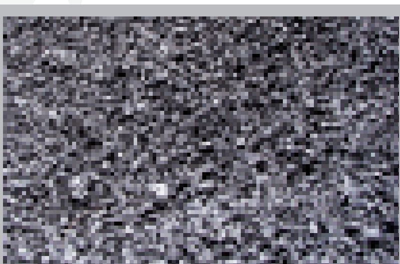
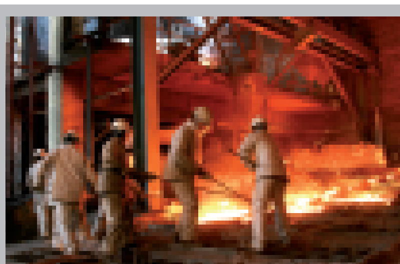
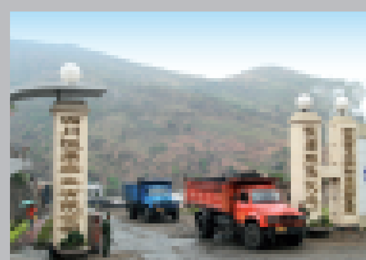
Hidili 恒鼎

Hidili Industry International Development Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1393



2010

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. Chen Limin
Mr. Huang Rongsheng

AUDIT COMMITTEE

Mr. Chan Chi Hing *(Chairman)*
Mr. Chen Limin
Mr. Huang Rongsheng

REMUNERATION COMMITTEE

Mr. Chan Chi Hing *(Chairman)*
Mr. Chen Limin
Mr. Huang Rongsheng
Mr. Xian Yang

AUDITORS

Deloitte Touche Tohmatsu
Certified public accountants
35th Floor, One Pacific Place
88 Queensway
Hong Kong

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Ms. Chu Lai Kuen

AUTHORIZED REPRESENTATIVES

Mr. Xian Yang
Ms. Chu Lai Kuen

REGISTERED OFFICE

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

HEAD OFFICE

16th Floor, Dingli Mansion
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Sichuan 617000
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Butterfield House
68 Fort Street
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong
Investor Services Limited
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LEGAL ADVISER

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STOCK CODE

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PRINCIPAL BANKERS

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Panzhihua, Sichuan Province
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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 2010 (the "Review Period").

During the Review Period, our turnover and gross profit amounted to approximately RMB1,050.9 million and RMB716.9 million respectively, recorded a respective increase of approximately 65.3% and 112.5% as compared to corresponding period in 2009. The increase was mainly attributable to the ramp up of production in Guizhou and Yunnan provinces and the increase in average selling prices of clean coal and coke. The adjusted EBITDA during the Review Period amounted to approximately RMB531.9 million, achieving a margin of 50.5%.

BUSINESS REVIEW

During the Review Period, benefited from the recovery of the coal market, the average selling price of major products of the Company recorded a substantial increase as compared with the corresponding period last year. The average selling price of clean coal and coke increased from RMB811.2 per tonne and RMB1,152.6 per tonne respectively in the corresponding period last year to RMB1,127.0 per tonne and RMB1,448.4 per tonne during the Review Period, representing an increase of approximately 38.9% and 25.7% respectively. Taking into account the relatively higher gross profit from sales of clean coal than that of coke, the Company reduced the sales volume of coke by approximately 27.0% to 274,800 tonnes, and increased the sales volume of clean coal by approximately 77.3% to 472,000 tonnes during the Review Period. As regards sales customers, the Company successfully developed Fangchenggang as the logistics base for its major products. Through extending its customer coverage to iron and steel enterprises located in northern areas and southern riverside areas by the water transportation network, sales volume to Ningbo Iron & Steel Co., Ltd. and Chongqing Iron & Steel Company Limited increased substantially during the Review Period.

As regards capacity, production volume of raw coal of the Company amounted to approximately 1,722,100 tonnes during the Review Period, representing an increase of approximately 55.1% as compared with approximately 1,110,500 tonnes in the corresponding period last year. The increase in capacity was attributable to the additional capacity from coal mines in Guizhou and Yunnan provinces, among which, Panzhihua area accounted for approximately 626,300 tonnes, which approximated to the capacity of approximately 645,400 tonnes in the corresponding period last year; Guizhou area accounted for 752,900 tonnes, representing an increase of 61.9% as compared with approximately 465,100 tonnes in the corresponding period last year, while Yunnan area accounted for approximately 342,900 tonnes. Meanwhile, improvements were made in production cost since the Company has clarified and strengthened the segregation of functions and enhanced management of coal mines in different areas, enhanced efficiency and also effectively controlled consumption of materials. Production cost per tonne of raw coal amounted to approximately RMB156 during the Review Period.

In the first half of 2010, the Company suffered from mine accident with a death toll of 3.

Significant events of the Company for the first half of 2010 were as follows:

In January 2010, the Company successfully issued 5-year convertible loan notes with a principal amount of RMB1,707 million, of which approximately RMB880 million had been used for repayment of short-term borrowings and the balance will be used for mine construction.

From January to March 2010, the Company further acquired 1 coal mine and an exploration right in Yunnan province.

In April 2010, the Company announced the annual results for 2009, distributing final dividend of RMB0.1 per share.

OUTLOOK

With the construction of mines and auxiliary facilities in Guizhou and Yunnan provinces proceeding as scheduled and with pent-up capacity of certain mines being gradually released, coupled with an effective approach to production and management operations across all mines, the Company achieved cost control and greater production efficiency. During the Review Period, the Company was also recognized as the key enterprise for coal mine integrations by the Guizhou provincial government, where in such capacity it is entitled to propose consolidation to small to medium coal mines, thereby strengthening and consolidating the Company's development in Guizhou region.

Meanwhile, the Company benefited from the consolidation of large-sized state-owned iron and steel enterprises and managed to become the recognized supplier of certain iron and steel giants, thus securing sales for its plan of capacity expansion.

In July 2010, according to the list of second batch of enterprises to be phased out for obsolete capacity by Liupanshui Guizhou provincial government, the Company's Panxin Coking Plant (盤鑫焦化廠), with an annual production capacity of 200,000 tonnes, is to be phased out and ceased operation on 30 September this year. We consider that the phasing out of coking coal capacity will have minimal impact on the Company's operations as a whole. We believe that the surplus volume of clean coal remained after the reduction in capacity can be directly sold to our customers.

During the Review Period, the Company reduced the pressure on its working capital by the issuance of 5-year term convertible bonds, increasing long-term bank borrowings and repayment of certain short-term borrowings. On 30 June 2010, the Company's cash and bank balance and net current assets amounted to approximately RMB1,270 million and RMB530 million, respectively. Leveraging low financing costs and prudent and reasonable financial leverage, the Company will continue to seize opportunities to seek liquidity and construction fund for its development, and complete its coal mine constructions in Guizhou and Yunnan provinces as scheduled to expand capacity. Currently, the Company has unused bank facilities in aggregate of approximately RMB1,850 million.

