Hidili 恒鼎

Hidili Industry International Development Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1393

2008
Interim Report

Contents

Corporate Information

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Xian Yang *(Chairman)*
Mr. Sun Jiankun
Mr. Wang Rong

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Chi Hing
Mr. Wang Zhiguo
Mr. Huang Rongsheng

AUDIT COMMITTEE

Mr. Chan Chi Hing *(Chairman)*
Mr. Huang Rongsheng
Mr. Wang Zhiguo

REMUNERATION COMMITTEE

Mr. Chan Chi Hing *(Chairman)*
Mr. Huang Rongsheng
Mr. Wang Zhiguo
Mr. Xian Yang

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor
One Pacific Place
88 Queensway
Hong Kong

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Chan Bing Chung, *HKICPA, FCCA*

AUTHORIZED REPRESENTATIVES

Mr. Xian Yang
Mr. Chan Bing Chung, *HKICPA, FCCA*

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEAD OFFICE

16th Floor, Dingli Mansion
No. 81 Renmin Road
Panzhihua
Sichuan 617000
The People's Republic of China (the "PRC")

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1103, 11th Floor
Ka Wah Bank Centre
232 Des Voeux Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

Corporate Information (Continued)

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

LEGAL ADVISERS

Mallesons Stephen Jaques
37th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

COMPLIANCE ADVISER

VC Capital Limited
28th Floor
The Centrium
60 Wyndham Street
Central
Hong Kong

STOCK CODE

1393

WEBSITE

http://www.hidili.com.cn

PRINCIPAL BANKERS

Pudong Development Bank Chengdu Branch
98-1 Shuangling Road
Chengdu, Sichuan Province
the PRC

China Citic Bank Chengdu Branch
Associate Building, Huaneng Tower
No. 47, Fourth Block, Renmin Nan Road
Chengdu, Sichuan Province
the PRC

Agricultural Bank of China
Panzhihua Branch
10 Renmin Street, East District
Panzhihua, Sichuan Province
the PRC

Bank of Communications
Panzhihua Branch
129 Bingcaogang Grand Street
Panzhihua, Sichuan Province
the PRC

Industrial and Commercial Bank of China (Asia) Limited
33rd Floor, ICBC Tower
3 Garden Road
Central
Hong Kong

Chairman's Statement

On behalf of 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"), I am pleased to announce the unaudited interim results of the Company and its subsidiaries (together, the "Group") for the six months ended 30 June 2008 (the "Review Period").

During the Review Period, our turnover reached approximately RMB1,190.7 million, representing an increase of 198.8%, as compared with approximately RMB398.4 million for the corresponding period in 2007. Our gross profit margin maintained at approximately 65.4% in the Review Period as compared with approximately 64.5% in the corresponding period in 2007. During the Review Period, the adjusted profit attributable to equity holders of the Company amounted to approximately RMB605.1 million after the adjustments for items which were exceptional in nature, being (i) the exchange loss of approximately RMB41.6 million; (ii) fair value loss on financial instruments classified as held-for-trading of approximately RMB11.0 million and (iii) deferred tax on PRC withholding tax of approximately RMB18.0 million. The adjusted profit attributable to equity holders of the Company for the corresponding period in 2007 amounted to approximately RMB209.1 million after the adjustment for an item that was exceptional in nature, being the fair value adjustment on convertible note of approximately RMB65.6 million.

BUSINESS REVIEW

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

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

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

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

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

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

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

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

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

OUTLOOK

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

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

On behalf of the Board, I would like to express our gratitude to our shareholders, our management team as well as all our staff. We look forward to achieving impressive results in the coming period.

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

Chengdu, Sichuan Province, the PRC
2 September 2008

Management Discussion and Analysis

FINANCIAL HIGHLIGHTS

The Board is pleased to present the unaudited interim results of the Group for the Review Period, together with the comparative figures for the corresponding period in 2007.

