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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 2013

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2013	2012	Change
	RMB'000	RMB'000	%
	(unaudited)	(unaudited)	
Revenue	466,586	1,264,251	(63.1%)
Gross Profit	156,728	785,820	(80.1%)
(Loss) profit before taxation	(249,873)	279,688	(189.3%)
(Loss) profit and total comprehensive (expense) income for the period	(268,207)	189,163	(241.8%)
EBITDA	71,446	555,505	(87.1%)
Basic (loss) earnings per share (RMB cents)	(13)	9	(244.4%)
Diluted (loss) earnings per share (RMB cents)	(13)	9	(244.4%)

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 2013 (the “Review Period”), together with the comparative figures for the corresponding period in 2012.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

FOR THE SIX MONTHS ENDED 30 JUNE 2013

		Six months ended 30 June	
	<i>Note</i>	2013	2012
		<i>RMB'000</i>	<i>RMB'000</i>
		(unaudited)	(unaudited)
Revenue	4	466,586	1,264,251
Cost of sales		(309,858)	(478,431)
Gross profit		156,728	785,820
Other income, gains and losses		98,374	(8,095)
Distribution expenses		(54,658)	(124,798)
Administrative expenses		(188,765)	(177,156)
Net gain (loss) on held-for-trading investments		498	(21,498)
Share of losses of associates		(745)	(3,162)
Finance costs	5	(261,305)	(171,423)
(Loss) profit before tax		(249,873)	279,688
Income tax expense	6	(18,334)	(90,525)
(Loss) profit and total comprehensive (expense) income for the period	7	(268,207)	189,163
(Loss) profit and total comprehensive (expense) income for the period attributable to:			
Owners of the Company		(269,241)	186,055
Non-controlling interests		1,034	3,108
		(268,207)	189,163
(Loss) earnings per share			
Basic (<i>RMB cents</i>)	9	(13)	9
Diluted (<i>RMB cents</i>)		(13)	9

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

	<i>Notes</i>	30 June 2013 RMB'000 (unaudited)	31 December 2012 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		9,786,004	13,594,766
Prepaid lease payments		28,728	29,031
Intangible assets		106,382	108,282
Interests in associates		40,510	144,023
Available-for-sale investments		173,630	228,330
Long term deposit and other receivables		169,652	206,015
Pledged and restricted bank deposits		351,633	72,017
		10,656,539	14,382,464
CURRENT ASSETS			
Inventories		117,032	170,053
Bills and trade receivables	<i>10(a)</i>	593,742	887,662
Bills receivables discounted with recourse	<i>10(b)</i>	36,477	9,800
Other receivables and prepayments		559,249	461,597
Amounts due from associates		24,220	9,935
Amounts due from related parties		27,768	22,042
Held-for-trading investments		—	52,836
Pledged bank deposits		783,181	179,261
Bank balances and cash		793,093	1,554,368
		2,934,762	3,347,554
Assets classified as held for sale	<i>11</i>	4,616,385	—
		7,551,147	3,347,554
CURRENT LIABILITIES			
Bills and trade payables	<i>12</i>	357,426	461,080
Advances drawn on bills receivables discounted with recourse		36,477	9,800
Other payables and accrued expenses		1,609,987	535,583
Amounts due to related parties		14,525	823
Amount due to an associate		201	444
Amount due to a non-controlling shareholder		14,765	14,765
Tax payables		23,809	142,204
Senior notes		2,474,133	2,518,094
Convertible loan notes		—	1,820,007
Bank and other borrowings — due within one year		4,635,664	2,571,000
		9,166,987	8,073,800
Liabilities associated with assets classified as held for sale	<i>11</i>	448,351	—
		9,615,338	8,073,800

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
NET CURRENT LIABILITIES	(2,064,191)	(4,726,246)
Total assets less current liabilities	8,592,348	9,656,218
CAPITAL AND RESERVES		
Share capital	199,842	199,078
Reserves	6,910,605	7,085,719
Equity attributable to owners of the Company	7,110,447	7,284,797
Non-controlling interests	37,292	99,800
TOTAL EQUITY	7,147,739	7,384,597
NON-CURRENT LIABILITIES		
Provision for restoration and environmental costs	15,910	17,434
Other long term payables	59,960	123,704
Deferred tax liabilities	126,797	317,548
Bank and other borrowings — due after one year	1,235,121	1,812,935
Convertible loan notes	6,821	—
	1,444,609	2,271,621
	8,592,348	9,656,218

