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: 01393)

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2012	2011	Change
	RMB'000	*RMB'000*	*%*
	(unaudited)	(unaudited)	
Turnover	**1,264,251**	1,127,415	12.1%
Gross Profit	**785,820**	727,596	8.0%
Profit before taxation	**279,688**	337,525	-17.1%
Profit and total comprehensive income for the period	**189,163**	265,407	-28.7%
EBITDA	**555,505**	558,429	-0.5%
Basic earnings per share *(RMB cents)*	**9.0**	12.6	-28.6%
Diluted earnings per share *(RMB cents)*	**9.0**	12.5	-28.0%

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 2012 (the "Review Period"), together with the comparative figures for the corresponding period in 2011.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Notes	**Six months ended 30 June** **2012** ***RMB'000*** **(unaudited)**	2011 *RMB'000* (unaudited)
Turnover	4	**1,264,251**	1,127,415
Cost of sales		**(478,431)**	(399,819)
Gross profit		**785,820**	727,596
Other gains and losses		**(8,095)**	61,498
Distribution expenses		**(124,798)**	(138,117)
Administrative expenses		**(177,156)**	(168,720)
Net (loss) gain on derivatives and held-for-trading investments		**(21,498)**	3,708
Share of losses of associates		**(3,162)**	—
Finance costs	5	**(171,423)**	(148,440)
Profit before tax		**279,688**	337,525
Income tax expense	6	**(90,525)**	(72,118)
Profit and total comprehensive income for the period	7	**189,163**	265,407
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		**186,055**	260,086
Non-controlling interests		**3,108**	5,321
		189,163	265,407
Earnings per share			
Basic *(RMB cents)*	9	**9.0**	12.6
Diluted *(RMB cents)*		**9.0**	12.5

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

	Notes	**30 June 2012**	31 December 2011
		RMB'000	*RMB'000*
		(unaudited)	(audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**12,846,981**	12,196,348
Prepaid lease payments		**29,368**	29,707
Deposits		**55,960**	35,960
Deposit paid for acquisition of land use rights		**104,480**	86,084
Deposit for acquisition for additional interests in subsidiaries		**6,797**	60,000
Intangible assets		**99,117**	101,017
Goodwill		**11,065**	11,065
Interests in associates		**143,688**	146,850
Available-for-sale investments		**228,330**	228,330
		13,525,786	12,895,361
CURRENT ASSETS			
Inventories		**149,169**	147,409
Bills and trade receivables	10(a)	**1,333,740**	1,221,325
Bills receivables discounted with recourse	10(b)	**72,884**	23,000
Other receivables and prepayments		**659,908**	661,318
Amount due from an associate		**—**	1,535
Amounts due from related parties		**29,757**	22,875
Held-for-trading investments		**40,565**	64,541
Pledged and restricted bank deposits		**265,040**	184,857
Bank balances and cash		**526,939**	596,966
		3,078,002	2,923,826

CURRENT LIABILITIES			
Bills and trade payables	11	**454,663**	398,418
Advances drawn on bills receivables discounted with recourse		**72,884**	23,000
Other payables and accrued expenses		**843,092**	769,668
Dividend payable		**142,530**	—
Amounts due to related parties		**2,354**	27,577
Amount due to a non-controlling shareholder of a subsidiary		**15,142**	15,142
Tax payables		**183,661**	195,129
Bank and other borrowings — due within one year		**2,168,500**	1,617,000
Convertible loan notes		**1,641,288**	—
		5,524,114	3,045,934
NET CURRENT LIABILITIES		**(2,446,112)**	(122,108)
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,079,674**	12,773,253
CAPITAL AND RESERVES			
Share capital		**199,078**	199,078
Reserves		**7,466,224**	7,424,754
Equity attributable to owners of the Company		**7,665,302**	7,623,832
Non-controlling interests		**99,804**	182,834
TOTAL EQUITY		**7,765,106**	7,806,666