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

FINANCIAL REVIEW

TURNOVER

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

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

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

COST OF SALES

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

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

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

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

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

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

GROSS PROFIT

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

OTHER INCOME AND GAINS

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

DISTRIBUTION AND SELLING COSTS

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

ADMINISTRATIVE EXPENSES

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

FAIR VALUE LOSS ON FINANCIAL INSTRUMENTS CLASSIFIED AS HELD-FOR-TRADING

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

FINANCE COSTS

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

TAXATION

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

PROFIT FOR THE PERIOD

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

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

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

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

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

PLEDGE OF ASSETS OF THE GROUP

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

As at 30 June 2008, the bank loans of RMB90 million were secured by the Group's 100% interests in 攀枝花市天道勤工貿有限公司 (Panzhihua City Tiandaoqin Industry & Trading Company Limited*) ("Tiandaoqin"), 攀枝花沿江實業有限責任公司 (Panzhihua Yanjiang Industrial Company Limited*) ("Yanjiang") and 攀枝花市揚帆工貿有限公司 (Panzhihua Yangfan Industry & Trading Company Limited*) ("Yangfan").

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

EMPLOYEES

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

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

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

RISK IN FOREIGN EXCHANGE

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

SIGNIFICANT INVESTMENT HELD

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

The investment in A shares were stated at fair value. During the Review Period, the Group recorded a loss on fair value of the investments which amounted to approximately RMB18.5 million.

MATERIAL ACQUISITION AND DISPOSAL

During the Review Period, the Group entered into various sales and purchase agreements for the acquisition of three coal mines in Guizhou province at an aggregate consideration of RMB863.8 million.

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

CONTINGENT LIABILITIES

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

CONNECTED TRANSACTION

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

SUBSEQUENT EVENTS

On 14 July 2008, the Group entered into agreements for acquisition of 70% equity interests in each of 盤縣盤鑫焦化有限公司 (Panxian Panxin Coking Company Limited*) and 盤縣盤翼選煤有限公司 (Panxian Panyi Coal Washing Company Limited*) with an aggregate consideration of RMB127.5 million. The acquisition was completed on 31 July 2008.

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

Other Information

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES

As at 30 June 2008, the Directors and chief executive of the Company had the following interests and/or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) (the "SFO")) which are required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange"):

Name	Name of the entity	Number of issued ordinary shares held	Nature of interest	Approximate percentage of the issued share capital of the Company/Percentage of shareholding
Mr. Xian Yang ("Mr. Xian") *(Note 1)*	The Company	1,150,000,000	Interest of controlled corporation	55.8%
Mr. Xian	Sanlian Investment Holding Limited ("Sanlian Investment")	1,000	Beneficial owner	100%

Notes:

1. *The 1,150,000,000 shares are held by Sanlian Investment, the entire issued share capital of which is held by Mr. Xian. Accordingly, Mr. Xian is deemed to be interested in 1,150,000,000 shares held by Sanlian Investment by virtue of the SFO. Mr. Xian is also a director of Sanlian Investment.*

2. *On 18 July 2008, Sanlian Investment transferred 64,380,000 shares to several directors and senior management of the Company. The transfer has resulted in the decrease of Sanlian Investment's shareholding in the Company from 1,150,000,000 shares, or 55.8%, to 1,085,620,000 shares, or 52.7%.*

3. *On 18 July 2008, 15,380,000 shares, representing 0.7% shareholding of the Company, were transferred from Sanlian Investment to Pavlova Investment Limited which is beneficially owned by Mr. Wang Rong, an executive Director.*

4. *On 18 July 2008, 15,380,000 shares, representing 0.7% shareholding of the Company, were transferred from Sanlian Investment to Able Accord Enterprises Limited which is beneficially owned by Mr. Sun Jiankun, an executive Director.*

Save as disclosed above, as at 30 June 2008, none of the Directors or chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code in the Listing Rules, to be notified to the Company and the Stock Exchange.