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. 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 is Sanlian Investment Holding Limited, a company incorporated in the British Virgin Islands and ultimate holding company is Sarasin Trust Company Guernsey Limited, which is controlled by Mr. Xian Yang, an executive director and chief executive of the Company. The Company together with its subsidiaries are hereinafter collectively referred to as the Group. The Company acts as 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 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” as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of the 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 2013, the Group’s current liabilities exceeded its current assets by approximately RMB2,064,191,000; the Group made loss of approximately RMB268,207,000 for the six months then ended; and the Group had total capital commitments contracted for but not provided in the condensed consolidated financial statements of approximately RMB680,335,000 as stated in notes 11(c) and 13.

In order to improve the Group’s financial position, to provide liquidity and cash flows and to sustain the Group as a going concern, the Group has been implementing a number of measures, including but not limited to:

- (1) approaching banks and independent third parties in the PRC to obtain new medium to long-term facilities; and
- (2) negotiating with a bank to review and renew banking facilities repayable within 12 months from draw down to repayable after 12 months from draw down.

The directors are of the opinion that the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due for the foreseeable future, taking into consideration of (i) presently available unutilised and additional banking facilities; (ii) remaining consideration receivable of RMB1,200 million in respect of proposed disposal of 50% equity interests in certain of its subsidiaries, details of which are set out in note 11; and (iii) cash flows from the Group’s operations. 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 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012.

In the current interim period, the Group has applied, for the first time, the following new or revised International Financial Reporting Standards ("IFRSs"):

IFRS 10	Consolidated financial statements;
IFRS 11	Joint arrangements;
IFRS 12	Disclosure of interests in other entities;
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance;
IFRS 13	Fair value measurement;
IAS 19 (as revised in 2011)	Employee benefits;
IAS 28 (as revised in 2011)	Investments in associates and joint ventures;
Amendments to IFRS 7	Disclosures — Offsetting financial assets and financial liabilities;
Amendments to IAS 1	Presentation of items of other comprehensive income;
Amendments to IFRSs	Annual improvements to IFRSs 2009–2011 cycle; and
IFRIC 20	Stripping costs in the production phase of a surface mine.

The amendments to IAS 1 introduce new terminology for a statement of comprehensive income. Under the amendments to IAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income.

The application of the above new or revised 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.

Furthermore, during the current interim period, the Group entered into the conditional agreement in relation to the proposed disposal of 50% equity interests in certain subsidiaries of the Company as set out in note 11. The Group has adopted the accounting policy in relation to non-current asset held for sale.

Non-current assets and disposal group is classified as held for sales as its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current assets or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interests in its former subsidiaries after the sale. Non-current asset (and disposal group) classified as held for sales is measured at the lower of its previous carrying amounts and fair value less costs to sell.

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. Management identifies 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 2013					
	Coal mining RMB'000	Coking RMB'000	Others RMB'000	Segment total RMB'000	Inter- segment eliminations RMB'000	Total RMB'000
REVENUE						
External	406,457	42,720	17,409	466,586	–	466,586
Inter-segment	9,311	–	–	9,311	(9,311)	–
Total	<u>415,768</u>	<u>42,720</u>	<u>17,409</u>	<u>475,897</u>	<u>(9,311)</u>	<u>466,586</u>
RESULTS						
Segment profit	<u>93,805</u>	<u>165</u>	<u>8,100</u>	<u>102,070</u>	<u>–</u>	102,070
Other income, gains and losses						98,374
Administrative expenses						(188,765)
Net gain on held-for-trading investments						498
Share of losses of associates						(745)
Finance costs						(261,305)
Loss before tax						<u>(249,873)</u>

Six months ended 30 June 2012

	Coal mining RMB'000	Coking RMB'000	Others RMB'000	Segment total RMB'000	Inter- segment eliminations RMB'000	Total 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	<u>1,204,629</u>	<u>179,097</u>	<u>6,079</u>	<u>1,389,805</u>	<u>(125,554)</u>	<u>1,264,251</u>
RESULTS						
Segment profit	<u>565,268</u>	<u>96,438</u>	<u>(684)</u>	<u>661,022</u>	<u>–</u>	661,022
Other income, 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						<u>(171,423)</u>
Profit before tax						<u>279,688</u>

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

External revenue from coal mining amounted to approximately RMB406 million for the six months ended 30 June 2013, representing a decrease of 62% as compared with approximately RMB1,079 million for the same period in 2012. The decrease was primarily attributable to the decrease in selling price and decrease in production volumes of clean coal due to several mines were suspended for safety inspection and government deliberations due to occurrence of accidents in vicinity. Certain mines were resumed production, details were set out in the Company's announcements dated 25 April 2013 and 24 July 2013.