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

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

Hong Kong
24 August 2010

Management Discussion and Analysis

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2010	2009	Change
	RMB'000	*RMB'000*	*%*
	(Unaudited)	(Unaudited)	
Turnover	**1,050,924**	635,852	65.3%
Gross Profit	**716,863**	337,271	112.5%
Profit before taxation	**348,735**	192,590	81.1%
Profit and total comprehensive income for the period	**301,630**	177,933	69.5%
EBITDA	**531,897**	243,559	118.4%
Basic earnings per share *(RMB cents)*	**14.4**	8.7	66.7%
Diluted earnings per share *(RMB cents)*	**14.2**	N/A	—

FINANCIAL REVIEW

Turnover

Turnover of the Group for the Review Period was approximately RMB1,050.9 million, representing an increase of approximately 65.3%, as compared with approximately RMB635.9 million in the corresponding period in 2009. The increase was primarily attributable to the increase of average selling prices of the principal products and by-products.

Sales volume for clean coal increased by 77.3% from approximately 266,200 tonnes for the six months ended 30 June 2009 to approximately 472,000 tonnes for the Review Period. Sales volume for coke decreased by 27.0% from approximately 376,600 tonnes for the six months ended 30 June 2009 to approximately 274,800 tonnes for the Review Period.

The average selling price (net of VAT) of our clean coal and coke increased significantly from RMB811.2 per tonne and RMB1,152.6 per tonne respectively in the corresponding period in 2009 to RMB1,127.0 per tonne and RMB1,448.4 per tonne during the Review Period, representing an increase of approximately 38.9% and 25.7% respectively. Because clean coal prices increased by a greater margin than coke prices, the Group adjusted its sales mix by increasing sales volume of clean coal and reducing the sales volume of coke.

The following table sets forth the Group's turnover contribution, sales volume and average selling price by products for the Review Period, together with the comparative amounts for the corresponding period in 2009:

	Six months ended 30 June					
	2010			2009		
	Turnover ***RMB'000*** **(Unaudited)**	**Sales volume** ***(thousand Tones)***	**Average selling price** ***(RMB/ Tonne)***	Turnover *RMB'000* (Unaudited)	Sales volume *(thousand Tones)*	Average selling price *(RMB/ Tonne)*
Principal products						
Clean coal	**531,912**	**472.0**	**1,127.0**	215,934	266.2	811.2
Coke	**398,086**	**274.8**	**1,448.4**	376,419	376.6	1,152.6
Principal products total	**929,998**			592,353		
By-products						
High-ash thermal coal	**70,124**	**298.4**	**235.0**	29,614	183.3	161.6
Coal tar	**15,114**	**7.3**	**2,075.3**	9,906	8.0	1,244.1
By-products total	**85,238**			39,520		
Other products						
Raw coal	**30,627**	**61.3**	**499.7**	373	1.9	200.0
Benzene	**4,446**	**1.3**	**3,301.3**	1,839	1.3	1,451.7
Others	**615**			1,767		
Other products total	**35,688**			3,979		
Total turnover	**1,050,924**			635,852		

Cost of sales

Cost of sales for the Review Period was approximately RMB334.1 million, representing an increase of approximately RMB35.5 million, or approximately 11.9%, as compared with approximately RMB298.6 million in the corresponding period in 2009.

Material, fuel and power costs for the Review Period were approximately RMB135.4 million, representing a decrease of approximately RMB28.1 million, or approximately 17.2%, as compared with approximately RMB163.5 million in corresponding period in 2009. This decrease primarily resulted from the fact that the Group is able to operate and use materials more efficiently than before, after it improved its management structure and operational control by (i) adopting clear job delegation among managers of coal mines, (ii) establishing six operating mine zones and (iii) setting up three regional heads to provide timely guidance in the development and operation of mines to increase operating efficiency. During the corresponding period in 2009, materials usage amounting to approximately RMB70 million incurred for the development of mining structure was charged to profit and loss and significantly ramped up the material costs.

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

	Six months ended 30 June					
	2010 Raw coal production volume *('000 tonnes)*	**2010 Clean coal production volume *('000 tonnes)***	**2010 Coke production volume *('000 tonnes)***	2009 Raw coal production volume *('000 tonnes)*	2009 Clean coal production volume *('000 tonnes)*	2009 Coke production volume *('000 tonnes)*
Panzhihua	**626**	**281**	**206**	645	325	239
Guizhou	**753**	**322**	**67**	465	239	83
Yunnan	**343**	**163**	**—**	—	—	—
	1,722	**766**	**273**	1,110	564	322

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

	Six months ended 30 June	
	2010	2009
	RMB per tonne	*RMB per tonne*
Coal mining		
Cash cost	**134**	130
Depreciation and amortisation	**22**	22
Total production cost	**156**	152
Average cost of clean coal	**335**	337
Average cost of coke	**478**	474

Staff costs for the Review Period were approximately RMB115.8 million, representing an increase of approximately RMB33.8 million, or approximately 41.2%, as compared with approximately RMB82.0 million in corresponding period of 2009. The increase was primarily attributable to the increase in number of mine workers and management level during the period.

Depreciation and amortisation for the Review Period were approximately RMB40.2 million, representing an increase of approximately RMB7.6 million, or approximately 23.3%, as compared with approximately RMB32.6 million in corresponding period of 2009. The increase was primarily attributable to increase in the Group's depreciable asset base since increased number of mines which were acquired and put into production.

Gross profit

As a result of the foregoing, the gross profit for the Review Period was approximately RMB716.9 million, representing increase of approximately RMB379.6 million or approximately 112.5%, as compared with approximately RMB337.3 million in corresponding period in 2009. The gross profit margin during the Review Period was approximately 68.2% as compared with approximately 53.0% in corresponding period in 2009.

Other income

Other income for the Review Period amounted to approximately RMB17.7 million, representing an increase of approximately RMB13.4 million or approximately 311.6%, as compared with approximately RMB4.3 million in corresponding period in 2009. The increase was primarily due to increase in both interest income and investment income. The Group's interest income for the respective period increased from RMB2.8 million in corresponding period in 2009 to RMB4.9 million for the Review Period. During the Review Period, the Group recorded investment income of approximately RMB11.7 million relating to the net gain on disposal of certain investment of A shares and exchangeable bonds of a private company during the period.

Distribution expenses

Distribution expenses for the Review Period were approximately RMB123.6 million, representing an increase of approximately RMB64.1 million or approximately 107.7%, as compared to approximately RMB59.5 million in corresponding period of 2009. The increase was mainly attributable to the increased transportation costs allocated to distribution expenses and railway logistic charges incurred in Guizhou and Yunnan provinces upon the delivery of coal products to customers.

