Hidili 恒鼎

Hidili Industry International Development Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1393

2012
INTERIM REPORT

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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

Ms. Chu Lai Kuen

AUTHORIZED REPRESENTATIVES

Mr. Xian Yang
Ms. Chu Lai Kuen

REGISTERED OFFICE

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KY1-1111
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HEAD OFFICE

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PRC

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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LEGAL ADVISER

King & Wood Mallesons
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STOCK CODE

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http://www.hidili.com.cn

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98-1 Shuangling Road
Chengdu, Sichuan Province
PRC

Panzhihua City Commercial Bank Ltd,
Zhuhuyuan Branch
Floor 1, Ping Street, Laodong Building
East District, Panzhihua City
Sichuan Province
PRC

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

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 2012 (the "Review Period").

During the Review Period, our turnover and gross profit amounted to approximately RMB1,264.3 million and RMB785.8 million respectively, recorded a slight increase of approximately 12.1% and 8.0% respectively as compared to corresponding period in 2011. As the production volume of those newly developed coal mines in Guizhou and Yunnan provinces were steadily ramping up during the Review Period, our raw coal production reached 2,088,000 tonnes, representing an increase of 35.6%, especially in Guizhou and Yunnan provinces, where the production volumes increased by 465,000 tonnes or 56.7%. However, the contribution from the increase in production has been off-set by the drop in selling price of clean coal. In this regard, the Group achieved EBITDA of approximately RMB555.5 million, representing a margin of 43.9% during the Review Period.

BUSINESS REVIEW

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

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

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

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

OUTLOOK

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

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

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

By Order of the board of directors
Xian Yang
Chairman

Hong Kong
27 August 2012

Management Discussion and Analysis

FINANCIAL HIGHLIGHTS

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

FINANCIAL REVIEW

TURNOVER

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

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

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

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

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

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

COST OF SALES

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

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

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

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

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

Depreciation and amortization for the Review Period were approximately RMB85.7 million, representing an increase of approximately RMB34.7 million, or approximately 68.0%, as compared with approximately RMB50.0 million in corresponding period of 2011. The increase was primarily attributable to the Group's depreciable asset base since increased capital expenditures relating to the application of mechanization in mining during the Review Period.

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

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

GROSS PROFIT

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

OTHER GAINS AND LOSSES

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

DISTRIBUTION EXPENSES

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

ADMINISTRATIVE EXPENSES

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

NET GAIN (LOSS) ON DERIVATIVE AND HELD-FOR-TRADING INVESTMENTS

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

FINANCE COSTS

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

INCOME TAX EXPENSES

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

PROFIT FOR THE PERIOD

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

EBITDA

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

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

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

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

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

PLEDGE OF ASSETS OF THE GROUP

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

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

EMPLOYEES

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

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

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

RISK IN FOREIGN EXCHANGE

Since all of the Group's business activities are transacted in RMB, the directors (the "Directors") of the Company consider that the Group's risk in foreign exchange is insignificant. However, during the Review Period, the Group was exposed to exchange rate risk mainly arising from the foreign currency bank balances of approximately HK$7.2 million and US$24.2 million. The Group does not have any financial instruments for hedging purpose.

SIGNIFICANT INVESTMENT HELD

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

MATERIAL ACQUISITION AND DISPOSAL

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

CONTINGENT LIABILITIES

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

CONNECTED TRANSACTIONS

(a) During the Review Period, rental expenses amounting to RMB0.6 million were paid to Mr. Xian Jilun, father of Mr. Xian Yang, a controlling shareholder of the Company and a Director, for the lease of the Company's head office located at 16th Floor, Dingli Mansion, No. 185 Renmin Street, Panzhihua, Sichuan province, the PRC. The rent paid by the Group is determined with reference to the market rent of comparable properties in the market.