Other Information (Continued)

Save as disclosed above, at no time during the period was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2008, so far as is known to the Directors and chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Name of the member of the Group	Number of issued ordinary shares held/ Amount of registered capital held	Nature of interest	Approximate percentage of the issued share capital of the Company/Percentage of shareholding/Equity holding
Sanlian Investment *(Note 1)*	The Company	1,150,000,000	Beneficial owner	55.8%
Mr. Xian *(Note 1)*	The Company	1,150,000,000	Interest of controlled corporation	55.8%
Ms. Qiao Qian *(Note 2)*	The Company	1,150,000,000	Interest of spouse	55.8%
Mr. Yu Zhengyong *(Notes 4 and 5)*	盤縣次凹子工貿有限公司 (Panxian Ciaozi Industry and Trading Company Limited*) ("Ciaozi")	RMB1,000,000	Beneficial owner	20%
Mr. Tan Wenxing *(Note 4)*	盤縣黔榮實業有限公司 (Panxian Qian Rong Industry Company Limited*)	RMB4,900,000	Beneficial owner	49%
北京金字天正智能控制股份有限公司 (Beijing Jin Zi Tian Zheng Intelligent Control Joint Stock Limited*)	攀枝花恒鼎金字天正信息工程有限公司 (Panzhihua Hidili Jin Zi Tian Zheng Information System Company Limited*)	RMB2,450,000	Beneficial owner	49%
Mr. Liu Changsheng *(Notes 4 and 6)*	盤縣天成煤業有限公司 (Panxian Tin Cheng Mining Company Limited*) ("Tin Cheng")	RMB750,000	Beneficial owner	15%

Other Information (Continued)

Notes:

1. *The entire issued share capital of Sanlian Investment is owned by Mr. Xian. Mr. Xian is deemed to be interested in 1,150,000,000 shares held by Sanlian Investment by virtue of the SFO.*

2. *Ms. Qiao Qian is the spouse of Mr. Xian. By virtue of the SFO, Ms. Qiao Qian is also deemed, as spouse, to be interested in all the Shares in which Mr. Xian is deemed to be interested.*

3. *On 18 July 2008, Sanlian Investment transferred 64,380,000 shares to several directors and senior management of the Company. The transfer has resulted in the decrease of Sanlian Investment's shareholding in the Company from 1,150,000,000 shares, or 55.8%, to 1,085,620,000 shares, or 52.7%.*

4. *Mr. Yu Zhengyong, Mr. Tan Wenxing and Mr. Liu Changsheng are independent third parties of the Company, save for their interest disclosed above.*

5. *As at 30 June 2008, Mr. Yu Zhengyong had paid up the registered capital of Ciaozi to the extent of RMB600,000.*

6. *As at 30 June 2008, Mr. Liu Changsheng had paid up the registered capital of Tin Cheng to the extent of RMB300,000.*

Save as disclosed above, as at 30 June 2008, so far as is known to the Directors and chief executive of the Company, the Company has not been notified by any person (other than the Directors or the chief executive of the Company) who had/would have interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME

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

AUDIT COMMITTEE

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

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

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

The interim results have been reviewed by Deloitte Touche Tohmatsu ("Deloitte"), the Company's auditors. The report on review of interim financial information issued by Deloitte would be set out in the interim report of the Company to shareholders of the Company and published on the websites of the Company (www.hidili.com.cn) and the Stock Exchange (www.hkex.com.hk).

CORPORATE GOVERNANCE

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company has adopted the Model Code 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
Hidili Industry International Development Limited
恒鼎實業國際發展有限公司
Xian Yang
Chairman

Chengdu, Sichuan Province, the PRC
2 September 2008

* *For identification purpose only*

Report on Review of Interim Financial Information

TO THE BOARD OF DIRECTORS OF
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)

INTRODUCTION

We have reviewed the interim financial information set out on pages 20 to 40, which comprise the condensed consolidated balance sheet of Hidili Industry International Development Limited as of 30 June 2008 and the related condensed consolidated income statement, statements of changes in equity and cash flows statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
2 September 2008

Condensed Consolidated Income Statement

FOR THE SIX MONTHS ENDED 30 JUNE 2008

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

Condensed Consolidated Balance Sheet

AS AT 30 JUNE 2008

	Notes	30 June 2008 RMB'000 (unaudited)	31 December 2007 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	**3,644,886**	2,632,821
Prepaid lease payment		**32,077**	32,414
Deposits for acquisition of coal mines	12	**180,750**	24,000
Advances	13	**241,500**	—
		4,099,213	2,689,235
CURRENT ASSETS			
Inventories		**167,182**	65,288
Bills and trade receivables	14	**728,885**	274,455
Bills receivables discounted with recourse		**—**	80,600
Other receivables and prepayments		**157,369**	122,460
Held-for-trading investments	15	**52,981**	—
Derivative financial instruments	16	**8,723**	—
Pledged bank deposits		**29,224**	1,248,682
Bank balances and cash		**1,279,000**	2,560,779
		2,423,364	4,352,264