Administrative expenses

Administrative expenses for the Review Period were approximately RMB135.7 million, representing an increase of approximately RMB58.0 million or approximately 74.6%, as compared to approximately RMB77.7 million in corresponding period in 2009. The increase was resulted from (i) the staff option costs from approximately RMB8.9 million in the corresponding period in 2009 to approximately RMB21.5 million during the Review Period and (ii) the increase of approximately RMB42.0 million in operation expenses in Guizhou and Yunnan provinces to cater for the development and operation of coal mines during the Review Period. (In the corresponding period in 2009, staff option costs were originally stated at approximately RMB70.4 million. In consistent with the accounting policies adopted in the preparation of the Group's consolidated financial statements for the year ended 31 December 2009, the staff options costs was restated at approximately RMB8.9 million.)

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

The Group recorded a net loss on derivatives and held-for-trading investments in the amount of approximately RMB33.4 million during the Review Period as compared to a gain in the amount of approximately RMB13.4 million in the corresponding period in 2009. The loss on derivatives and held-for-trading investments represented fair value losses of in its investment in certain A shares of approximately RMB5.0 million and its investment in shares in a private coal mining company which listed on the Australian Securities Exchange in April 2010 of approximately RMB28.4 million.

Finance costs

Finance costs for the Review Period amounted to approximately RMB93.1 million, representing an increase of approximately RMB67.8 million or approximately 268.0%, as compared with approximately RMB25.3 million in corresponding period in 2009. The increase represented (i) starting from the second half of 2009, the Group obtained several banking facilities to finance the acquisition and development of coal mines in Guizhou and Yunnan provinces and resulted in increase of interest expenses from approximately RMB4.3 million in corresponding period in 2009 to RMB43.5 million for the period and (ii) in January 2010, the Group further issued convertible loan notes to repay short term bank borrowings and to finance the development of coal mines and the convertible loan note bought along with a imputed interest of approximately RMB46.5 million for the Review Period. On the other hand, the Group capitalised interests expenses of approximately RMB14.8 million to the acquisition of coal mines and construction of mining structures during the Review Period and offsetting the increase in finance costs for the Review Period.

Income tax expenses

Income tax expenses during the Review Period were approximately RMB47.1 million, representing an increase of approximately RMB32.4 million or approximately 220.4%, as compared with approximately RMB14.7 million in corresponding period in 2009. The amount of income tax expense represented PRC Enterprise Income Tax (“EIT”). For the Review Period EIT, the effective tax rate increased to approximately 10.5% as compared with approximately 7.8% in corresponding period in 2009 after adjusting for the impact of non-taxable items of net loss or gain on derivatives and held-for-trading investments, share option costs and imputed interest on convertible loan notes.

Profit for the period

As a result of the foregoing, the profit attributable to the owners of the Company for the Review Period was approximately RMB296.5 million, representing an increase of approximately RMB117.2 million or approximately 65.4%, as compared with approximately RMB179.3 million in corresponding period in 2009. The net profit margin was approximately 28.7% for the Review Period as compared with approximately 28.0% in corresponding period in 2009.

EBITDA and adjusted EBITDA

The following table illustrates the Group's adjusted EBITDA for the respective period. The Group's adjusted EBITDA margin was 50.6% for the Review Period as compared with 38.3% in corresponding period in 2009, showing a growing trend of 12.3%.

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit and total comprehensive income for the period	**301,630**	177,933
Finance costs	**93,134**	25,262
Income tax expenses	**47,105**	14,657
Depreciation and amortization	**56,657**	39,124
EBITDA	**498,526**	256,976
Net loss (gain) on derivatives and held-for-trading investments	**33,371**	(13,417)
Adjusted EBITDA	**531,897**	243,559

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

Primarily as a result of the issuance of convertible loan notes of RMB1,707 million in January 2010, the Group had net current assets of approximately RMB551.9 million as at 30 June 2010, as compared to net current liabilities of approximately RMB1,089.2 million as at 31 December 2009.

As at 30 June 2010, the total bank and other borrowings of the Group were RMB2,675 million, in which approximately RMB1,678 million are repayable within one year, with effective weighted average interest rate ranging from fixed rates of 2.04% to 9%.

The gearing ratio (calculate as total bank and other borrowings divided by total assets) of the Group as at 30 June 2010 was 21.2%.

PLEDGE OF ASSETS OF THE GROUP

As at 30 June 2010, the Group pledged assets in an aggregate amount of RMB1,498.5 million (At 31 December 2009: RMB1,831.7 million) to banks for credit facilities in the amount of RMB3,025 million granted to the Group (At 31 December 2009: RMB3,712.1 million).

EMPLOYEES

As at 30 June 2010, the Group had an aggregate of 15,488 employees representing an increase in 4,312 employees from 11,176 employees at 31 December 2009. The increase was in line with the continuing development in operations in Guizhou and Yunnan provinces.

During the Review Period, the staff costs (including directors' remuneration in the form of salaries and other allowances) were approximately RMB163.1 million (corresponding period in 2009: RMB117.0 million).

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

RISK IN FOREIGN EXCHANGE

Since all of the Group's business activities are transacted in RMB, the directors (the "Directors") of the Company consider that the Group's risk in foreign exchange is insignificant. However, during the Review Period, the Group was exposed to exchange rate risk mainly arising from the foreign currency bank balances of approximately HK$0.5 million, US$60.6 million and AUD0.9 million.

SIGNIFICANT INVESTMENT HELD

The Group held certain A Shares in the PRC of approximately RMB27.8 million and investment in shares in a private coal mining company which listed on the Australian Securities Exchange of approximately RMB27.0 million as at 30 June 2010.

MATERIAL ACQUISITION AND DISPOSAL

During the Review Period, the Group entered into sales and purchase agreements for the acquisition of a coal mines and an exploration right in Yunnan province at an aggregate consideration of RMB235 million. Saved as disclosed above, there was no material acquisition or disposal of subsidiaries and associated companies by the Group.

CONTINGENT LIABILITIES

As at 30 June 2010, the Group did not have any material contingent liabilities.