NON-CURRENT LIABILITIES

Provision for restoration and environmental costs	**16,392**	14,807
Deferred tax liabilities	**319,061**	315,386
Other long term payables	**131,384**	164,098
Bank and other borrowings — due after one year	**330,000**	380,000
Senior notes	**2,517,731**	2,496,399
Convertible loan notes	**—**	1,595,897
	3,314,568	4,966,587
	11,079,674	12,773,253

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

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. Its shares are listed on The Stock Exchange of Hong Kong Limited. The address of the registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands, and the address of the principal place of business of the Company is Room 3702, 37th Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong. In the opinion of the directors, the Company's parent company and ultimate holding company is Sanlian Investment Holding Limited, a company incorporated in the British Virgin Islands which is in turn held by the trust controlled by Mr. Xian Yang, an executive director and chairman of the Company. The Company together with its subsidiaries are hereinafter collectively referred to as the Group. The Company acts as an investment holding company and its subsidiaries are engaged in mining and sale of coke, raw coal and clean coal.

The Group's principal operations are conducted in the People's Republic of China (the "PRC"). The condensed consolidated financial statements are presented in Chinese Renminbi ("RMB"), which is also the functional currency of the Company.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* issued by the International Accounting Standard Board ("IASB") 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 (the "Listing Rules").

In preparing these condensed consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that as at 30 June 2012, the Group's current liabilities exceeded its current assets by approximately RMB2,446,112,000. In order to improve the Group's financial position, to provide liquidity and cash flows and to substain the Group as a going concern, the directors of the Company are in the final stage of raising additional funds.The directors are of the opinion that, taking into consideration of the additional funds to be raised, the intention to roll over certain existing bank borrowings based on the Group's past experience with certain banks, the internal generated funds of the Group and the presently available unutilised banking facilities of approximately RMB 1,890 million as at 30 June 2012, the Group will have sufficient working capital for its present requirements for the next twelve months from the end of the reporting period. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

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, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards ("IFRSs") issued by the IASB:

Amendments to IFRS 7	Financial Instruments: Disclosures — Transfers of Financial Assets; and
Amendments to IAS 12	Deferred Tax: Recovery of Underlying Assets

The application of the above amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

4. REVENUE AND SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision makers for the purpose of allocating resources to segments and assessing their performance. Information reported to the chief operating decision makers (i.e. the executive directors) for the purposes of resource allocation and performance assessment focuses on the Group's business operations, which is the basis upon which the Group is organised.

The Group's reportable and operating segments under IFRS 8 are comprised of: (i) coal mining; (ii) coking; (iii) others. The management identify the Group's segments by the nature of the Group's operation.

Principal activities are as follows:

Coal mining — Production and sales of clean coal and its by-products
Coking — Manufacture and sales of coke and its by-products
Others — Manufacture and sales of alloy pig iron and others

Segments revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segment:-

	Six months ended 30 June 2012 (unaudited)					
	Coal mining	**Coking**	**Others**	**Segment Total**	**Inter-segment eliminations**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE						
External	**1,079,075**	**179,097**	**6,079**	**1,264,251**	**—**	**1,264,251**
Inter-segment	**125,554**	**—**	**—**	**125,554**	**(125,554)**	**—**
Total	**1,204,629**	**179,097**	**6,079**	**1,389,805**	**(125,554)**	**1,264,251**
RESULTS						
Segment profit	**565,268**	**96,438**	**(684)**	**661,022**	**—**	**661,022**
Other gains and losses						**(8,095)**
Administrative expenses						**(177,156)**
Net loss on held-for-trading investments						**(21,498)**
Share of losses of associates						**(3,162)**
Finance costs						**(171,423)**
Profit before tax						**279,688**