5. FINANCE COSTS

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest expenses on borrowings wholly repayable within five years:		
— bank and other borrowings	195,689	63,579
— advances drawn on bills receivables discounted	17,169	25,523
Interest expense on senior notes	107,201	116,030
Effective interest expense on convertible loan notes	6,620	58,299
	<u>326,679</u>	<u>263,431</u>
Less: Interest capitalised in construction in progress	(65,374)	(92,008)
	<u>261,305</u>	<u>171,423</u>

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
PRC Enterprise Income Tax ("EIT")	18,692	86,850
Deferred tax	(358)	3,675
	<u>18,334</u>	<u>90,525</u>

The provision for EIT is based on a statutory rate of 25% of the assessable profit of the subsidiaries which recorded profit for the period as determined in accordance with the relevant income tax rules and regulations of the PRC.

7. (LOSS) PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
(Loss) 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	315	339
Provision for restoration and environmental costs	327	1,585
Professional fee (included in administrative expenses)	35,903	19,516
Depreciation of property, plant and equipment	57,799	102,155
Directors' remuneration	1,494	1,702
Salaries and other benefits	116,340	184,842
Retirement benefits scheme contribution	8,270	9,769
Share-based payment expenses	26,602	26,209
Total staff costs	152,706	222,522
Exchange (gain) loss (included in other gains and losses)	(85,095)	15,030
Interest income	(10,925)	(2,194)

Note: Professional fee incurred for several corporate exercises, such as major transactions and very substantial disposal as set out in note 11.

8. DIVIDEND

No dividends were paid, declared or proposed during the current interim period.

During the period ended 30 June 2012, a final dividend of RMB6.9 cents per share in respect of year ended 31 December 2011 had been approved by the shareholders at the annual general meeting convened on 29 June 2012 but not yet paid to owners of the Company as at 30 June 2012. The aggregate amount of the final dividend approved in that interim period amounted to approximately HK\$142,530,000.

9. (LOSS) 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	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
(Loss) earnings for the purposes of basic and diluted earnings per share		
(Loss) profit for the period attributable to owners of the Company	<u>(269,241)</u>	<u>186,055</u>

Number of shares

	Six months ended 30 June	
	2013	2012
	'000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<u>2,071,619</u>	<u>2,065,653</u>

The computation of diluted loss per share for the six months ended 30 June 2013 does not assume the conversion of Company's convertible loan notes and the exercise of the Company's share options since their assumed conversion and exercise would result in a decrease in loss per share.

The computation of diluted earnings per share for the six months ended 30 June 2012 did 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 did not assume the exercises of the Company's outstanding share options granted as the exercise price of these 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, which approximately respective revenue recognition dates is as follows:

	30 June 2013 RMB'000 (unaudited)	31 December 2012 RMB'000 (audited)
Aged:		
0–90 days	180,089	652,849
91–120 days	127,048	80,797
121–180 days	36,599	72,830
181–365 days	236,861	79,114
Over 365 days	13,145	2,072
	593,742	887,662

(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 2013 RMB'000 (unaudited)	31 December 2012 RMB'000 (audited)
0–120 days	11,877	–
121–180 days	24,600	9,800
	36,477	9,800

11. DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

On 17 May 2013, 恒鼎實業(中國)集團有限公司 (Hidili Industry (China) Group Co., Ltd*), 攀枝花恒鼎煤焦化有限公司 (Panzhihua Hidili Coal Industry Co., Ltd*. “Panzhihua Hidili”), which are wholly owned subsidiaries of the Group, and Yunnan Dongyuan Coal Group Company Limited (“Dongyuan”) entered into an agreement pursuant to which Panzhihua Hidili conditionally agreed to dispose of 50% equity interests of 雲南恒鼎煤業有限公司 (Yunnan Hidili Industry Company Limited*, “Yunnan Hidili”) at a consideration of RMB2.4 billion (“Disposal”). The Disposal is expected to be completed within twelve months from 17 May 2013. All the assets and liabilities of Yunnan Hidili and its subsidiaries (“Yunnan Hidili Group”) have been reclassified as assets and liabilities held for sale and presented separately in the condensed consolidated statement of financial position as at 30 June 2013. The Yunnan Hidili Group is not a separate major line of business or geographical area of operation. As such, the Disposal is not classified as discontinued operation. Details of the Disposal are set out in the Company’s announcement dated 24 May 2013.