CONNECTED TRANSACTIONS

(a) During the Review Period, rental expenses amounting to RMB0.6 million were paid to Mr. Xian Jilun, father of Mr. Xian Yang, a controlling shareholder of the Company and a Director, for the lease of the Company's head office located at 16th and 17th Floor, Dingli Mansion, No. 81 Renmin Road, Panzhihua, Sichuan province, the PRC. The rent paid by the Group was 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 RMB10.4 million were paid to 盤縣盤實物流配送有限公司 (Panxian Panshi Logistic Distribution Company Limited*) ("Panxian Panshi") and 盤縣盤鷹物流配送有限公司 (Panxian Panying Logistic Distribution Company Limited*) ("Panxian Panying") respectively, for the provision of railway logistic services under the framework agreement dated 14 July 2008 (the "Framework Agreement"). 雲南凱捷實業有限公司 (Yunnan Kaijie Industry Company Limited*) ("Yunnan Kaijie"), the holder of 57% and 51% equity interest in Panxian Panshi and Panxian Panying respectively, is a substantial shareholder of each of 盤縣盤鑫焦化有限公司 (Panxian Panshi Coking Company Limited*) ("Panxin Coking") and 盤縣盤翼選煤有限公司 (Panxian Panyi Coal Washing Company Limited*) ("Panyi Coal Washing"). As Panxian Panshi and Panxian Panying occupy a monopolistic position of the local railway logistic service in Boguozhen, no relevant market price can be obtained. The pricing basis of the railway logistic service under the Framework Agreement is determined with reference to the pricing offered to other customers by Panxian Panshi and Panxian Panying and the current pricing adopted under the agreement made between the former shareholders of Panxian Panshi, Panxian Panying, Panxin Coking and Panyi Coal Washing, an agreed price consisting of the reasonable cost incurred and a reasonable profit margin.

(c) In September 2009, the Group entered into a capital contribution agreement with Citic Trust Company Limited ("Citic Trust") for the formation of a joint venture company in which Citic Trust agreed to inject RMB500 million as capital contribution for 49% equity interest. It was further agreed that the 49% equity interest will be repurchased by the Group with a premium of 9% per annum after twelve months from the date of the contribution injected. Accordingly, for the purpose securing the payment of the repurchase consideration, the Group pledged the mining right of Xinda Coal Mine and the 51% equity interest of the joint venture company to Citic Trust. As at 30 June 2010, the amount of capital contribution injected by Citic Trust amounted to RMB250 million.

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

As at 30 June 2010, 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 recorded in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in the Listing Rules, to be notified to the Company and the Stock Exchange:

Name	Name of the entity	Number of issued ordinary shares held (Long position)	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	1,044,131,000	Interest of controlled corporation	50.69%
Mr. Xian	Sanlian Investment Holding Limited ("Sanlian Investment")	1,000	Beneficial owner	100%
Mr. Sun Jiankun ("Mr. Sun") *(Note 2)*	The Company	15,380,000	Interest of controlled corporation	0.75%
Mr. Sun	Able Accord Enterprises Limited ("Able Accord")	1,000	Beneficial owner	100%
Mr. Wang Rong ("Mr. Wang") *(Note 3)*	The Company	15,380,000	Interest of controlled corporation	0.75%
Mr. Wang	Pavlova Investment Limited ("Pavlova Investment")	1,000	Beneficial owner	100%

Other Information (Continued)

Notes:

1. The 1,044,131,000 shares of the Company are held by Sanlian Investment, the entired issued share capital of which is held by Mr. Xian. Accordingly, Mr. Xian is deemed to be interested in 1,044,131,000 shares held by Sanlian Investment by virtue of the SFO. Mr. Xian is also the sole director of Sanlian Investment.

2. The 15,380,000 shares of the Company are held by Able Accord, the entired issued share capital of which is held by Mr. Sun. Accordingly, Mr. Sun is deemed to be interested in 15,380,000 shares held by Able Accord by virtue of the SFO. Mr. Sun is also a director of Able Accord.

3. The 15,380,000 shares of the Company are held by Pavlova Investment, the entired issued share capital of which is held by Mr. Wang. Accordingly, Mr. Wang is deemed to be interested in 15,380,000 shares held by Pavlova Investment by virtue of the SFO. Mr. Sun is also a director of Pavlova Investment.

Save as disclosed above, to the best knowledge of the Directors, as at 30 June 2010, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Saved as disclosed, at no time during the year 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 2010, the following persons, other than the Directors and 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	Number of issued ordinary shares held	Nature of interest	Approximate percentage of the issued share capital of the Company
Sanlian Investment *(Note 1)*	1,044,131,000 (L)	Beneficial owner	50.69%
Mr. Xian *(Note 1)*	1,044,131,000 (L)	Interest of controlled corporation	50.69%
Ms. Qiao Qian *(Note 2)*	1,044,131,000 (L)	Interest of spouse	50.69%
Templeton Asset Management Limited	140,916,000 (L)	Investment manager	6.84%
JPMorgan Chase & Co. *(Note 3)*	18,007,045 (L)	Beneficial owner	0.87%
	13,151,544 (S)	Beneficial owner	0.64%
	21,313,000 (L)	Investment manager	1.03%
	82,784,371 (L)	Custodian	4.02%
Schroder Investment Management Limited	104,151,000 (L)	Investment manager	5.05%

(L): Long position (S): Short position

Notes:

1. The entire issued share capital of Sanlian Investment is owned by Mr. Xian. Mr. Xian is deemed to be interested in 1,044,131,000 shares of the Company held by Sanlian Investment by virtue of the SFO. Mr. Xian is the sole director of Sanlian Investment.

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 of the Company in which Mr. Xian is deemed to be interested.

3. Save as these interests, there were interests in 451,501 listed physically settled derivatives and 2,217,000 unlisted physically settled derivatives.

Save as disclosed above, 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 or its associated corporations of 5% or more which were required to be disclosed to the Company under Part XV of the SFO or which were recorded in the register kept by the Company under section 336 of the SFO.

SHARE OPTIONS

The Company has adopted a share option scheme on 25 August 2007 (the "Share Option Scheme"). On 30 April 2009, 43,200,000 share options have been granted by the Company under the Share Option Scheme. The detailed disclosure relating to the Share Option Scheme and valuation of the share options are set out in note 17 to the condensed consolidated financial statements.