	Six months ended 30 June 2011 (unaudited)					
	Coal mining	**Coking**	**Others**	**Segment total**	**Inter-segment eliminations**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE						
External	982,610	140,151	4,654	1,127,415	—	1,127,415
Inter-segment	105,075	—	—	105,075	(105,075)	—
Total	1,087,685	140,151	4,654	1,232,490	(105,075)	1,127,415
RESULTS						
Segment profit	523,325	67,445	(1,291)	589,479	—	589,479
Other gains and losses						61,498
Administrative expenses						(168,720)
Net gain on derivatives and held-for-trading investments						3,708
Finance costs						(148,440)
Profit before tax						337,525

Segment profit represents profit earned by each segment without allocation of other gains and losses, administrative expenses, finance costs and net (loss) gain on derivatives and held-for-trading investments and share of losses of associates. This is the measure reported to the chief operating decision makers (i.e. the executive directors of the Company) for the purposes of resource allocation and assessment of segment performance.

Segment assets and liabilities

No segment assets and liabilities are presented as they are not regularly reviewed by the chief operating decision makers.

5. FINANCE COSTS

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Interest expenses on borrowings wholly repayable within five years:		
— bank and other borrowings	**63,579**	31,720
— advances drawn on bills receivable discounted	**25,523**	13,643
Interest expense on senior notes	**116,030**	111,704
Effective interest expense on convertible loan notes	**58,299**	54,811
	263,431	211,878
Less: Interest capitalised in construction in progress	**(92,008)**	(63,438)
	171,423	148,440

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax:		
PRC Enterprise Income Tax ("EIT")	**86,850**	68,385
Deferred tax	**3,675**	3,733
	90,525	72,118

Under the Law of the People's Republic of China (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% from 1 January 2008 onwards.

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

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

The provision for EIT is based on a statutory rate of 25% (for the six months ended 30 June 2011: 25%) of the assessable profit of the group entities as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain PRC subsidiaries of the Company which are exempted from EIT or entitled to concessionary tax rate in accordance with the approval from the respective tax bureau.

In addition, certain of the Group's subsidiaries operating in Guizhou province are required to pay the PRC income tax on a deemed profit basis at a predetermined tax rate of 7.5% (for the six months ended 30 June 2011: 7.5%) on turnover during the current interim period. The predetermined tax rate is agreed and determined between each of those PRC subsidiaries and respective tax bureau of local government and is subject to annual reviews and renewal.

7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging (crediting) the following items:		
Amortisation of intangible assets	**1,900**	1,900
Release of prepaid lease payments	**339**	339
Provision for restoration and environmental costs	**1,585**	1,239
Depreciation of property, plant and equipment	**102,155**	70,225
Exchange loss (gain) (included in other gains and losses)	**15,030**	(55,270)
Interest income (included in other gains and losses)	**(2,194)**	(8,172)

8. DIVIDEND

During the current interim period, a final dividend of RMB6.9 cents per share in respect of the year ended 31 December 2011 has been approved by the shareholders at the annual general meeting convened on 29 June 2012 but not yet paid to owners of the Company. The aggregate amount of the final dividend approved in the interim period amounted to approximately RMB142,530,000.

The directors have determined that no dividend will be paid in respect of the current interim period (for the six months ended 30 June 2011: Nil).

9. EARNINGS PER SHARE

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

Earnings

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Earnings for the purposes of basic and diluted earnings per share		
Profit for the period attributable to owners of the Company	**186,055**	260,086

Number of shares

	Six months ended 30 June	
	2012	2011
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,065,653**	2,063,281
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**—**	19,512
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,065,653**	2,082,793

The computation of diluted earnings per share for the six months ended 30 June 2012 and 2011 does not assume the conversion of the Company's convertible loan notes since its assumed conversion would result in an increase in earnings per share.

The computation of diluted earnings per share for the six months ended 30 June 2012 does not assume the exercises of the Company's outstanding share options granted on 30 April 2009 and 26 February 2011 as the exercise price of those options is higher than the average market price of the shares.

10. BILLS AND TRADE RECEIVABLES AND BILLS RECEIVABLES DISCOUNTED WITH RECOURSE

(A) Bills and trade receivables

The Group generally allows an average credit period ranging from 90-120 days to its trade customers and the average credit period for bills receivables is ranging from 90-180 days.