The sales proceeds are expected to exceed the net carrying amount of the assets and liabilities and, accordingly, no impairment loss has been recognised. Upon completion of the Disposal, Yunnan Hidili Group will be accounted as joint ventures of the Company.

The major classes of assets and liabilities of the Yunnan Hidili Group at the end of the reporting period are as follows:

	<i>RMB'000</i> (unaudited)
Property, plant and equipment	4,185,712
Long term deposits	27,360
Interests in associates	102,769
Available-for-sale investments	54,700
Inventories	24,218
Bills and trade receivables (<i>Note (a)</i>)	108,600
Other receivables and prepayments	107,193
Bank balances and cash	5,203
Amount due from an associate	630
Total assets classified as held for sale	4,616,385
Trade payables (<i>Note (b)</i>)	68,570
Other payables and accrued expenses	158,949
Amount due to an associate	18,087
Provision for restoration and environmental costs	1,852
Other long term payables	10,500
Deferred tax liabilities	190,393
Total liabilities classified as held for sale	448,351

Notes:

- (a) The aged analysis of bills and trade receivables, presented based on the invoice date, which approximately respective revenue recognition dates is as follows:

	<i>RMB'000</i> (unaudited)
0–90 days	83,153
91–180 days	25,414
181–365 days	33
	108,600

- (b) The aged analysis of trade payables, presented based on the invoice date, which approximately respective revenue recognition dates is as follows:

	<i>RMB'000</i> (unaudited)
0–90 days	6,677
91–180 days	4,588
181–365 days	35,549
Over 365 days	21,756
	68,570

- (c) At 30 June 2013, Yunnan Hidili Group has capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment of RMB224,490,000.

12. BILLS AND TRADE PAYABLES

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

	30 June 2013 RMB'000 (unaudited)	31 December 2012 RMB'000 (audited)
Aged:		
0–90 days	161,708	255,961
91–180 days	101,317	95,519
181–365 days	80,567	56,088
Over 365 days	13,834	53,512
	357,426	461,080

13. CAPITAL COMMITMENTS

	30 June 2013 RMB'000 (unaudited)	31 December 2012 RMB'000 (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment (<i>note</i>)	455,845	540,684

Note: The capital commitments of Yunnan Hidili Group has been separately disclosed in note 11(c).

EXTRACT OF REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following is an extract of the independent auditor's report on the Group's condensed consolidated financial statements for the period ended 30 June 2013.

Conclusion

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

Emphasis of Matter

Without modifying our review conclusion, we draw attention to note 2 to the condensed consolidated financial statements which indicates that, as at 30 June 2013, the Group's current liabilities exceeded its current assets by approximately RMB2,064,191,000 and the Group made a loss of approximately RMB268,207,000 for the six months then ended. In addition, the Group had total capital commitments contracted for but not provided in the condensed consolidated financial statements of approximately RMB680,335,000 as disclosed in notes 11(c) and 13 to the condensed consolidated financial statements. The Group has been implementing several measures as disclosed in note 2 to the condensed consolidated financial

statements to improve the financial position of the Group and after taking into account these steps, the directors of the Company consider that the Group will have sufficient working capital to finance its operations and to pay its financial obligations as and when they fall due in the foreseeable future. The condensed consolidated financial statements do not include any adjustments that would result from a failure to implement such measures as disclosed in note 2 to the condensed consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

During the Review Period, the revenue of the Group recorded approximately RMB466.6 million, representing a decrease of approximately 63.1%, as compared with approximately RMB1,264.3 million in the corresponding period in 2012. The decrease was primarily attributable to the decrease in sales volume and average selling price of both clean coal and coke. The decrease was mainly attributable to the suspension of production in the first quarter and the slowdown in the demand from steel manufacturers.

During the Review Period, sales volume of clean coal and coke amounted to approximately 308,400 tonnes and 27,100 tonnes, respectively, representing decrease of approximately 63.0% and 74.8% respectively, as compared to approximately 834,400 tonnes and 107,400 tonnes respectively in the corresponding period in 2012.