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

Other Information

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

As at 30 June 2012, 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	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	1,100,674,000	Founder and beneficiary of trust	53.28%
Mr. Xian	Sanlian Investment Holding Limited ("Sanlian Investment")	1,000	Beneficial owner	100%
Mr. Sun Jiankun ("Mr. Sun") *(Note 2)*	The Company	19,380,000	Interest of controlled corporation	0.94%
Mr. Sun	Able Accord Enterprises Limited ("Able Accord")	1,000	Beneficial owner	100%
Mr. Wang Rong ("Mr. Wang") *(Note 3)*	The Company	7,887,000	Interest of controlled corporation	0.38%
Mr. Wang	Pavlova Investment Limited ("Pavlova Investment")	1,000	Beneficial owner	100%
Mr. Chan Chi Hing	The Company	80,000	Beneficial owner	0.004%

Notes:

1. The 1,100,674,000 shares of the Company are held by Sanlian Investment, the issued share capital of which is jointly held by Xian Yang No.1A Ltd. ("Xian Yang No.1A") and Sanlian No.1 Ltd. ("Sanlian No.1"). Mr. Xian is the only controlling shareholder of Xian Yang No.1A and Sanlian No.1. In 2011, Mr. Xian formed a discretionary trust, The Xian Yang Foundation 1, of which Sarasin Trust Company Guernsey Limited ("Sarasin Trust") was the trustee. Accordingly, Mr. Xian is deemed to be interested in the 1,100,674,000 shares held by Sanlian Investment by virtue of the SFO. Mr. Xian is also the sole director of Sanlian Investment.

2. The 19,380,000 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 19,380,000 shares held by Able Accord by virtue of the SFO. Mr. Sun is also a director of Able Accord.

3. The 7,887,000 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 7,887,000 shares held by Pavlova Investment by virtue of the SFO. Mr. Wang is also a director of Pavlova Investment.

Save as disclosed above, to the best knowledge of the Directors, as at 30 June 2012, 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 2012, 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*
Sarasin Trust *(Note 1)*	561,343,740 (L)	Trustee	27.18% (L)
Sanlian Investment *(Note 1)*	1,100,674,000 (L)	Beneficial owner	53.28% (L)
Mr. Xian *(Note 1)*	1,100,674,000 (L)	Interest of controlled corporation	53.28% (L)
Ms. Qiao Qian *(Note 2)*	1,100,674,000 (L)	Interest of spouse	53.28% (L)
Baring Private Equity Asia GP V, L.P. *(Note 3)*	400,000,000	Interest of controlled corporation	19.36% (L)
Jean Eric Salata *(Note 3)*	400,000,000	Interest of controlled corporation	19.36% (L)

* (L)-Long position, (S)-Short position, (P)-Lending Pool

Notes:

1. The entire issued share capital of Sanlian Investment is jointly owned by Xian Yang No.1A and Sanlian No.1. Mr. Xian is the only controlling shareholder of Xian Yang No.1A and Sanlian No.1. In 2011, Mr. Xian formed a discretionary trust, The Xian Yang Foundation 1, of which Sarasin Trust was the trustee. Accordingly, Mr. Xian is deemed to be interested in 1,100,674,000 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 the spouse of Mr. Xian, to be interested in all the shares of the Company in which Mr. Xian is deemed to be interested.

3. Baring Private Equity Asia GP V, L.P. was wholly controlled by Baring Private Equity Asia GP V Limited (as general partner), a Company which wholly controlled The Baring Asia Private Equity Fund V, L.P.. Baring Private Equity Asia GP V. Limited was wholly controlled by Jean Eric Salata. Baring Private Equity Asia V Holding (8) Limited was 99.35% controlled by The Baring Asia Private Equity Fund V, L.P.. Accordingly, Baring Private Equity Asia GP V, L.P. and Jean Eric Salata by virtue of the SFO are deemed to be interested in 400,000,000 shares of the Company.

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 and 26 February 2011, 43,200,000 share options and 55,000,000 share options have been granted by the Company respectively under the Share Option Scheme.

At 30 June 2012, the number of shares in respect of which options had been granted and remained outstanding under the Share Option Scheme was 92,447,000 (2011: 92,759,000). The Directors and employees should be remained in office or employed by the Group for the options to be vested.