Movements of the Company's share options under the Share Option Scheme during the Review Period were as follows:

	Number of share options								
Name or category of participant	At 1 January 2010	Granted during the Review Period	Exercised during the Review Period	Lapsed/ cancelled during the Review Period	At 30 June 2010	Date of grant	Exercise period	Exercise price	Weighted average closing price per share immediately before the date of grant
								HK$	*HK$*
Directors									
Mr. Chan Chi Hing	40,000	—	—	—	40,000	30 April 2009	1 May 2010 to 24 August 2017	3.15	3.15
	40,000	—	—	—	40,000	30 April 2009	1 May 2011 to 24 August 2017	3.15	3.15
	20,000	—	—	—	20,000	30 April 2009	1 May 2012 to 24 August 2017	3.15	3.15
	100,000	—	—	—	100,000				
Mr. Huang Rongsheng	40,000	—	—	—	40,000	30 April 2009	1 May 2010 to 24 August 2017	3.15	3.15
	40,000	—	—	—	40,000	30 April 2009	1 May 2011 to 24 August 2017	3.15	3.15
	20,000	—	—	—	20,000	30 April 2009	1 May 2012 to 24 August 2017	3.15	3.15
	100,000	—	—	—	100,000				

Name or category of participant	At 1 January 2010	Granted during the Review Period	Exercised during the Review Period	Lapsed/ cancelled during the Review Period	At 30 June 2010	Date of grant	Exercise period	Exercise price	Weighted average closing price per share immediately before the date of grant
	Number of share options								
								HK$	*HK$*
Sub-total	200,000	—	—	—	200,000				
Other employees in aggregate	17,128,000	—	—	—	17,128,000	30 April 2009	1 May 2010 to 24 August 2017	3.15	3.15
	17,128,000	—	—	—	17,128,000	30 April 2009	1 May 2011 to 24 August 2017	3.15	3.15
	8,564,000	—	—	—	8,564,000	30 April 2009	1 May 2012 to 24 August 2017	3.15	3.15
Sub-total	42,820,000	—	—	—	42,820,000				
Other participants in aggregate	32,000	—	—	—	32,000	30 April 2009	1 May 2010 to 24 August 2017	3.15	3.15
	32,000	—	—	—	32,000	30 April 2009	1 May 2011 to 24 August 2017	3.15	3.15
	16,000	—	—	—	16,000	30 April 2009	1 May 2012 to 24 August 2017	3.15	3.15
Sub-total	80,000	—	—	—	80,000				
Total	43,100,000	—	—	—	43,100,000				

AUDIT COMMITTEE

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

As at the date of this report, 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 the consolidated financial statements of the Group for the Review Period and this interim report.

CORPORATE GOVERNANCE

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

Save as disclosed above, the Board is of the view that the Company has complied with the code provisions set out in the Code during the Review Period. The Directors are aware of any information that reasonably reveals that there is any non-compliance with or derivation from the Code by the Company any time during the Review Period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

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

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

BOARD OF DIRECTORS

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

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

Hong Kong
24 August 2010

Condensed Consolidated Statement of Comprehensive Income

FOR THE SIX MONTHS ENDED 30 JUNE 2010

		Six months ended 30 June	
		2010	2009
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
			(Restated)
Turnover	4	**1,050,924**	635,852
Cost of sales		**(334,061)**	(298,581)
Gross profit		**716,863**	337,271
Other income	5	**17,651**	4,347
Distribution expenses		**(123,603)**	(59,491)
Administrative expenses		**(135,671)**	(77,692)
Net (loss) gain on derivatives and held-for-trading investments		**(33,371)**	13,417
Finance costs	6	**(93,134)**	(25,262)
Profit before tax	7	**348,735**	192,590
Income tax expense	8	**(47,105)**	(14,657)
Profit and total comprehensive income for the period		**301,630**	177,933
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		**296,542**	179,312
Non-controlling interests		**5,088**	(1,379)
		301,630	177,933
Earnings per share	10		
Basic *(RMB cents)*		**14.4**	8.7
Diluted *(RMB cents)*		**14.2**	N/A

Condensed Consolidated Statement of Financial Position

	Notes	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	**8,894,455**	7,968,805
Prepaid lease payments		**30,724**	31,062
Deposits		**291,832**	219,950
Deposit paid for acquisition of land use rights		**25,514**	25,274
Deposit for acquisition for additional interests in a subsidiary		**—**	36,000
Intangible assets		**107,742**	111,691
Goodwill		**11,065**	11,065
		9,361,332	8,403,847
CURRENT ASSETS			
Inventories		**216,002**	144,704
Bills and trade receivables	12(a)	**940,506**	516,366
Bills receivables discounted with recourse	12(b)	**166,623**	241,019
Other receivables and prepayments		**357,958**	210,177
Amounts due from related parties		**38,354**	83,755
Held-for-trading investments	13	**54,814**	48,641
Pledged and restricted bank deposits		**233,815**	577,883
Bank balances and cash		**1,268,628**	674,545
		3,276,700	2,497,090
CURRENT LIABILITIES			
Bills and trade payables	14	**238,014**	131,875
Advances drawn on bills receivables discounted with recourse		**166,623**	241,019
Other payables and accrued expenses		**487,674**	698,389
Amount due to a non-controlling interests of a subsidiary		**15,845**	—
Amount due to a related party		**599**	—
Tax payables		**138,052**	47,952
Bank and other borrowings — due within one year	15	**1,678,000**	2,467,084
		2,724,807	3,586,319

Condensed Consolidated Statement of Financial Position (Continued)

	Notes	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
NET CURRENT ASSETS (LIABILITIES)		**551,893**	(1,089,229)
		9,913,225	7,314,618
CAPITAL AND RESERVES			
Share capital		**198,605**	198,605
Share premium and reserves		**6,597,961**	6,079,391
Equity attributable to owners of the Company		**6,796,566**	6,277,996
Non-controlling interests		**160,750**	145,087
TOTAL EQUITY		**6,957,316**	6,423,083
NON-CURRENT LIABILITIES			
Provision for restoration and environmental costs		**10,166**	9,329
Deferred tax liabilities		**247,150**	244,682
Other long term payables		**232,860**	142,524
Bank and other borrowings — due after one year	15	**997,000**	495,000
Convertible loan notes	16	**1,468,733**	—
		2,955,909	891,535
		9,913,225	7,314,618

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Attributable to owners of the Group											
	Share capital	Share premium	Special reserve	Future development fund	Statutory surplus reserve	Share option reserve	Convertible loan notes reserve	Other reserve	Retained profits	Total	Minority interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	198,605	3,310,400	695,492	99,213	269,598	–	–	–	1,265,487	5,838,795	35,759	5,874,554
Profit and total comprehensive income for the period	–	–	–	–	–	–	–	–	179,312	179,312	(1,379)	177,933
Transfer	–	–	–	11,660	–	–	–	–	(11,660)	–	–	–
Recognition of equity-settled share based payment expenses	–	–	–	–	–	8,927	–	–	–	8,927	–	8,927
Capital contribution by minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	10,158	10,158
At 30 June 2009	198,605	3,310,400	695,492	110,873	269,598	8,927	–	–	1,433,139	6,027,034	44,538	6,071,572
Profit and total comprehensive income for the period	–	–	–	–	–	–	–	–	224,197	224,197	(151)	224,046
Transfer	–	–	–	41,138	46,371	–	–	–	(87,509)	–	–	–
Recognition of equity-settled share based payment expenses	–	–	–	–	–	26,765	–	–	–	26,765	–	26,765
Capital contribution by minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	45,197	45,197
Arising from acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	67,503	67,503
An obligation to acquire the minority interest of a subsidiary	–	–	–	–	–	–	–	–	–	–	(12,000)	(12,000)
At 31 December 2009	198,605	3,310,400	695,492	152,011	315,969	35,692	–	–	1,569,827	6,277,996	145,087	6,423,083
Profit and total comprehensive income for the period	–	–	–	–	–	–	–	–	296,542	296,542	5,088	301,630
Transfer	–	–	–	8,818	–	–	–	–	(8,818)	–	–	–
Recognition of equity-settled share based payment expenses	–	–	–	–	–	21,466	–	–	–	21,466	–	21,466
Capital contribution by minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	12,173	12,173
Acquisition of additional interest in a non-wholly owned subsidiary	–	–	–	–	–	–	–	(41,846)	–	(41,846)	(1,598)	(43,444)
Recognition of equity component of convertible loan notes	–	–	–	–	–	–	242,408	–	–	242,408	–	242,408
At 30 June 2010	198,605	3,310,400	695,492	160,829	315,969	57,158	242,408	(41,846)	1,857,551	6,796,566	160,750	6,957,316