The following is an analysis of trade receivables and bills receivables by age, net of allowances for doubtful debts, presented based on the invoice date:

	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Aged:		
0-90 days	**1,197,713**	1,059,725
91-120 days	**52,528**	33,175
121-180 days	**41,645**	119,403
181-365 days	**34,931**	5,048
Over 365 days	**6,923**	3,974
	1,333,740	1,221,325

(b) Bills receivables discounted with recourse

The Group generally allows an average credit period ranging from 90-180 days to its customers. The aged analysis of bills receivables discounted with full recourse is as follows:

	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
0-90 days	**72,884**	—
91-120 days	**—**	23,000
	72,884	23,000

11. BILLS AND TRADE PAYABLES

The following is an analysis of bills and trade payables by age, presented based on the invoice date:

	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
0-90 days	**250,181**	238,340
91-180 days	**129,389**	125,785
181-365 days	**54,054**	15,441
Over 365 days	**21,039**	18,852
	454,663	398,418

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Turnover

During the Review Period, turnover of the Group reached approximately RMB1,264.3 million, representing an increase of approximately 12.1%, as compared with approximately RMB1,127.4 million in the corresponding period in 2011. The increase was primarily attributable to the increase in sales volume of the both clean coal and coke but off-set by the decrease in average selling price of clean coal.

During the Review Period, the Group sold approximately 834,400 tonnes of clean coal and approximately 107,400 tonnes of coke as compared to approximately 693,000 tonnes of clean coal and approximately 83,400 tonnes of coke during the corresponding period in 2011, representing an increase of 20.4% and 28.8% respectively.

The average selling price (net of value added tax) of both clean coal and coke amounted to RMB1,167.7 per tonne and RMB1,620.3 per tonne respectively during the period as compared with RMB1,347.0 per tonne and RMB1,594.8 per tonne respectively in the corresponding period in 2011, representing a decrease of 13.3% and an increase of 1.6% respectively.

During the Review Period, the Group continued to increase its sales volume of clean coal and kept a low level of the sales volume of coke. In line with the increase in production volume of raw coal, clean coal and coke, the sales volume of respective by-products increased. Accordingly, the revenue generated from the sales of by-products increased from approximately RMB52.6 million in the corresponding period in 2011 to approximately RMB108.6 million.

The following table sets forth the Group's turnover contribution, sales volume and average selling price by products for the Review Period, together with the comparative amounts for the corresponding period in 2011:

	Six months ended 30 June					
	2012			2011		
	Turnover *RMB'000*	**Sales volume** *(thousand tonnes)*	**Average Selling Price** *(RMB/ Tonne)*	Turnover *RMB'000*	Sales Volume *(thousand tonnes)*	Average selling price *(RMB/ Tonne)*
Principal products						
Clean coal	**974,263**	**834.4**	**1,167.7**	933,504	693.0	1,347.0
Coke	**173,942**	**107.4**	**1,620.3**	132,962	83.4	1,594.8
Principal products total	**1,148,205**			1,066,466		
By-products						
High-ash thermal coal	**103,440**	**294.1**	**351.7**	45,373	263.6	172.1
Coal tar	**5,155**	**2.7**	**1,906.1**	7,189	3.0	2,416.2
By-products total	**108,595**			52,562		
Other products						
Raw coal	**1,372**	**5.0**	**276.4**	3,733	26.2	142.7
Benzene	**2,931**	**0.7**	**4,214.1**	2,563	0.6	4,023.3
Others	**3,148**			2,091		
Other products total	**7,451**			8,387		
Total turnover	**1,264,251**			1,127,415		

Cost of sales

Cost of sales for the Review Period was approximately RMB478.4 million, representing an increase of approximately RMB78.6 million, or approximately 19.7%, as compared with approximately RMB399.8 million in the corresponding period in 2011. As the production volume of those newly developed coal mines in Guizhou and Yunnan provinces were steadily ramping up during the Review Period, the raw coal production in Guizhou and Yunnan province led an increase of 67.7% and 43.8% respectively and reached 743,000 tonnes and 542,000 tonnes respectively.