Hidili 恒鼎

Condensed Consolidated Balance Sheet (Continued)

AS AT 30 JUNE 2008

	Notes	30 June 2008 RMB'000 (unaudited)	31 December 2007 RMB'000 (audited)
CURRENT LIABILITIES			
Trade payables	17	**129,561**	45,395
Advances drawn on bills receivables discounted with recourse		**—**	80,600
Other payables and accrued expenses		**583,717**	478,146
Amount due to a related party	21(b)	**1,600**	1,000
Derivative financial instruments	16	**—**	47,981
Tax payables		**32,798**	32,894
Secured bank borrowings	18	**373,000**	1,333,900
		1,120,676	2,019,916
NET CURRENT ASSETS		**1,302,688**	2,332,348
		5,401,901	5,021,583
CAPITAL AND RESERVES			
Share capital		**198,605**	198,605
Reserves		**5,171,389**	4,809,880
Equity attributable to equity holders of the Company		**5,369,994**	5,008,485
Minority interests		**6,986**	6,982
TOTAL EQUITY		**5,376,980**	5,015,467
NON-CURRENT LIABILITIES			
Provision for restoration and environmental costs		**6,884**	6,116
Deferred tax liabilities		**18,037**	—
		24,921	6,116
		5,401,901	5,021,583

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	Share capital	Share premium	Special reserve	Future development fund	Statutory surplus reserve	Accumulated profits	Attributable to equity holders of the Company	Minority interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007	8	—	11,265	47,346	101,395	84,958	244,972	—	244,972
Issue of shares from conversion of convertible note	2	685,429	—	—	—	—	685,431	—	685,431
Profit for the period, representing total recognised income for the period	—	—	—	—	—	143,477	143,477	(55)	143,422
Transfer	—	—	—	10,938	—	(10,938)	—	—	—
Capital contribution by a minority shareholder of a subsidiary	—	—	—	—	—	—	—	600	600
At 30 June 2007	10	685,429	11,265	58,284	101,395	217,497	1,073,880	545	1,074,425
Arising from reorganisation	(10)	(685,429)	684,227	—	—	—	(1,212)	—	(1,212)
Issue of shares for reorganisation	1,212	—	—	—	—	—	1,212	—	1,212
Issue of shares by capitalisation of share premium account	143,386	(143,386)	—	—	—	—	—	—	—
Issue of new shares upon IPO	48,221	3,245,235	—	—	—	—	3,293,456	—	3,293,456
Issue of shares upon exercise of over-allotment option	5,786	389,429	—	—	—	—	395,215	—	395,215
Transaction costs attributable to issue of shares	—	(180,878)	—	—	—	—	(180,878)	—	(180,878)
Profit for the period, representing total recognised income for the period	—	—	—	—	—	426,812	426,812	(913)	425,899
Transfer	—	—	—	12,950	51,679	(64,629)	—	—	—
Capital contribution by minority shareholders of subsidiaries	—	—	—	—	—	—	—	7,350	7,350
At 31 December 2007	198,605	3,310,400	695,492	71,234	153,074	579,680	5,008,485	6,982	5,015,467
Profit for the period, representing total recognised income for the period	—	—	—	—	—	534,549	534,549	(296)	534,253
Transfer	—	—	—	12,375	—	(12,375)	—	—	—
Capital contribution by a minority shareholder of a subsidiary	—	—	—	—	—	—	—	300	300
Dividends	—	—	—	—	—	(173,040)	(173,040)	—	(173,040)
At 30 June 2008	198,605	3,310,400	695,492	83,609	153,074	928,814	5,369,994	6,986	5,376,980