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

	Number of share options								
Name or category of participant	**At 1 January 2012**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**At 30 June 2011**	**Date of grant**	**Exercise period**	**Exercise price** *HK$*	**Weighted average closing price per share immediate before the date of grant** *HK$*
Directors									
Mr. Chan Chi Hing	—	—	—	—	—	30 April 2009	1 May 2010 to 24 August 2017	3.15	3.15
	—	—	—	—	—	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
	20,000	—	—	—	20,000				
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				
	120,000	—	—	—	120,000				
Other employees in aggregate	11,587,000	—	—	—	11,587,000	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
	21,960,000	—	—	—	21,960,000	26 February 2011	27 February 2012 to 24 August 2017	6.604	6.604
	21,960,000	—	—	—	21,960,000	26 February 2011	27 February 2013 to 24 August 2017	6.604	6.604
	10,980,000	—	—	—	10,980,000	26 February 2011	27 February 2014 to 24 August 2017	6.604	6.604
	92,179,000	—	—	—	92,179,000				
Other participants in aggregate	—	—	—	—	—	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
	40,000	—	—	—	40,000	26 February 2011	27 February 2012 to 24 August 2017	6.604	6.604
	40,000	—	—	—	40,000	26 February 2011	27 February 2013 to 24 August 2017	6.604	6.604
	20,000	—	—	—	20,000	26 February 2011	27 February 2014 to 24 August 2017	6.604	6.604
	148,000	—	—	—	148,000				
	92,447,000	—	—	—	92,447,000				

The estimated fair values of the options granted on 26 February 2011 with vesting date on 27 February 2012, 27 February 2013 and 27 February 2014 are HK$63,811,000 (equivalent to approximately RMB53,833,000), HK$67,661,000 (equivalent to approximately RMB57,081,000) and HK$32,968,000 (equivalent to approximately RMB27,813,000) respectively.

SHARE OPTION SCHEME

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

	26 February 2011	26 February 2011	26 February 2011
Vesting date	26 February 2012	26 February 2013	26 February 2014
Grant date share price	HK$6.45	HK$6.45	HK$6.45
Exercise price	HK$6.604	HK$6.604	HK$6.604
Expected life	6.5 years	6.5 years	6.5 years
Expected volatility	57.52%	57.52%	57.52%
Risk-free interest rate	2.334%	2.334%	2.334%

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 change in the variables so adopted may materially affect the estimation of the fair value of an option.

The Group recognised the total expense of RMB26,257,000 (for the six months ended 30 June 2011: RMB36,631,000) for the current period in relation to the share options granted by the Company.

AUDIT COMMITTEE

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

As at the date of this announcement, the audit committee consists of three independent 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 and has reviewed the consolidated financial statements of the Group for the Review Period.

CORPORATE GOVERNANCE

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

As disclosed in the Corporate Governance Report contained in the Company's 2011 annual report, the Company has applied the principles under the Code on Corporate Governance Practices as in force for the period ended 31 December 2011 (the "Former Code") and has been in compliance with relevant provisions of the Former Code for that financial period.

The Stock Exchange has made various amendments to the Former Code set out in Appendix 14 of the Listing Rules, and the revised code, namely the "Corporate Governance Code and Corporate Governance Report" (the "Revised Code"), became effective on 1 April 2012. In the opinion of the Directors, the Company has been in compliance with relevant provisions of the Former Code from 1 January 2012 to 31 March 2012 and the Revised Code from 1 April 2012 to 30 June 2012, save for the deviation that the non-executive Director and independent non-executive Directors are not appointed for specific terms pursuant to paragraph A.4.1 of the Former Code and the Revised Code (as the case may be). Notwithstanding the aforesaid deviation, all the Directors (including the non-executive Director and independent non-executive Directors) are subject to retirement by rotation and re-election at the Company's annual general meeting in compliance with the Company's Articles of Association. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Former Code and the Revised Code (as the case may be).

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 a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the "Model Code"). Following a specific enquiry, each Director has confirmed that he or she has complied with the required standards as set out in the Model Code and the code of conduct regarding director's securities transactions adopted by the Company throughout the Review Period.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

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

Hong Kong
27 August 2012

* *For identification purpose only*

Report on Review of Condensed Consolidated Financial Statements

Deloitte.
德勤

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 condensed consolidated financial statements of Hidili Industry International Development Limited (the "Company") and its subsidiaries set out on pages 24 to 44, which comprise the condensed consolidated statement of financial position as of 30 June 2012 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows 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 34 "Interim Financial Reporting" ("IAS 34"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements 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 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 these condensed consolidated financial statements consists of making inquiries, 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 August 2012