The following table illustrates the production volume of the principal products in Panzhihua, Sichuan province and Pan county, Guizhou province and Fuyuan county, Yunnan province and the purchase volume of principal products as well.

	Six months ended 30 June					
Principal products	**2012 Raw coal production volume** *('000 tonnes)*	**2012 Clean coal production volume** *('000 tonnes)*	**2012 Coke production volume** *('000 tonnes)*	2011 Raw coal production volume *('000 tonnes)*	2011 Clean coal production volume *('000 tonnes)*	2011 Total production volume *('000 tonnes)*
Panzhihua	**803**	**389**	**113**	720	353	77
Guihou	**743**	**297**	**—**	443	161	—
Yunnan	**542**	**276**	**—**	377	157	—
	2,088	**962**	**113**	1,540	671	77
Purchase volume	**3**	**67**	**—**	24	21	—

Material, fuel and power costs for the Review Period were approximately RMB200.0 million, representing an increase of approximately RMB2.5 million, or approximately 1.3%, as compared with approximately RMB197.5 million in corresponding period in 2011. The increase primarily resulted from the material costs of approximately RMB85.3 million from purchase of raw coal for production and clean coal for sales during the Review Period. However, the increase was off-set by the effective use of the materials, fuel and power. As compared with 2011, high materials, fuel and power consumptions were shared among low level of raw coal production during the suspension and resumption of production.

Staff costs for the Review Period were approximately RMB132.9 million, representing an increase of approximately RMB31.5 million, or approximately 31.1%, as compared with approximately RMB101.4 million in corresponding period of 2011. The increase was in line with the ramping up of the production volume of the Group's principle products during the Review Period.

Depreciation and amortization for the Review Period were approximately RMB85.7 million, representing an increase of approximately RMB34.7 million, or approximately 68.0%, as compared with approximately RMB51.0 million in corresponding period of 2011. The increase was primarily attributable to the Group's depreciable asset base since increased capital expenditures relating to the application of mechanization in mining during the Review Period.

The following table set forth the unit production costs of the respective segment.

	Six months ended 30 June	
	2012	2011
	RMB per tonne	*RMB per tonne*
Coal mining		
Cash cost	**131**	144
Depreciation and amortisation	**27**	24
Total production cost	**158**	168
Purchase cost of raw coal	**598**	706
Average cost of raw coal	**160**	174
Average cost of clean coal	**380**	429
Purchase cost of clean coal	**1,252**	1,114
Average cost of coke	**565**	702

Gross profit

As a result of the foregoing, the gross profit for the Review Period was approximately RMB785.8 million, representing an increase of approximately RMB58.2 million or approximately 8.0%, as compared with approximately RMB727.6 million in corresponding period in 2011. The gross profit margin during the Review Period was approximately 62.2% as compared with approximately 64.5% in corresponding period in 2011.

Other gains and losses

Other losses for the Review Period amounted to approximately RMB8.1 million, as compared to other gains of approximately RMB61.5 million in corresponding period in 2011. During the Review Period, the Company recorded an exchange loss of RMB15.0 million arising from the appreciation of senior notes dominated in United State dollars as compared to the exchange gain of approximately RMB55.3 million relating to the depreciation of the senior notes in 2011.

Distribution expenses

Distribution expenses for the Review Period were approximately RMB124.8 million, representing a decrease of approximately RMB13.3 million or approximately 9.6%, as compared to approximately RMB138.1 million in corresponding period of 2011. The decrease was mainly attributable to the decrease in government levies in Guizhou and Yunnan provinces of approximately RMB22.9 million but partly off-set by the increase in transportation and logistic expenses in line with the increased sales volumes of both principal products and by-products.

