

In March 2008, the remittance of the proceeds arising from the Company's global offering to the PRC was completed.

In April 2008, the annual results for 2007 were announced. Independent technical expert Behre Dolbear & Company, Inc. had completed assessment under JORC standard for the 10 coal mines (including nine coal mines acquired during October to December 2007 and one coal mine in January 2008) acquired in Guizhou funded by the proceeds arising from the Company's global offering and the estimated total proven and probable reserves for the 10 mines were around 250 million tonnes.

In May 2008, a disastrous earthquake struck Wenchuan, Sichuan province. Fortunately, all the coal mines and production facilities of the Group have not been affected by the earthquake. The Group and its employees donated over RMB7.4 million in total to the victims of the earthquake.

In June 2008, the annual general meeting of the Company was convened and the payment of a dividend of RMB8.4 cents per share to the Company's shareholders as the final dividend for 2007 was approved.

From May to June 2008, the Group further acquired two coal mines in Guizhou with an aggregate reserves of around 80 million tonnes (based on the PRC coal reserves standard).

## **OUTLOOK**

With the global scarcity of coking coal, we expect a coking coal market dominated by suppliers as a result of demand and supply imbalance. In the short run, the upward trend of coking coal price may slow down as it has already risen substantially in the past year. Therefore, as we stated in our 2007 Annual Report, “the speedy and long-term stable growth of the results of the Company shall be realised through acquisition and expansion of production capacity under effective control of the overall risks of operation.”

In the second half of 2008, we will continue our coking coal resources acquisition strategy in Pan county, Guizhou province. Meanwhile, we aim to achieve efficient coal mine operations with the highest safety management standards and the most competitive costs through system innovation and good corporate governance.

## **SHARE OPTION SCHEME**

The Company has adopted a share option scheme on 25 August 2007 (the “Share Option Scheme”). The principal terms and conditions of the Share Option Scheme, which was conditionally approved by a resolution of the shareholders of the Company dated 25 August 2007, are set out in the section headed “Share Option Scheme” in Appendix VII to the prospectus of the Company dated 10 September 2007. During the Review Period, no share option has been granted by the Company under the Share Option Scheme.

## **AUDIT COMMITTEE**

An audit committee was established on 25 August 2007 in compliance with Rule 3.21 of the Rule Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group.

As at the date of this announcement, the audit committee consists of three independent non-executive Directors, namely, Mr. Chan Chi Hing (Chairman), Mr. Huang Rongsheng and Mr. Wang Zhiguo.

The audit committee has reviewed together with the management of the Company the accounting principles, accounting standards and methods adopted by the Company, discussed the matters concerning internal control, auditing and financial reporting matters and has reviewed the condensed consolidated financial statements of the Group for the Review Period.

The interim results have been reviewed by Deloitte Touche Tohmatsu (“Deloitte”), the Company’s auditors. The report on review of interim financial information issued by Deloitte will be set out in the interim report of the Company, which will be sent to shareholders of the Company and published on the websites of the Company ([www.hidili.com.cn](http://www.hidili.com.cn)) and the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)).

## **CORPORATE GOVERNANCE**

Mr. Xian Yang is both the Chairman of the Board and Chief Executive Officer of the Company. The Board considers that although such structure deviates from code provision A.2.1 of the Code, the effective operation of the Group will not be impaired since Mr. Xian has exercised sufficient delegation in the daily operation of the Group’s business as Chief Executive Officer while being responsible for the effective operation of the Board as the Chairman of the Board. The Board is of the view that such structure has been operating well over the years and the Board and senior management have benefitted from the leadership and experience of Mr. Xian.

Save as disclosed above, the Board is of the view that the Company has complied with the code provisions set out in the Code during the Review Period. The Directors are not aware of any information that reasonably reveals that there is any non-compliance with or derivation from the Code by the Company any time during the Review Period.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiry of all Directors, all Directors have confirmed their compliance with the required standards set out in the Model Code throughout the Review Period.

## **PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Review Period.

## **BOARD OF DIRECTORS**

As at the date of this announcement, the executive Directors are Mr. Xian Yang, Mr. Sun Jiankun and Mr. Wang Rong; and the independent non-executive Directors are Mr. Chan Chi Hing, Mr. Wang Zhiguo and Mr. Huang Rongsheng.

By order of the Board of  
**Hidili Industry International Development Limited**  
**恒鼎實業國際發展有限公司**  
**Xian Yang**  
*Chairman*

Chengdu, Sichuan Province, the PRC  
2 September 2008

\* *For identification purpose only*