Condensed Consolidated Cash Flow Statement

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	Six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Operating activities		
Net cash from operating activities	**95,064**	323,354
Investing activities		
Purchase of property, plant and equipment	**(1,021,204)**	(229,829)
Decrease (increase) in pledged bank deposits	**1,219,458**	(218,581)
Deposit paid for acquisition of coal mines	**(156,750)**	—
Increase in advances	**(241,500)**	—
Others	**(20,143)**	(17,096)
Net cash used in investing activities	**(220,139)**	(465,506)
Financing activities		
New bank and other borrowings raised	**550,000**	398,570
Repayment of bank and other borrowings	**(1,510,900)**	(141,650)
Interest paid on bank and other borrowings	**(23,064)**	(13,424)
Capital contribution from a minority shareholder	**300**	600
Dividends paid	**(173,040)**	—
Net cash (used in) from financing activities	**(1,156,704)**	244,096
Net (decrease) increase in cash and cash equivalents	**(1,281,779)**	101,944
Cash and cash equivalents at 1 January	**2,560,779**	200,522
Cash and cash equivalents at 30 June	**1,279,000**	302,466
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**1,279,000**	302,466

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2008

1. GENERAL

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

2. BASIS OF PREPARATION

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

3. PRINCIPAL ACCOUNTING POLICIES

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

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

FINANCIAL ASSETS

Financial assets at fair value through profit or loss ("FVTPL")

A financial asset is classified as held for trading if:

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

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to IFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods beginning on or after 1 July 2008
5 Effective for annual periods beginning on or after 1 October 2008

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

4. TURNOVER AND SEGMENT INFORMATION

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

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

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

BUSINESS SEGMENTS

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

Principal activities of the Group are as follows:

Coal mining	—	Mining and sales of raw coal, clean coal and its by-products
Coking	—	Mining and sales of coke and its by-products
Others	—	Mining and sales of alloy pig iron and others

4. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

BUSINESS SEGMENTS (CONTINUED)

	Six months ended 30 June 2008 (unaudited)				
	Coal mining	Coking	Others	Inter-segment eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
GROSS REVENUE					
External	503,616	680,437	6,680	—	1,190,733
Inter-segment	360,041	—	—	(360,041)	—
Total	863,657	680,437	6,680	(360,041)	1,190,733

Inter-segment transactions were carried out at cost.

	Coal mining	Coking	Others	Inter-segment eliminations	Consolidated
RESULT					
Segment results	286,668	398,421	2,389	—	687,478
Unallocated corporate expenses					(116,552)
Unallocated corporate income					22,847
Fair value loss on financial instruments classified as held-for-trading					(10,986)
Finance costs					(23,064)
Profit before taxation					559,723
Taxation					(25,470)
Profit for the period					534,253

4. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

BUSINESS SEGMENTS (CONTINUED)

	Six months ended 30 June 2007 (unaudited)				
	Coal mining	**Coking**	**Others**	**Inter-segment eliminations**	**Consolidated**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
GROSS REVENUE					
External	158,396	225,481	14,566	—	398,443
Inter-segment	97,994	—	—	(97,994)	—
Total	256,390	225,481	14,566	(97,994)	398,443

Inter-segment transactions were carried out at cost.

	Coal mining	Coking	Others	Inter-segment eliminations	Consolidated
RESULT					
Segment results	95,275	137,035	3,073	—	235,383
Unallocated corporate expenses					(35,211)
Unallocated corporate income					35,749
Fair value adjustment on convertible note					(65,602)
Finance costs					(16,518)
Profit before taxation					153,801
Taxation					(10,379)
Profit for the period					143,422

5. OTHER INCOME AND GAINS

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

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

6. FINANCE COSTS

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

Notes to the Condensed Consolidated Financial Statements (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2008

7. PROFIT BEFORE TAXATION

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

8. TAXATION

	Six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax:		
PRC Enterprise Income Tax	**7,433**	10,379
Deferred taxation	**18,037**	—
	25,470	10,379

8. TAXATION (CONTINUED)

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

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

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

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

Pursuant to "Application of preferential tax treatment for Foreign Investment Enterprise", Sichuan Hidili Industry Company Limited ("Sichuan Hidili"), Panzhihua City Hidili Coke Company Limited ("Hidili Coal"), Panzhihua City Tiandaoqin Industry & Trading Company Limited ("Tiandaoqin"), Panzhihua Yanjiang Industrial Company Limited ("Yanjiang"), Panzhihua City Tianchou Industry & Trading Company Limited ("Tianchou") and Panzhihua Yangfan Industry & Trading Company Limited ("Yangfan") were entitled to 2 years exemption from State EIT from 2007 to 2008 and a 50% deduction of State EIT for three years from 2009 to 2011. Therefore, all of them were subject to tax exemption in the current period (2007: 3% local EIT with exemption of 30% state EIT).