Administrative expenses

Administrative expenses during the Review Period were approximately RMB177.1 million, representing a slight increase of approximately RMB8.4 million or approximately 5.0%, as compared to approximately RMB168.7 million in corresponding period in 2011. During the Review Period, the Company recorded an increase of approximately RMB10.3 million in staff costs but off-set by a decrease of approximately RMB10.4 million in staff share option expenses. Other items of the administrative expenses were maintained at the similar level as those of 2011.

Net gain (loss) on derivative and held-for-trading investments

The Group recorded a net loss on derivative and held-for-trading investments in the amount of approximately RMB21.5 million during the Review Period as compared to a net gain in the amount of approximately RMB3.7 million in the corresponding period in 2011. The net loss in the Review Period represented fair value loss of the Group's investment of shares in a coal mining company listed on the Australian Securities Exchange.

Finance costs

Finance costs for the Review Period amounted to approximately RMB171.4 million, representing an increase of approximately RMB23.0 million or approximately 15.5%, as compared with approximately RMB148.4 million in corresponding period in 2011. The increase was mainly attributable to (i) increase in interest payable for bank and other borrowings of approximately RMB31.8 million, (ii) increase in interest on the advances drawn on bills receivable discounted of approximately RMB11.9 million and (iii) increase in interest capitialised in mining structure and mining rights of approximately RMB28.6 million.

Income tax expenses

Income tax expenses during the Review Period were approximately RMB90.5 million, representing an increase of approximately RMB18.4 million or approximately 25.5%, as compared with approximately RMB72.1 million in corresponding period in 2011. The amount of income tax expense represented PRC Enterprise Income Tax ("EIT") of approximately RMB86.9 million and deferred tax of approximately RMB3.7 million arising from the withholding tax upon distribution of profits earned by the PRC subsidiaries. The effective tax rate for the Review Period increased to approximately 32.4% as compared with approximately 21.4% in corresponding period in 2011. The increase was mainly resulting from (i) the 50% deduction of EIT rate for most of the subsidiaries has been expired during the period and (ii) tax losses of certain subsidiaries have not yet been recognized for deduction of taxable profit incurred during the period. .

Profit for the period

As a result of the foregoing, the profit attributable to the owners of the Company for the Review Period was approximately RMB186.1 million, representing a decrease of approximately RMB74.0 million or approximately 28.5%, as compared with approximately RMB260.1 million in corresponding period in 2011. The net profit margin was approximately 14.7% for the Review Period as compared with approximately 23.1% in corresponding period in 2011.

EBITDA

The following table illustrates the Group's EBITDA for the respective period. The Group's EBITDA margin was 43.9% for the Review Period as compared with 49.5% in corresponding period in 2011.

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Profit and total comprehensive income for the period	**189,163**	265,407
Finance costs	**171,423**	148,440
Income tax expenses	**90,525**	72,118
Depreciation and amortization	**104,394**	72,464
EBITDA	**555,505**	558,429

Liquidity, financial resources and capital structure

The Group continued to fund operations principally with internally generated cash flow and short-term bank and other borrowings. The expansion of operation in Guizhou and Yunnan provinces was mainly funded by bank and other borrowings and the issuance of convertible loan notes and senior notes.

As at 30 June 2012, the Group incurred net current liabilities of approximately RMB2,446 million as compared to approximately RMB122.1 million at 31 December 2011. There was significant increase in current liabilities to approximately RMB5,524.1 million as at 30 June 2012 as compared to approximately RMB3,045.9 million as at 31 December 2011. The increase was mainly attributable to (i) the Group has issued RMB400 million short-term bonds in the local market for refinancing the repayment of the RMB600 million short-term bonds due September 2012 and (ii) the convertible loan notes of approximately RMB1,641.3 million has been reclassified as current liability since the notes will be redeemable in January 2013. The Group has lined up with certain financial institutes for refinancing the convertible loan notes and final proposals will be come out in the third quarter.