The average selling price (net of value added tax) of both clean coal and coke decreased from approximately RMB1,167.7 per tonne and RMB1,620.3 per tonne respectively in the corresponding period in 2012 to approximately RMB1,058.7 per tonne and RMB1,478.4 per tonne during the period, representing decrease of approximately 9.3% and 8.8% respectively.

The following table sets forth the Group's revenue contribution, sales volume and average selling price by products for the Review Period, together with the comparative amounts for the corresponding period in 2012:

	Six months ended 30 June					
	2013			2012		
	Turnover	Sales Volume	Average Selling Price	Turnover	Sales Volume	Average selling price
	RMB'000	(thousand Tonnes)	(RMB/Tonne)	RMB'000	(thousand Tonnes)	(RMB/Tonne)
Principal products						
Clean coal	326,460	308.4	1,058.7	974,263	834.4	1,167.7
Coke	40,103	27.1	1,478.4	173,942	107.4	1,620.3
Principal products total	366,563			1,148,205		
By-products						
High-ash thermal coal	49,673	228.8	217.1	103,440	294.1	351.7
Coal tar	2,617	1.3	2,001.1	5,155	2.7	1,906.1
By-products total	52,290			108,595		
Other products						
Raw coal	30,324	97.2	312.0	1,372	5.0	276.4
Benzene	14	0.0	5,538.8	2,931	0.7	4,214.1
Others	17,395			3,148		
Other products total	47,733			7,451		
Total turnover	466,586			1,264,251		

Cost of sales

Cost of sales for the Review Period was approximately RMB309.9 million, representing a decrease of approximately RMB168.5 million, or approximately 35.2%, as compared with approximately RMB478.4 million in the corresponding period in 2012. During the Review Period, production volume of raw coal reduced significantly from approximately 2,088,000 tonnes in the corresponding period in 2012 to approximately 785,000 tonnes during the period, representing a decrease of approximately 62.4%, in relation to the suspension of production consecutively experienced in Sichuan, Guizhou and Yunnan provinces during the first quarter.

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.

Principal products	Six months ended 30 June					
	2013	2013	2013	2012	2012	2012
	Raw coal	Clean coal	Coke	Raw coal	Clean coal	Total
	production	production	production	production	production	production
	volume	volume	volume	volume	volume	volume
	('000 tonnes)	('000 tonnes)	('000 tonnes)	('000 tonnes)	('000 tonnes)	('000 tonnes)
Panzhihua	2	1	33	803	389	113
Guizhou	755	157	-	743	297	-
Yunnan	28	89	-	542	276	-
	<u>785</u>	<u>247</u>	<u>33</u>	<u>2,088</u>	<u>962</u>	<u>113</u>
Purchase volume	<u>-</u>	<u>67</u>	<u>-</u>	<u>3</u>	<u>67</u>	<u>-</u>

Material, fuel and power costs for the Review Period were approximately RMB168.7 million, representing a decrease of approximately RMB31.3 million, or approximately 15.7%, as compared with approximately RMB200.0 million in corresponding period in 2012. Although the production volume of raw coal decreased by approximately 62.4% in relation to the suspension of production, the unit mining cost still maintained at high level since materials, fuel and power consumptions continued to share among low level of production.

Staff costs for the Review Period were approximately RMB69.0 million, representing a decrease of approximately RMB63.9 million, or approximately 48.1%, as compared with approximately RMB132.9 million in corresponding period of 2012. The decrease was in line with the decrease in production volume of the Group's principle products during the Review Period.

Depreciation and amortisation for the Review Period were approximately RMB40.4 million, representing a decrease of approximately RMB45.3 million, or approximately 52.9%, as compared with approximately RMB85.7 million in corresponding period of 2012. The decrease was mainly attributable to the decrease in amortisation of mining right resulted from the low raw coal production volume. However, the depreciation and amortisation of mining assets shared among the raw coal production volume was relatively high.

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

	Six months ended 30 June	
	2013	2012
	<i>RMB per tonne</i>	<i>RMB per tonne</i>
Coal mining		
Cash cost	220	131
Depreciation and amortisation	38	27
Total production cost	258	158
Purchase cost of raw coal	–	598
Average cost of raw coal	258	160
Average cost of clean coal	624	380
Purchase cost of clean coal	1,066	1,252
Average cost of coke	1,026	565

Gross profit

As a result of the foregoing, the gross profit for the Review Period was approximately RMB156.7 million, representing a significant decrease of approximately RMB629.1 million or approximately 80.1%, as compared with approximately RMB785.8 million in corresponding period in 2012. The gross profit margin during the Review Period was approximately 33.6% as compared with approximately 62.2% in corresponding period in 2012.