Panzhihua City Sanlian Transportation Company Limited ("Sanlian Transportation") was entitled to the tax incentives in connection with the development of the western part of the PRC. According to the official approval issued by State Administration of Taxation of Sichuan Province, Sanlian Transportation is entitled to the policy of 2 year's exemption and 3 year's deduction from 2005 to 2009. The applicable tax rate for 2008 is 12.5% (2007: 16.5%).

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

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

9. DIVIDENDS

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

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

10. EARNINGS PER SHARE

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

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

11. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately RMB1,054,198,000 on acquisition of property, plant and equipment.

12. DEPOSITS FOR ACQUISITION OF COAL MINES

Included in the balance as at 30 June 2008 was a deposit of approximately RMB156,750,000 paid for acquisition of an additional coal mine in Guizhou, the PRC at a consideration of not more than RMB160 million according to the memorandum of undertaking.

In addition, included in balance as at 30 June 2008 and 31 December 2007 was deposit of RMB24 million paid for acquisition of a coal mine in Guizhou, the PRC at a consideration of not more than RMB50 million according to the memorandum of undertaking.

Up to the date of this report, the Group is still negotiating with these coal mine owners to agree the final amount of consideration.

13. ADVANCES

The balances represent advances made to the existing owner of Panxian Panxin Coking Company Limited ("Panxin Coking"), Panxian Panyi Coal Washing Company Limited (''Panyi Coal Washing"), Panxian Panshi Logistic Distribution Company Limited ("Panxian Panshi") and Panxian Panying Logistic Distribution Company Limited ("Panxian Panying") (the "Target Entities") which are unsecured, non interest bearing and will be repayable in July 2008 (the Advances"). As the purpose of the Advances to the existing owner were to finance the existing owner to operate the Target Entities so as to facilitate the negotiation of the acquisition of certain interests of the Target Entities with the existing owner (the "Acquisitions"), accordingly, the Advances were classified as the non current assets.

As at 30 June 2008, in the opinion of the directors, the Group was still in negotiation for the Acquisitions and no formal agreement had been signed. Subsequently, the Acquisitions were completed in July 2008. Details are set out in note 22.

14. BILLS AND TRADE RECEIVABLES

	30 June 2008 ***RMB'000*** **(unaudited)**	31 December 2007 *RMB'000* (audited)
Trade receivables	**418,119**	123,034
Impairment loss recognised	**(2,614)**	(3,460)
	415,505	119,574
Bills receivables	**313,380**	154,881
	728,885	274,455

14. BILLS AND TRADE RECEIVABLES (CONTINUED)

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

	30 June 2008	31 December 2007
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Aged:		
0-90 days	**688,626**	273,055
91-120 days	**29,717**	863
121-180 days	**5,412**	386
181-365 days	**5,130**	151
	728,885	274,455

15. HELD-FOR-TRADING INVESTMENTS

	30 June 2008	31 December 2007
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Equity securities listed in the PRC	**52,981**	—

The fair values of these investments in securities are based on their quoted bid prices.

16. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2008		31 December 2007	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
	(unaudited)	**(unaudited)**	(audited)	(audited)
Foreign currency forward contracts	**8,723**	**—**	—	47,981

16. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Major terms of certain foreign currency contracts are as follows:

Notional amount	Maturity	Exchange rate
30 June 2008		
US$349,400,000 aggregated in total	Ranged from 22 August 2008 to 26 September 2008	Buy RMB and Sell US$ at 6.6970 to 6.9019
31 December 2007		
US$367,300,000 aggregated in total	Ranged from 28 January 2008 to 22 February 2008	Buy RMB and Sell US$ at 7.2210 to 7.2800
US$460,000,000	7 January 2008	Buy US$ and sell RMB at 7.3970

The fair values are determined based on the valuation provided by a professional valuer for equivalent instruments as at the balance sheet date.