As at 30 June 2012, the total bank and other borrowings of the Group were RMB2,498.5 million, in which approximately RMB2,168.5 million are repayable within one year. Bank loans amounting to approximately RMB1,080 million carry interest at fixed rate of 7.06% per annum and the remaining loans carry interest at variable market rates ranging from 7.02% to 7.21% per annum.

The gearing ratio (calculate as the aggregate of total bank and other borrowings, convertible loan notes and senior notes divided by total assets) of the Group as at 30 June 2012 was 40.1%.

Pledge of Assets of the Group

As at 30 June 2012, the Group pledged assets in an aggregate amount of approximately RMB2,054.4 million (At 31 December 2011: RMB1,449.8 million) to banks for credit facilities in the amount of RMB 3,823.5 million granted to the Group (At 31 December 2011: RMB2,517.0 million).

In addition, the senior notes are secured on the capital stock of, and guaranteed by, certain of the Company's subsidiaries then existed at the date of issue of the senior notes other than those established under the laws of the PRC.

Employees

As at 30 June 2012, the Group maintained an aggregate of 13,543 employees as compared with 14,400 employees at 31 December 2011.

During the Review Period, the staff costs (including directors' remuneration in the form of salaries and other allowances) was approximately RMB222.5 million (corresponding period in 2011: RMB191.1 million). The increase mainly attributable to the increase in staff costs which was in line with the ramping up of raw coal production volumes during the period.

The salary and bonus policy of the Group is 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 (the "Directors") of the Company 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$7.2 million and US$24.2 million.

Significant Investment Held

The Group held an investment in shares in a private coal mining company which listed on the Australian Securities Exchange of approximately RMB40.6 million as at 30 June 2012.

Material Acquisition and Disposal

During the Review Period, there was no material acquisition or disposal of subsidiaries and associated companies by the Group.

Contingent Liabilities

As at 30 June 2012, the Group did not have any material contingent liabilities.

Connected Transactions

(a) During the Review Period, rental expenses amounting to RMB0.6 million were paid to Mr. Xian Jilun, father of Mr. Xian Yang, a controlling shareholder of the Company and a Director, for the lease of the Company's head office located at 16th 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.

(b) During the Review Period, an aggregate amount of transportation costs of approximately RMB5.3 million were paid to 盤縣盤實物流配送有限公司 (Panxian Panshi Logistic Distribution Company Limited*) ("Panxian Panshi"), 盤縣盤鷹物流配送有限公司 (Panxian Panying Logistic Distribution Company Limited*) ("Panxian Panying"), 貴州威箐煤焦物流有限公司 (Guizhou Weiqing Coking Logistic Company Limited*) ("Guizhou Weiqing") and 富源金通煤焦有限公司 (Fuyuan Jintong Coking Company Limited*) ("Fuyuan Jintong"), respectively, for the provision of railway logistic services. Besides, transportation costs of approximately RMB3.8 million were paid to 雲南凱捷實業有限公司 (Yunnan Kaijie Industry Company Limited*) ("Yunnanu Kaijie"). Yunnan Kaijie, the holder of 57%, 51%, 51% and 33.18% equity interest in Panxian Panshi, Panxian Panying, Guizhou Weiqing and Fuyuan Jintong respectively, is a substantial shareholder of each of Panxin Coking and Panyi Coal Washing. As Panxian Panshi, Panxian Panying, Guizhou Weiqing and Fuyuan Jintong occupy a monopolistic position of the local railway logistic service in Boguozhen, no relevant market price could be obtained. The railway logistic charges and the sub-contracting charges for the coal washing service were determined with reference to (i) the price offered to other customers by Panxian Panshi, Panxian Panying, Guizhou Weiqing and Fuyuan Jintong; (ii) the price offered to Luipanshui Hidili, Panxin Coking and Panyi Coal Washing from 14 July 2008 to 31 December 2010; (iii) volume of clean coal available for delivery with reference to the estimated production volumes of clean coal; (iv) anticipated growth in demand of clean coal; and (v) the business plan of the Group.