Condensed Consolidated Statement Of Comprehensive Income

For the Six Months Ended 30 June 2012

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

Condensed Consolidated Statement of Financial Position

As at 30 June 2012

	NOTES	30.6.2012 RMB'000 (unaudited)	31.12.2011 RMB'000 (audited)
Non-current Assets			
Property, plant and equipment	10	12,846,981	12,196,348
Prepaid lease payments		29,368	29,707
Deposits	11	55,960	35,960
Deposit paid for acquisition of land use rights		104,480	86,084
Deposit for acquisition of additional interests in subsidiaries		6,797	60,000
Intangible assets		99,117	101,017
Goodwill		11,065	11,065
Interests in associates		143,688	146,850
Available-for-sale investments		228,330	228,330
		13,525,786	12,895,361
Current Assets			
Inventories		149,169	147,409
Bills and trade receivables	12(a)	1,333,740	1,221,325
Bills receivables discounted with recourse	12(b)	72,884	23,000
Other receivables and prepayments		659,908	661,318
Amount due from an associate		—	1,535
Amounts due from related parties		29,757	22,875
Held-for-trading investments		40,565	64,541
Pledged and restricted bank deposits		265,040	184,857
Bank balances and cash		526,939	596,966
		3,078,002	2,923,826
Current Liabilities			
Bills and trade payables	13	454,663	398,418
Advances drawn on bills receivables discounted with recourse		72,884	23,000
Other payables and accrued expenses		843,092	769,668
Dividend payable		142,530	—
Amounts due to related parties		2,354	27,577
Amount due to a non-controlling shareholder of a subsidiary		15,142	15,142
Tax payables		183,661	195,129
Bank and other borrowings - due within one year	14	2,168,500	1,617,000
Convertible loan notes		1,641,288	—
		5,524,114	3,045,934
Net Current Liabilities		(2,446,112)	(122,108)
Total Assets less Current Liabilities		11,079,674	12,773,253

Condensed Consolidated Statement of Financial Position (Continued)

As at 30 June 2012

	NOTES	30.6.2012 *RMB'000* (unaudited)	31.12.2011 *RMB'000* (audited)
Capital and Reserves			
Share capital	15	199,078	199,078
Reserves		7,466,224	7,424,754
Equity attributable to owners of the Company		7,665,302	7,623,832
Non-controlling interests		99,804	182,834
Total Equity		7,765,106	7,806,666
Non-current Liabilities			
Provision for restoration and environmental costs		16,392	14,807
Deferred tax liabilities		319,061	315,386
Other long term payables	16	131,384	164,098
Bank and other borrowings — due after one year	14	330,000	380,000
Senior notes		2,517,731	2,496,399
Convertible loan notes		—	1,595,897
		3,314,568	4,966,587
		11,079,674	12,773,253

Condensed Consolidated Statement of Changes in Equity

For the Six Months Ended 30 June 2012

	Attributable to owners of the Company											
	Share capital	Share premium	Special reserve	Statutory surplus reserve	Convertible loan notes reserve	Future development fund	Share option reserve	Other reserve	Retained profits	Total	Non-controlling 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 2011 (audited)	198,605	3,104,400	695,492	381,912	242,408	189,917	67,997	(43,402)	2,135,483	6,972,812	163,602	7,136,414
Profit and total comprehensive income for the period	—	—	—	—	—	—	—	—	260,086	260,086	5,321	265,407
Transfer	—	—	—	31,245	—	16,631	—	—	(47,876)	—	—	—
Capital contribution from non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	—	730	730
Recognition of equity-settled share-based payment expenses	—	—	—	—	—	—	36,631	—	—	36,631	—	36,631
Shares issued upon exercise of share options	446	23,291	—	—	—	—	(9,665)	—	—	14,072	—	14,072
At 30 June 2011 (unaudited)	199,051	3,127,691	695,492	413,157	242,408	206,548	94,963	(43,402)	2,347,693	7,283,601	169,653	7,453,254
At 1 January 2012 (audited)	199,078	2,994,570	695,492	443,981	242,408	231,690	139,204	(67,840)	2,745,249	7,623,832	182,834	7,806,666
Profit and total comprehensive income for the period	—	—	—	—	—	—	—	—	186,055	186,055	3,108	189,163
Transfer	—	—	—	18,221	—	43,855	—	—	(62,046)	—	—	—
Capital contribution from non-controlling shareholder of a subsidiary	—	—	—	—	—	—	—	—	—	—	980	980
Acquisition of additional interests in non-wholly owned subsidiaries *(note)*	—	—	—	—	—	—	—	(28,312)	—	(28,312)	(84,188)	(112,500)
Recognition of equity-settled share-based payment expenses	—	—	—	—	—	—	26,257	—	—	26,257	—	26,257
Disposal of a subsidiary *(Note 17)*	—	—	—	—	—	—	—	—	—	—	(2,930)	(2,930)
Dividend *(Note 8)*	—	(142,530)	—	—	—	—	—	—	—	(142,530)	—	(142,530)
At 30 June 2012 (unaudited)	199,078	2,852,040	695,492	462,202	242,408	275,545	165,461	(96,152)	2,869,228	7,665,302	99,804	7,765,106