Other income, gains and losses

During the Review Period, the Group recorded other income and gains of approximately RMB98.4 million, representing an increase of approximately RMB106.5 million, as compared to other losses of approximately RMB8.1 million in the corresponding period in 2012. The increase was mainly attributable to the increase in interest income and exchange gain. The Group has arranged “financing secured by domestic enterprises” (內保外貸) with several banks, an interest income of approximately RMB26.0 million was accrued and was used to set off against financing charges arising therefrom of approximately RMB17.2 million. Accordingly, a net interest income of approximately RMB8.8 was recorded. The Group experienced an exchange gain of approximately RMB85.1 million during the period as compared to a loss of approximately RMB15.0 million in the corresponding period in 2012. The exchange gain was mainly resulted from the appreciation of both financing secured by domestic enterprises and the senior notes dominated in United State dollars.

Distribution expenses

Distribution expenses for the Review Period were approximately RMB54.7 million, representing a decrease of approximately RMB70.1 million or approximately 56.2%, as compared to approximately RMB124.8 million in corresponding period of 2012. The decrease was in line with the decrease in sales volume of the Group's principal products.

Administrative expenses

Administrative expenses during the Review Period were approximately RMB188.8 million, representing an increase of approximately RMB11.7 million or approximately 6.6%, as compared to approximately RMB177.1 million in corresponding period in 2012. The increase was mainly attributable to the increase in legal and professional expenses of approximately RMB16.4 million in relation to the professional fees for assets valuation and reserves and resources research and arrangement fees charged by banks for financing but set-off with the cost saving in staff costs and office expenses.

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

The Group recorded a gain on held-for-trading investments in the amount of approximately RMB0.5 million during the Review Period as compared to a net loss in the amount of approximately RMB21.5 million in the corresponding period in 2012. The gain was generated from the disposal of the Group's investment in shares in a coal mining company listed on the Australian Securities Exchange.

Finance costs

Finance costs for the Review Period amounted to approximately RMB261.3 million, representing an increase of approximately RMB89.9 million or approximately 52.5%, as compared with approximately RMB171.4 million in corresponding period in 2012. The increase was mainly attributable to (i) an increase in interest payable for bank and other borrowings of approximately RMB132.1 million arising from the arrangements with banks and financial institutes for refinancing and (ii) a decrease in interest capitalised in mining structure and mining rights of approximately RMB26.6 million but set off against the decrease in interest in respect of the convertible loan notes of approximately RMB51.7 million in relation to the redemption in January 2013.

Income tax expenses

Income tax expenses during the Review Period were approximately RMB18.3 million, representing a decrease of approximately RMB72.2 million or approximately 79.8%, as compared with approximately RMB90.5 million in corresponding period in 2012 as certain subsidiaries suffered losses. The amount of income tax expense represented PRC Enterprise Income Tax ("EIT") of approximately RMB18.7 million and deferred tax credit of approximately RMB0.4 million arising from the withholding tax upon distribution of profits earned by the PRC subsidiaries.

(Loss) profit for the period

As a result of the foregoing, the loss attributable to the owners of the Company for the Review Period was approximately RMB269.2 million, representing a decrease of approximately RMB455.3 million or approximately 244.7%, as compared with profit of approximately RMB186.1 million in the corresponding period in 2012.

EBITDA

The following table illustrates the Group's EBITDA for the respective period. The Group's EBITDA margin was 15.3% for the Review Period as compared with 43.9% in the corresponding period in 2012.

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
(Loss) profit and total comprehensive (expense) income for the period	(268,207)	189,163
Finance costs	261,305	171,423
Income tax expenses	18,334	90,525
Depreciation and amortisation	60,014	104,394
EBITDA	71,446	555,505

Liquidity, Financial Resources and Capital Structure

As at 30 June 2013, the Group incurred net current liabilities of approximately RMB2,064.2 million as compared to approximately RMB4,726.2 million at 31 December 2012.