17. TRADE PAYABLES

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

	30 June 2008	31 December 2007
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Aged:		
0-90 days	**99,430**	42,987
91-180 days	**23,445**	897
181-365 days	**4,818**	361
Over 365 days	**1,868**	1,150
	129,561	45,395

18. SECURED BANK BORROWINGS

The bank borrowings are repayable within one year and carry interest at market rates ranging from 6.62% to 7.21% per annum.

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

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

Details of the assets pledged for the remaining bank borrowings are further set out in note 20.

19. CAPITAL COMMITMENTS

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

	30 June 2008 *RMB'000* **(unaudited)**	31 December 2007 *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	**72,286**	48,565

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

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

However, in the opinion of the directors, the final amount of the above consideration is still subject to negotiation and have not been agreed yet.

Notes to the Condensed Consolidated Financial Statements (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2008

20. PLEDGE OF ASSETS

Other than as disclosed in note 18, at the balance sheet date, the Group pledged the following assets to banks for credit facilities granted to the Group:

	30 June 2008 **RMB'000** **(unaudited)**	31 December 2007 RMB'000 (audited)
Property, plant and equipment	**392,087**	430,536
Bank deposits	**29,224**	1,248,682
Prepaid lease payment	**6,192**	6,259
Bills receivables	**80,000**	—
	507,503	1,685,477

21. RELATED PARTY DISCLOSURES

(a) During the period, the Group had the following transactions with related parties:

Name of related party	Relationship	Nature of transactions	Six months ended 30 June 2008 RMB'000 (unaudited)	2007 RMB'000 (unaudited)
Mr. Xian Jilun	Father of Mr. Xian Yang, shareholder and director of the Company	Rental payable by the Group	**600**	600

21. RELATED PARTY DISCLOSURES (CONTINUED)

(b) At the balance sheet date, the Group had the outstanding balances with the related parties:

	30 June 2008	31 December 2007
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Amount due to a related party		
Mr. Xian Jilun	**1,600**	1,000

Balance represents rental expenses payable to Mr. Xian Jilun by the Group. Balance was unsecured, interest free and repayable on demand.

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Basic salaries and allowances	**1,006**	1,272
Retirement benefit scheme contribution	**5**	9
	1,011	1,281

22. SUBSEQUENT EVENTS

As announced in the circular of the Company on 22 August 2008, Liupanshui Hidili Industry Company Limited ("Liupanshui Hidili"), a wholly-owned subsidiary of the Company, completed the Acquisitions in July 2008.

Liupanshui Hidili acquired 70% interests in Panyi Coal Washing and Panxin Coking which are engaged in the clean coal washing and manufacturing of coke, respectively. Pursuant to the shareholders' agreement dated 14 July 2008, the Group is entitled to 100% of the assets, liabilities, income and expenses of Panyi Coal Washing and Panxin Coking. In return, the Group will make payment to the remaining 30% minority shareholder of a fixed sum of RMB12 per unit of the clean coal and coke produced and sold by Panxin Coal Washing and Panxin Coking, respectively.

Liupanshui Hidili also acquired 37% interests in Panxian Panshi and Panxian Panying which are mainly engaged in provision of railway logistic services. Pursuant to the shareholders' agreement dated 14 July 2008, the Group does not have any voting right in shareholders' meeting nor the power to participate in the financial and operating policy decisions of each of Panxian Panshi and Panxian Panying. Also, the Group is not entitled to share any assets, liabilities, income and expenses of Panxian Panshi and Panxian Panying. In return, the Group obtained the consecutive right for the provision of railway logistic service by Panxian Panshi and Panxian Panying in Guizhou with a guaranteed delivery volume of not less than 900,000 tonnes per annum for a term of 30 years from July 2008 onwards.

As the Group is still in the process of finalising the financial information of the Target Entities in accordance with the accounting standards and accounting policies adopted by the Group, it is not practicable to disclose the financial information in this interim financial information.