note: During the current interim period, the Group acquired the remaining equity interests of four subsidiaries from the non-controlling shareholders. The excess of the fair value of the considerations paid over the carrying amount of the net assets acquired has been debited directly to equity, of which the total considerations of RMB112,500,000 were satisfied by deposits of RMB88,500,000 paid in previous years and RMB24,000,000 paid in the form of cash.

Condensed Consolidated Statement of Cash Flows

For the Six Months Ended 30 June 2012

	NOTE	Six months ended 30 June 2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Net cash from operating activities		498,766	491,835
Net cash used in investing activities			
Additions to property, plant and equipment		(674,220)	(1,017,176)
Placement of pledged and restricted bank deposits		(641,346)	(118,146)
Deposits paid for acquisition of assets and land use rights		(68,396)	(14,822)
Proceeds from disposal of a subsidiary	17	4,155	—
Withdrawal of pledged and restricted bank deposits		561,163	123,160
Others		7,590	25,636
		(811,054)	(1,001,348)
Net cash from (used in) financing activities			
Repayment of bank and other borrowings		(350,000)	(1,012,272)
Interest paid		(196,708)	(156,250)
Repayment of other long term payables		(32,714)	(48,864)
Acquisition of additional interests in non-wholly owned subsidiaries		(24,000)	—
Deposit paid for acquisition of additional interest in a subsidiary		(6,797)	—
New bank and other borrowings raised		851,500	447,500
Capital contribution from non-controlling shareholders		980	730
Proceeds from issue of shares		—	14,072
		242,261	(755,084)
Net decrease in cash and cash equivalents		(70,027)	(1,264,597)
Cash and cash equivalents at 1 January		596,966	1,649,037
Cash and cash equivalents at 30 June, represented by bank balances and cash		526,939	384,440

1. GENERAL

Hidili Industry International Development Limited 恒鼎實業國際發展有限公司 (the "Company") was incorporated in the Cayman Islands under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 1 September 2006. Its shares are listed on The Stock Exchange of Hong Kong Limited. The address of the registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands, and the address of the principal place of business of the Company is Room 3702, 37th Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong. In the opinion of the directors, the Company's parent company and ultimate holding company is Sanlian Investment Holding Limited, a company incorporated in the British Virgin Islands which is in turn held by the trust controlled by Mr. Xian Yang, an executive director and Chairman of the Company. The Company together with its subsidiaries are hereinafter collectively referred to as the Group. The Company acts as investment holding company and its subsidiaries are engaged in mining and sale of coke, raw coal and clean coal.

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

2. BASIS OF PREPARATION

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

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

3. PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

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

4. REVENUE AND SEGMENT INFORMATION

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

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

Principal activities are as follows:

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

4. REVENUE AND SEGMENT INFORMATION *(Continued)*

SEGMENTS REVENUES AND RESULTS

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

Six months ended 30 June 2012

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

4. REVENUE AND SEGMENT INFORMATION *(Continued)*

SEGMENTS REVENUES AND RESULTS *(Continued)*

Six months ended 30 June 2011

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

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

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 makers.

5. FINANCE COSTS

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

6. INCOME TAX EXPENSE

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

6. INCOME TAX EXPENSE *(Continued)*

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

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

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

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

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

Pursuant to the "Application of preferential tax treatment for Foreign Investment Enterprise", Panzhihua City Hidili Coke Company Limited ("Hidili Coke"), Panzhihua City Tiandaoqin Industry & Trading Company Limited ("Tiandaoqin"), Panzhihua Yanjiang Industrial Company Limited ("Yanjiang") 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 the above companies for 2012 is 25% (for the six months ended 30 June 2011: 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 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 2012 is 12.5% (for the six months ended 30 June 2011: 12.5%).