During the Review Period, Panzhihua Hidili has disposed of 50% equity interest in Yunnan Hidili, which, through its subsidiaries, is mainly engaged in mining, washing plants and railway logistic station in Yunnan province for an aggregate consideration of RMB2.4 billion. As at 30 June 2012, a consideration of RMB1.2 billion has been received. Accordingly, the Group's working capital has been improved.

The Group will further improve its financial position in providing liquidity and cash flows by implementing a number of measures, including but not limited to raising further medium to long term banking facilities and rolling over short-term banking facilities to medium term when they fall due.

As at 30 June 2013, the bank balances and cash of the Group amounted to approximately RMB793.1 million (as at 31 December 2012: approximately RMB1,554.4 million).

As at 30 June 2013, the total bank and other borrowings of the Group were approximately RMB5,870.8 million, of which approximately RMB4,635.7 million was repayable within one year. As at 30 June 2013, loans amounting to RMB2,103 million carry interest at a fixed rate of ranging from 5.4% to 12.11% per annum. The remaining loans carry interest at variable market rates ranging from 2.27% to 7.59% 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 2013 was 45.9% (as at 31 December 2012: 49.2%).

Pledge of Assets of the Group

As at 30 June 2013, the Group pledged assets in an aggregate amount of approximately RMB2,925.8 million (as at 31 December 2012: RMB2,003.3 million) to banks for credit facilities.

As at 30 June 2013, the director of the Company, Mr. Xian Yang, guaranteed the bank borrowings of approximately RMB1,252.5 million.

Employees

As at 30 June 2013, the Group maintained an aggregate of 10,939 employees as compared with 13,230 employees at 31 December 2012.

During the Review Period, the staff costs (including directors' remuneration in the form of salaries and other allowances) were approximately RMB152.7 million (corresponding period in 2012: RMB222.5 million). The decrease was mainly attributable to the reduction in the direct labour cost incurred in mining activities and cost saving in administrative staff 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 an exchange rate risk mainly arose out of the foreign currency bank balances of approximately US\$10.3 million, HK\$4.0 million and AUD0.1 million.

Significant Investment Held

The Group had invested in unlisted equity investments of RMB173.6 million, representing 15%, 5% and 4.41% equity interest in three entities, respectively. The principal activities of the investees are manufacturing of mining machinery, manufacturing of potassic fertiliser and manufacturing of herbicides and mining of potassium chloride, respectively.

Material Acquisition and Disposal

During the Review Period, Panzhihua Hidili has disposed of 50% equity interest in Yunnan Hidili, which, through its subsidiaries, is mainly engaged in mining, washing plants and railway logistic station in Yunnan province for an aggregate consideration of RMB2.4 billion.

Saved as disclosed above, there was no other material acquisition or disposal of subsidiaries and associated companies by the Group.

Contingent Liabilities

On 28 January 2013, Blackrock Japan Co., Limited (“First Plaintiff”) and Blackrock (Singapore) Limited (“Second Plaintiff”) (collectively known as “Plaintiffs”) commenced legal proceedings against the Company in the High Court of Hong Kong Special Administrative Region Court of First Instance (“Action”).

The First Plaintiff is the investment manager of two high yield bond funds (“Funds”). It delegated the investment management of the Funds to the Second Plaintiff. The Funds are the holders of certain bonds issued by the Company in January 2010 (“Bonds”). Under the terms of the Bonds, the Funds were entitled to require the Company to redeem some or all of the Bonds on 19 January 2013. Instead of issuing redemption notices on 18 and 19 December 2012, it is alleged that the Plaintiffs had issued by mistake notices (“Notices”) electing to convert the Bonds into shares in the Company. The Plaintiffs assert that the Company knew or ought to have known that the Notices were issued by mistake and therefore are void, or alternatively are voidable in equity, and are of no legal effect. A statement of claim (“Statement of Claim”) was served on the Company on 25 February 2013 and the Company is preparing the defence. The Company filed a defence on 29 April 2013. On 24 June 2013, the Plaintiff indicated they would seek to amend their Statement of Claim, and seek to resolve the dispute by way of mediation and details for the mediation are being attended to.

Saved as disclosed above, as at 30 June 2013, the Group did not have any other material contingent liabilities.