Condensed Consolidated Statement of Cash Flows

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Operating activities		
Net cash (used in) from operating activities	**(48,987)**	278,009
Investing activities		
Purchase of property, plant and equipment	**(960,051)**	(326,001)
Decrease (increase) in pledged bank deposits	**344,068**	(610,035)
Deposit paid for acquisition of coal mines	**(72,122)**	(254,120)
Increase in advances	**—**	—
Acquisition of a subsidiary	**(6,000)**	(6,200)
Others	**5,753**	—
Net cash used in investing activities	**(688,352)**	(1,196,356)
Financing activities		
New bank and other borrowings raised	**1,740,000**	1,110,000
Repayment of bank and other borrowings	**(2,037,084)**	(10,000)
Interest paid on bank and other borrowings	**(64,180)**	(25,262)
Capital contribution from minority shareholders	**12,173**	10,158
Issue of convertible loan notes	**1,680,513**	—
Net cash from financing activities	**1,331,422**	1,084,896
Net increase in cash and cash equivalents	**594,083**	166,549
Cash and cash equivalents at 1 January	**674,545**	694,820
Cash and cash equivalents at 30 June	**1,268,628**	861,369
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**1,268,628**	861,369

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 parent company and ultimate holding company is Sanlian Investment Holding Limited, a company incorporated in the British Virgin Islands. The Company acts as an investment holding company and its subsidiaries are engaged in mining of coal, sale of coke, raw coal and clean coal and provision of transportation services.

The Group's principal operations are conducted in the People's Republic of China (the "PRC"). The financial information is 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 on the historical cost basis except for certain financial instruments which are measured at fair value.

The condensed consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing The Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

3. PRINCIPAL ACCOUNTING POLICIES

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2009, except for the accounting policies described below which relate to the transactions newly occurred during the current reporting period and the adoption of revised IFRSs which have become those effective during the current reporting period.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Convertible loan notes

Convertible loan notes issued by the Company that contain liability and conversion option are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible loan notes and the fair values assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible loan notes reserve).

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes reserve until the embedded conversion option is exercised (in which case the balance stated in convertible loan notes reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

In the current interim period, the Group has applied a number of new and revised standards, amendment and interpretations ("new and revised IFRSs") issued by the International Accounting Standards Board, which are effective for the Group's financial year beginning on 1 January 2010.

Except as described below, the adoption of the new and revised IFRSs has had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

IAS 27 (revised in 2008) Consolidated and Separate Financial Statements

IAS 27 (2008) has been adopted and has been applied retrospectively (subject to specified transitional provisions). The revised Standard has resulted in changes in the Group's accounting policies regarding changes in ownership interests in subsidiaries of the Group. The new accounting policies in relation to changes in ownership interests in subsidiaries have been applied prospectively to changes that take place on or after 1 January 2010 in accordance with the relevant transitional provisions.

Under IAS 27 (2008), increases or decreases in ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are dealt with in equity with no impact on goodwill or profit or loss. When control of a subsidiary is lost as a result of a transaction, event or other circumstance, IAS 27 (2008) requires that the Group derecongnise all assets, liabilities and non-controlling interests at their carrying amounts. Any retained interest in the former subsidiary is recognised at its fair value at the date when control is lost, with the resulting gain or loss being recognised in profit or loss.

Since there were no acquisition or disposal of partial interests in subsidiaries before, the adoption of IAS 27 (2008) has had no significant financial impact on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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

IFRSs (Amendments)	Improvements to IFRSs 2010[1]
IAS 24 (Revised)	Related Party Disclosures[2]
IAS 32 (Amendment)	Classification of Rights Issues[3]
IFRS 1 (Amendments)	Limited Exemption from Comparative IFRS 7 Disclosure for First-time Adopters[4]
IFRS 9	Financial Instruments[5]
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement[2]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[4]

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

IAS 27 (revised in 2008) Consolidated and Separate Financial Statements (Continued)

[1] Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
[2] Effective for annual periods beginning on or after 1 January 2011
[3] Effective for annual periods beginning on or after 1 February 2010
[4] Effective for annual periods beginning on or after 1 July 2010
[5] Effective for annual periods beginning on or after 1 January 2013

IFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1st January, 2013, with earlier application permitted. The standard requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of IFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

4. REVENUE AND SEGMENT INFORMATION

Information reported to the chief operating decision maker of the Group for the purposes of resource allocation and performance assessment focuses on the Group's business operations.

The Group's operating segments are comprised of: (i) coal mining; (ii) coking; (iii) others.

Principal activities are as follows:

Coal mining	—	Manufacture 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

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segments revenues and results

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

	Six months ended 30 June 2010 (unaudited)					
	Coal mining	**Coking**	**Others**	**Segment total**	**Inter-segment eliminations**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE						
External	632,663	413,200	5,061	1,050,924	—	1,050,924
Inter-segment	292,166	—	—	292,166	(292,166)	—
	924,829	413,200	5,061	1,343,090	(292,166)	1,050,924
RESULTS						
Segment profit	355,622	235,582	2,056	593,260	—	593,260

Inter-segment transactions were carried out at a margin of 46%.

Other income	17,651
Administrative expenses	(135,671)
Net loss on derivatives and held-for-trading investments	(33,371)
Finance costs	(93,134)
Profit before tax	348,735

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segments revenues and results (Continued)

	Six months ended 30 June 2009 (unaudited)					
	Coal mining *RMB'000*	Coking *RMB'000*	Others *RMB'000*	Segment total *RMB'000*	Inter-segment eliminations *RMB'000*	Total *RMB'000*
REVENUE						
External	245,921	386,325	3,606	635,852	—	635,852
Inter-segment	272,393	—	—	272,393	(272,393)	—
	518,314	386,325	3,606	908,245	(272,393)	635,852
RESULTS						
Segment results	94,210	182,760	810	277,780	—	277,780

Inter-segment transactions were carried out at a margin of 35%.