The Tax Law of the PRC requires withholding tax upon distribution of profits earned by the PRC subsidiaries since 1 January 2008. Deferred tax of approximately RMB69,075,000 (31 December 2011: RMB65,400,000) has been provided for in the condensed consolidated financial statements in respect of the temporary differences attributable to such profits.

7. PROFIT FOR THE PERIOD

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

8. DIVIDEND

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

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

9. EARNINGS PER SHARE

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

EARNINGS

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

NUMBER OF SHARES

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

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

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

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group paid approximately RMB408.2 million and RMB266 million on acquisition of property, plant and equipment and construction in progress, respectively. At 30 June 2012, the legal titles of the mining rights included in property, plant and equipment with carrying values of approximately RMB1,821 million (31 December 2011: RMB1,726 million), have not been granted by the relevant government authorities and the relevant title transfers are still under application. In the opinion of the directors, taking into account of the PRC lawyers legal opinion, all the risks and rewards of ownership of mining rights have been transferred to the Group.

11. DEPOSITS

As at 30 June 2012, the deposits of RMB55,960,000 (31 December 2011: RMB35,960,000) was paid for acquisition of mines in the PRC. Up to the date these condensed consolidated financial statements were authorised for issuance, the Group is still negotiating with the mine owners to agree the final amount of consideration.

As at 31 December 2011, deposit of RMB30,000,000 was paid for acquisition of mine in the PRC. During the current interim period, RMB28,500,000 of it was used for acquisition of additional interest in a subsidiary, and the remaining RMB1,500,000 was included in other receivables, which is expected to be refunded subsequent to the end of the reporting period.

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

(A) BILLS AND TRADE RECEIVABLES

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

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

	30.6.2012 *RMB'000* (unaudited)	31.12.2011 *RMB'000* (audited)
Aged:		
0–90 days	1,197,713	1,059,725
91–120 days	52,528	33,175
121–180 days	41,645	119,403
181–365 days	34,931	5,048
Over 365 days	6,923	3,974
	1,333,740	1,221,325

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 to 180 days to its customers. The aged analysis of bills receivables discounted with full recourse is as follows:

	30.6.2012 *RMB'000* (unaudited)	31.12.2011 *RMB'000* (audited)
0–90 days	72,884	—
91–120 days	—	23,000
	72,884	23,000

13. BILLS AND TRADE PAYABLES

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

	30.6.2012 *RMB'000* (unaudited)	31.12.2011 *RMB'000* (audited)
0–90 days	250,181	238,340
91–180 days	129,389	125,785
181–365 days	54,054	15,441
Over 365 days	21,039	18,852
	454,663	398,418

14. BANK AND OTHER BORROWINGS

	30.6.2012 *RMB'000* (unaudited)	31.12.2011 *RMB'000* (audited)
Secured bank loans	1,498,500	1,397,000
Unsecured other borrowings	1,000,000	600,000
	2,498,500	1,997,000

The bank and other borrowings are repayable as follows:

	30.6.2012 *RMB'000* (unaudited)	31.12.2011 *RMB'000* (audited)
Carrying amount of bank and other borrowings repayable:		
Within one year	2,168,500	1,617,000
More than one year, but not exceeding two years	200,000	150,000
More than two years, but not exceeding five years	130,000	230,000
Total bank and other borrowings	2,498,500	1,997,000
Less: Amount due within one year shown under current liabilities	(2,168,500)	(1,617,000)
Amount due after one year	330,000	380,000

During the current interim period, the Group obtained new borrowings in an aggregate amount of RMB851.5 million (for the six months ended 30 June 2011: RMB447.5 million) and repaid borrowings in an aggregate amount of RMB350 million (for the six months ended 30 June 2011: RMB1,012 million). As at 30 June 2012, bank and other borrowings amounting to RMB1,080 million carries interest at fixed rate of 7.06% per annum. The remaining bank and other borrowings carry interest at variable market rates ranging from 6.63% to 7.87% per annum. The proceeds were used to finance the acquisition of property, plant and equipment, repayment of existing debts and for general working capital purpose of the Group.