BUSINESS REVIEW

During the Review Period, newly developed coal mines in Guizhou and Yunnan provinces started to release raw coal capacities. The raw coal production volume increased from approximately 1,540,000 tonnes in 2011 to 2,088,000 tonnes for the period, representing an increase of 35.6%. Accordingly, it gave rise to the increase in the Group's sales volume of both principal products and by-products. However, the increase in revenue has been off-set by the decrease in revenue of clean coal resulting from the drop in average selling price from RMB1,347.0 per tonne in 2011 to RMB1,167.7 per tonne during the Review Period regarding the weak market demand from steel manufacturers.

As regard customers, the large stated-owned steel manufacturers continued to form part of significant customer portfolio of the Group. Top five largest customers contributed to approximately 53.4% of total revenue. However, considering the weak demand in steel industry, the steel manufacturers tends to lengthen the credit period and resulting in longer receivable turnover. The Group will try to launch effective credit control policy to speed up the turnover and to avoid any bad and doubtful debts.

During the Review Period, the average production cost of raw coal and clean coal decreased to RMB158 per tonne and RMB380 per tonne respectively as compared to RMB168 per tonne and RMB429 per tonne respectively in the corresponding period of 2011. The decrease was mainly resulted from (i) more effective use of materials, fuel and power as compared to high consumption during the suspension and resumption of production in 2011, (ii) the conversion rate of raw coal to clean coal decreased to 2.08 (i.e. raw coal consumption of 2.08 tonne for production of 1 tonne of clean coal) as compared to 2.36 in the corresponding period in 2011 and (iii) sharing of lower fixed costs resulting from the increase in production volume. The Company began to enjoy economy of scale from the newly developed coal mines in Guizhou and Yunnan provinces.

In the Review Period, the total employee fatalities in our coal mines were 1.

OUTLOOK

The construction of mines and auxiliary facilities in Guizhou and Yunnan provinces was processed as scheduled and the capacity of certain mines was gradually released. As at 30 June 2012, the Group owned thirty coal mines (including twenty-nine mining rights and one exploration right) in Guizhou province and Yunnan province. After the acquisition of these coal mines, the Company implemented a new production system inorder to enlarge coal mine production capacity and to enhance safety standards. As at 30 June 2012, we had a total of (i) twenty coal mines in Guizhou province, comprising ten integrated coal mines, eight newly constructed coal mines and two expanded coal mines, of which two integrated coal mines and one newly constructed coal mine are currently under trial run, and five newly constructed coal mines and one integrated coal mine have completed the trial run stage and have commenced production; and (ii) ten coal mines in Yunnan province comprising five integrated coal mines, two newly constructed coal mines, two expanded coal mines and one coal mine with exploration right, of which one newly constructed coal mine and one integrated coal mine have completed the trial run stage and have commenced production. Most of the coal mines in Guizhou province will enter into commerical production gradually throughout the second half of 2012 and 2013.

Considering future liquidity, during the period, the Group has lined up with certain financial institutes for the refinancing of the convertible loan notes redeemable in January 2013. Currently, the Group has unused bank facilities in aggregate of approximately RMB1,890 million for the next twelve months from the end of the reporting period of which RMB1,120 million relating to long-term facilities of 5 years.

On behalf of the Board, I'd like to express our gratitude to our shareholders, our management and all our employees. We look forward to achieving impressive results in the coming financial period.

OTHER INFORMATION

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 Practice (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 nonexecutive Directors, namely, Mr. Chan Chi Hing (Chairman), Mr. Chen Limin and Mr. Huang Rongsheng.

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 consolidated financial statements of the Group for the Review Period.

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 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 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 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.

By Order of the board of directors
Hidili Industry International Development Limited
Xian Yang
Chairman

Hong Kong
27 August 2012

As at the date hereof, the executive Directors are Mr. Xian Yang (Chairman), Mr. Sun Jiankun, Mr. Wang Rong and the independent non-executive Directors are Mr. Chan Chi Hing, Mr. Chen Limin and Mr. Huang Rongsheng.