Other income	4,347
Administrative expenses	(77,692)
Net gain on derivatives and held-for-trading investments	13,417
Finance costs	(25,262)
Profit before tax	192,590

Segment profit represents profit earned by each segment without allocation of other income, administrative expenses, finance costs and net gain (loss) on derivatives and held-for-trading investments. 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.

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities

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

5. OTHER INCOME

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Bank interest income	**4,916**	2,818
Investment income	**11,652**	—
Others	**1,083**	1,529
	17,651	4,347

6. FINANCE COSTS

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Interest expenses on borrowings wholly repayable within five years:		
— Bank and other borrowings	**43,457**	4,297
— Advances drawn on bills receivables discounted	**17,966**	20,965
— Interest expense on convertible loan notes	**46,473**	—
	107,896	25,262
Less: interest capitalised in mining structure and mining rights included in property, plant and equipment	**(14,762)**	—
	93,134	25,262

7. PROFIT BEFORE TAX

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Profit before tax has been arrived at after charging:		
Amortisation of intangible assets	**3,949**	1,899
Release of prepaid lease payments	**338**	337
Provision for restoration and environmental costs	**837**	615
Depreciation of property, plant and equipment	**52,370**	36,888

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax:		
PRC Enterprise Income Tax ("EIT")	**47,105**	14,657

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

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

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

8. INCOME TAX EXPENSE (CONTINUED)

The provision for EIT is based on a statutory rate of 25% (For the six months ended 30 June 2009: 25%) of the assessable profit of the group entities as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain PRC subsidiaries of the Company which are exempted from EIT in accordance with the approval from the respective tax bureau.

Pursuant to the "Application of preferential tax treatment for Foreign Investment Enterprise", Panzhihua City Hidili Coal Company Limited ("Hidili Coal"), Sichuan Hidili Industry Company Limited ("Sichuan Hidili"), 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 EIT from 2007 to 2008 and a 50% deduction of EIT rate for three years from 2009 to 2011. Therefore, the applicable tax rate of Hidili Coal and Tianchou for 2010 is 12.5% (For the six months ended 30 June 2009: 12.5%).

For Tiandaoqin, Yangfan, Sichuan Hidili and Yanjiang, they were also entitled to the tax incentives in connection with the development of the western part of the PRC. The applicable tax rate for 2010 is 7.5% (For the six months ended 30 June 2009: 7.5%).

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 of EIT rate from 2005 to 2009. The applicable tax rate for 2010 is 25% (For the six months ended 30 June 2009: 12.5%).

According to the Taxpayer Exemption Application Form (納稅人減免稅申請審批表, "EIT Exemption Form") issued by the local tax bureau on 4 July 2007, Liupanshui Hidili Industry Company Limited ("Liupanshui Hidili") was entitled to a 2 years exemption from EIT from 2008 to 2009 and a 50% deduction of EIT rate for three years from 2010 to 2012. The applicable tax rate for 2010 is 12.5% (For the six months ended 30 June 2009: Nil).

9. DIVIDENDS

No dividend were paid, declared or proposed during the reporting period. The directors do not recommend the payment of an interim dividend for 2010 (For the six months ended 30 June 2009: Nil).

10. 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:

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share (30 June 2009: basic) — Profit for the period attributable to owners of the Company	**296,542**	179,312

Number of shares

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Number of ordinary shares for the purpose of basic earnings per share	**2,060,000**	2,060,000
Effect of dilutive potential ordinary shares: Share options issued by the Company	**22,834**	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,082,834**	

The computation of diluted earnings per shares for the six months ended 30 June 2010 does not assume the conversion of Company's convertible loan notes since its assumed exercise would result in an increase in earnings per share.

11. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately RMB976.3 million on acquisition of property, plant and equipment.

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

(a) BILLS AND TRADE RECEIVABLES

	30 June 2010	31 December 2009
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	**520,263**	397,047
Less: allowable for bad debts	**(8,838)**	(8,838)
	511,425	388,209
Bills receivables	**429,081**	128,157
	940,506	516,366

12. BILLS AND TRADE RECEIVABLES AND BILLS RECEIVABLES DISCOUNTED WITH RECOURSE (CONTINUED)

(a) BILLS AND TRADE RECEIVABLES (Continued)

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 aged analysis of trade receivables and bills receivables, net of allowances, presented based on the invoice date at the end of the reporting period, is as follows:

	30 June 2010	31 December 2009
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Aged:		
0-90 days	**796,994**	482,559
91-120 days	**64,011**	14,560
121-180 days	**64,813**	14,337
181-365 days	**10,459**	4,910
Over 365 days	**4,229**	—
	940,506	516,366

12. BILLS AND TRADE RECEIVABLES AND BILLS RECEIVABLES DISCOUNTED WITH RECOURSE (CONTINUED)

(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 are as follows:

	30 June 2010	31 December 2009
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Aged:		
0-90 days	**146,623**	162,749
91-120 days	**20,000**	78,270
	166,623	241,019

13. HELD-FOR-TRADING INVESTMENTS

	30 June 2010	31 December 2009
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Listed securities		
— Equity securities listed in the PRC	**27,977**	48,641
— Equity securities listed in Australia	**26,837**	—
	54,814	48,641

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

14. BILLS AND TRADE PAYABLES

The aged analysis of the Group's bills and trade payables at the end of the reporting period is as follows:

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
Aged:		
0-90 days	**139,771**	116,640
91-180 days	**82,097**	13,499
181-365 days	**6,874**	1,736
Over 365 days	**9,272**	—
	238,014	131,875

15. BANK AND OTHER BORROWINGS

The bank and other borrowings are repayable as follows:

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
Bank and other borrowings		
Within one year	**1,678,000**	2,467,084
More than one year, but not exceeding two years	**511,000**	255,000
More than two years, but not exceeding five years	**486,000**	240,000
	2,675,000	2,962,084

The bank and other borrowings carry interest at market rates ranging from 5.0% to 9.72% per annum.

16. CONVERTIBLE LOAN NOTES

The Company issued RMB1,707 million aggregate principal amount of US dollars settled 1.5% convertible loan notes at a nominal value of HK$0.1 each on 19 January 2010 at the fixed exchange rate of USD1 to RMB6.825. The convertible loan notes are denominated in RMB and settled in US dollars which equivalent of its RMB principal amount of RMB1,707 million. The notes entitle the holders to convert them into ordinary shares of the Company at any time between the date of issue of the notes and their settlement date on 19 January 2015 at a conversion price of HK$12.58 per convertible loan notes at a fixed exchange rate of HK$1 to RMB0.8803. Interest of 1.5% will be paid semi-annually up until the settlement date.