15. SHARE CAPITAL

	Number of shares	Amount *HK$'000*	Amount *RMB'000*
Ordinary shares of HK$0.1 each			
Issued and fully paid:			
As at 1 January 2011	2,060,000,000	206,000	198,605
Exercise of share options	5,341,000	534	446
As at 30 June 2011	2,065,341,000	206,534	199,051
As at 1 January and 30 June 2012	2,065,653,000	206,565	199,078

16. OTHER LONG TERM PAYABLES

	30.6.2012 ***RMB'000*** **(unaudited)**	31.12.2011 *RMB'000* (audited)
Other long term payables comprise:		
Consideration payable for mining right *(Note)*	**188,128**	218,492
Less: Amount due within one year shown under current liabilities (included in other payables and accrued expenses)	**(56,744)**	(54,394)
	131,384	164,098

Note: Pursuant to the mining right agreements entered into between the Group and the relevant government authorities of the PRC from 2008 to 2011, the consideration payable for the mining right in respect of the mining site located at Guizhou Province carried interest at prevailing market rates and is repayable in instalments over two to ten years. The effective interest rate is 5.31%.

17. DISPOSAL OF A SUBSIDIARY

During the current interim period, the Group entered into a sale agreement to dispose of its 51% equity interest in 四川恒鼎金自天正信息工程有限公司. The purpose of this disposal is to generate cash for the expansion of the Group's main businesses. The net assets of 四川恒鼎金自天正信息工程有限公司 at the date of disposal were as follows:

CONSIDERATION RECEIVED

	RMB'000
Cash received	4,409

ANALYSIS OF ASSETS AND LIABILITIES OVER WHICH CONTROL WAS LOST

	RMB'000
Property, plant and equipment	865
Inventories	2,561
Trade and other receivables	2,329
Bank balances and cash	254
Trade and other payables and accrued charges	(30)
Net assets disposed of	5,979

GAIN ON DISPOSAL OF A SUBSIDIARY

	RMB'000
Consideration received	4,409
Net assets disposed of	(5,979)
Non-controlling interests	2,930
Gain on disposal of a subsidiary	1,360

17. DISPOSAL OF A SUBSIDIARY *(Continued)*

NET CASH INFLOW ON DISPOSAL OF A SUBSIDIARY

	RMB'000
Net cash inflow arising from disposal:	
Consideration received in cash	4,409
Less: bank balances and cash disposed of	(254)
	4,155

18. CAPITAL COMMITMENTS

	30.6.2012 *RMB'000* (unaudited)	31.12.2011 *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	**601,152**	611,311

19. PLEDGE OF ASSETS

At the end of the reporting period, the Group pledged the following assets to banks for credit facilities granted to the Group:

	30.6.2012 *RMB'000* (unaudited)	31.12.2011 *RMB'000* (audited)
Property, plant and equipment	**1,706,133**	1,142,252
Prepaid lease payments	**24,896**	—
Bills receivables	**148,119**	142,320
Bank deposits	**175,235**	165,254
	2,054,383	1,449,826

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

20. RELATED PARTY DISCLOSURES

In addition to the balances with related parties set out in the condensed consolidated statement of financial position, during the period, the Group entered into the following transactions with related/connected parties:

(I) TRANSACTIONS:

Name of Company	Relationship	Nature of transactions	Six months ended 30 June 2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Hengwei Zhitai Company Limited	A company ultimately owned by Mr. Xian Fan, brother of Mr. Xian Yang who is a shareholder and a director of the Company	Technical support income receivable by the Group	—	420
Mr. Xian Jilun	Father of Mr. Xian Yang	Rental payable by the Group	600	600
Panxian Panshi Logistic Distribution Co., Ltd. ("Panxian Panshi")	An investee company	Transportation costs payable by the Group	4,466	7,055
Panxian Panying Logistic Distribution Co., Ltd. ("Panxian Panying")	An investee company	Transportation costs payable by the Group	863	3,371
Yunnan Kaijie Industry Company Limited	Controlling shareholder of Panxian Panshi and Panxian Panying	Transportation costs payable by the Group	3,809	9,258

As at 30 June 2012, the director, Mr. Xian Yang guaranteed bank borrowings of approximately RMB1,078 million (31 December 2011: RMB946 million).

20. RELATED PARTY DISCLOSURES *(Continued)*

(II) 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	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Short-term benefits	2,747	1,497
Post-employment benefits	38	38
Share-based payment expenses	15,602	19,047
	18,387	20,582