Connected Transactions

- (a) During the Review Period, rental expenses amounting to RMB0.3 million were paid to Mr. Xian Jilun, the father of Mr. Xian Yang, a controlling shareholder of the Company and a director of the Company, 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 RMB5.5 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. 雲南凱捷實業有限公司 (Yunnan Kaijie Industry Company Limited*) (“Yunnan Kaijie”), the holder of 57%, 51%, 51%, 33.18% and 80% equity interest in Panxian Panshi, Panxian Panying, Guizhou Weiqing, Fuyuan Jintong and 盤縣富源昆鐵選煤有限公司 (Panxian Fuyuan Kuntie Coal Washing Company Limited*) (“Fuyuan Kuntie”) 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) volume of clean coal available for delivery with reference to the estimated production volumes of clean coal; (iii) anticipated growth in demand of clean coal; and (iv) the business plan of the Group.

Business Review

During the Review Period, consecutive suspension in raw coal production of the Group's coal mines in Sichuan, Guizhou and Yunnan provinces reduced the production volume of raw coal and clean coal from approximately 2,088,000 tonnes and 962,000 tonnes, respectively, in corresponding period in 2012 to approximately 785,000 tonnes and 247,000 tonnes respectively, representing decrease of approximately 62.4% and 74.3%, respectively. Accordingly, it gave rise to the decrease in the Group's sales volume of both principal products and by-products. In addition, the average selling price of clean coal and coke dropped from approximately RMB1,167.7 per tonne and RMB1,620.3 per tonne, respectively, in corresponding period in 2012 to approximately RMB1,058.7 per tonne and RMB1,478.4 per tonne during the Review Period regarding the weak market demand from steel manufacturers.

As regards customers, the large stated-owned steel manufacturers continued to maintain significant customer portfolio of the Group. Top five largest customers contributed to approximately 68.5% of total revenue. The Group believes the increased capacity can be well absorbed by the steel manufacturers in the second half. However, considering the weak demand in the steel industry, the steel manufacturers tend to lengthen the credit period which will result in a longer receivable turnover. The Group will try to launch an 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 maintained at a high level of approximately RMB258 per tonne and RMB624 per tonne, respectively, as compared to approximately RMB160 per tonne and RMB380 per tonne, respectively, in the corresponding period of 2012. The increase was mainly resulted from high sharing of materials, fuel and power and depreciation during the suspension of production, and (ii) high absorption of operating costs in washing plants and coking plants due to low utilization.

In the Review Period, the total employee fatalities in our coal mines were 3.

Outlook

2013 has been a year of doldrums most difficult for the Group. However, with the start of the merger and restructuring of coal mines in the Guizhou region (where a large number of coal mines with sub-par safety standards will be closed down), the safety conditions of the coal mines in the region will be substantially improved, which will provide assurance for coal production in the Guizhou region. In the meantime, the Group is considering further disposals of assets to alleviate its tight cash flow and optimise its debt structure. The management expects improved operating conditions for the Company in 2014.

The Panzhihua region will soon enter a stage of consolidation. As the consolidating entity in Panzhihua, the Company will actively participate in integration with coal mines in the region to increase its production volume in the Panzhihua region.

During the Review Period, Panzhihua Hidili has disposed of 50% equity interest in Yunnan Hidili which, through its subsidiaries, is mainly engaged in mining, washing plants and railway logistic station in Yunnan province for an aggregate consideration of RMB2.4 billion. As a result, the Group's working capital position has been improved. The Group plans to further reduce its liabilities and improve its cash flow conditions in 2013, mainly through the implementation of key asset and capital strategies by dispose of certain non-core assets with a view to repaying a substantial portion of our short-term debts and refinancing current bank facilities to medium to long-term facilities.

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 Corporate Governance Code (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. 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 and noted for the consolidated financial statements of the Group for the Review Period.

Corporate Governance

In the opinion of the Directors, the Company has been in compliance with relevant provisions of the Code during the Review Period, save for the deviation from the code provision A.2.1 of the Code mentioned below.

The code provision A.2.1. of the Code provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same person. During the Review Period, Mr. Xian Yang was both the Chairman of the Board and Chief Executive Officer of the Company. The Board considers that although such structure deviates from the code provision A.2.1 of the Code, the effective operation of the Group has not been impaired since Mr. Xian has exercised sufficient delegation in the daily operation of the Group's business as President while being responsible for the effective operation of the Board as Chairman of the Board. Notwithstanding the above and with a view to complying with the requirements in the code provision A.2.1 of the Code, Mr. Xian Yang has resigned as the Chief Executive Officer of the Company and Mr. Sun Jiankun was appointed as Chief Executive officer of the Company with effect from 27 August 2013.

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 2013

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

* *for identification purpose only*