The bondholders may, at their option, require the Company to redeem all or some of the convertible loan notes on 19 January 2013 at 106.2687% of their principal amount. Accordingly, the liability component of the convertible loan notes is classified as non-current liability as at 30 June 2010.

Unless previously redeemed, converted or purchased, the convertible loan notes will be redeemed by the Company at 110.8254% of their principal amount on 19 January 2015.

The convertible loan notes contain two components: liability and equity elements. The equity element is presented in equity heading convertible loan notes reserve. The effective interest rate of the liability component is 7.51% per annum.

The movement of the liability component of the convertible loan notes for the six months ended 30 June 2010 is set out below:

	30 June 2010	31 December 2009
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
At the beginning of the period/year	**—**	—
Addition	**1,422,260**	—
Effective interest expenses	**46,473**	—
At the end of the period/year	**1,468,733**	—

17. SHARE OPTION SCHEME

The Company's share option scheme (''the Scheme''), was adopted pursuant to a written resolution passed by all the shareholders of the Company on 25 August 2007 for the primary purpose of providing incentives to eligible participants or rewards for their contribution to the Group, and will expire on 24 August 2017.

At 30 June 2010, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 43,100,000, representing 2.09% of the shares of the Company in issue at that date. The directors and employees should be remained in office or employed by the Group for the options to be vested.

The following table discloses movements in such holdings during the period:

Directors

Date of grant	Exercisable period	Exercise price *HK$*	Outstanding at 1.1.2010	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding at 30.6.2010
30.4.2009	30.4.2010 - 24.8.2017	3.15	80,000	—	—	—	80,000
30.4.2009	30.4.2011 - 24.8.2017	3.15	80,000	—	—	—	80,000
30.4.2009	30.4.2012 - 24.8.2017	3.15	40,000	—	—	—	40,000
			200,000	—	—	—	200,000

Employees

Date of grant	Exercisable period	Exercise price *HK$*	Outstanding at 1.1.2010	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding at 30.6.2010
30.4.2009	30.4.2010 - 24.8.2017	3.15	17,128,000	—	—	—	17,128,000
30.4.2009	30.4.2011 - 24.8.2017	3.15	17,128,000	—	—	—	17,128,000
30.4.2009	30.4.2012 - 24.8.2017	3.15	8,564,000	—	—	—	8,564,000
			42,820,000	—	—	—	42,820,000

17. SHARE OPTION SCHEME (CONTINUED)

Consultant

Date of grant	Exercisable period	Exercise price *HK$*	Outstanding at 1.1.2010	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding at 30.6.2010
30.4.2009	30.4.2010 - 24.8.2017	3.15	32,000	—	—	—	32,000
30.4.2009	30.4.2011 - 24.8.2017	3.15	32,000	—	—	—	32,000
30.4.2009	30.4.2012 - 24.8.2017	3.15	16,000	—	—	—	16,000
			80,000	—	—	—	80,000

The estimated fair values of the options granted on 30 April 2009 with vesting date on 30 April 2010, 30 April 2011 and 30 April 2012 are HK$35,482,000 (equivalent to approximately RMB31,245,000), HK$37,600,000 (equivalent to approximately RMB33,111,000) and HK$19,414,000 (equivalent to approximately RMB17,096,000) respectively.

The fair value was calculated using Binominal Option Pricing Model (the "Model"). The inputs into the Model were as follows:

	30 April 2009	**30 April 2009**	**30 April 2009**
Vesting date	30 April 2010	30 April 2011	30 April 2012
Grant date share price	HK$3.15	HK$3.15	HK$3.15
Exercise price	HK$3.15	HK$3.15	HK$3.15
Expected life	8.32 years	8.32 years	8.32 years
Expected volatility	110.57%	110.57%	110.57%
Risk-free interest rate	2.004%	2.004%	2.004%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous one year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

17. SHARE OPTION SCHEME (CONTINUED)

Consultant (continued)

Share options issued to consultant in exchange for services are measured at the fair value of services received.

The Company has used the Model to value the share options granted during the period. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any charge in the variables so adopted may materially affect the estimation of the fair value of an option.

The Group recognised the total expense of RMB21,466,000 for the six months period ended 30 June 2010 (year ended 31 December 2009: RMB35,692,000) in relation to the share options granted by the Company.

18. CAPITAL COMMITMENTS

At the end of reporting period, the Group had the following commitments:

	30 June 2010	31 December 2009
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	**278,898**	256,956

19. PLEDGE OF ASSETS

As at 30 June 2010, the Group pledged assets in an aggregate amount of approximately RMB1,498.5 million (At 31 December 2009: RMB1,918.2 million) to banks for credit facilities in the amount of RMB3,025 million granted to the Group (At 31 December 2009: RMB3,712.1 million).

20. 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 2010 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)
Mr. Xian Jilun	Father of Mr. Xian Yang, shareholder and director of the Company	Rental payable by the Group	**600**	600
Panxian Panshi	An investee company	Transportation costs payable by the Group	**9,539**	7,457
Panxian Panying	An investee company	Transportation costs payable by the Group	**868**	2,383

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

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
Amount due from related parties		
Panxian Panshi *(note i)*	**7,159**	68,559
Panxian Panying *(note ii)*	**2,412**	14,929
Yunnan Kaijie *(note iii)*	**28,442**	—
攀枝花市恒為製鈦有限公司 (「恒為製鈦」) Translated as Hengwei Zhitai Company Limited ("Hengwei Zhitai") *(note iv)*	**341**	267
	38,354	83,755
Amount due to a related party		
Mr. Xian Jilun (鮮繼倫) *(notes v)*	**599**	—

20. RELATED PARTY DISCLOSURES (CONTINUED)

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

Notes:

(i) Panxian Panshi is an investee company in which the Group owned its 37% equity interest but does not have any significant influence. The balance was of trading in nature with age within one year.

(ii) Panxian Panying is an investee company in which the Group owned its 37% equity interest but does not have any significant influence. The balance was of trading in nature with age within one year.

(iii) Yunnan Kaijie is the holder of 57% and 51% equity interest in Panxian Panshi and Panxian Panying. The balance was of trading in nature with age within one year.

(iv) Hengwei Zhitai is ultimately owned by Mr. Xian Fan, brother of Mr. Xian Yang who is a shareholder and a director of the Company. The balance was of trading in nature with age within one year.

(v) Mr. Xian Jilun is the father of Mr. Xian Yang. Balance represents rental expenses paid by Mr. Xian Jilun on behalf of the Group.

All above balances are 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	
	2010	2009
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Basic salaries and allowances	**1,043**	1,048
Retirement benefit scheme contribution	**24**	53
Share-based payment expenses	**3,675**	274
	4,742	1,375