# 2020
# INTERIM REPORT

Hidili 恒鼎

**Hidili Industry International Development Limited**

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1393

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# CORPORATE INFORMATION

## DIRECTORS

### EXECUTIVE DIRECTORS

Mr. Xian Yang (Chairman)
Mr. Sun Jiankun
Mr. Zhuang Xianwei

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Shiu Yuen Sammy
Mr. Huang Rongsheng
Ms. Xu Manzhen

## AUDIT COMMITTEE

Mr. Chan Shiu Yuen Sammy (Chairman)
Mr. Huang Rongsheng
Ms. Xu Manzhen

## REMUNERATION COMMITTEE

Mr. Chan Shiu Yuen Sammy (Chairman)
Mr. Huang Rongsheng
Ms. Xu Manzhen
Mr. Xian Yang

## AUDITORS

ZHONGHUI ANDA CPA Limited
Unit 701, 7th Floor, Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

## COMPANY SECRETARY

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

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No. 185 Renmin Road
Panzhihua
Sichuan 617000
PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1306, 13th Floor
Tai Tung Building
8 Fleming Road
Wanchai
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

# CORPORATE INFORMATION

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## LEGAL ADVISER

Kwok Yih & Chan
Suites 2103-05, 21st Floor
9 Queen's Road Central
Central
Hong Kong

## STOCK CODE

1393

## WEBSITE

http://www.hidili.com.cn

## PRINCIPAL BANKERS

China Merchants Bank
Shenzhen Che Gong Miao Sub-Branch
A 1/F, Tianxiang Bldg
Tianan Numeral City
Futian, Shenzhen
PRC

China Minsheng Banking Corp. Ltd,
Chengdu Branch
No. 2, Remin Road South
Chengdu, Sichuan Province
PRC

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

Ping An Bank Co., Ltd.
Chengdu Branch
No. 240-1, Shuncheng Avenue
Chengdu, Sichuan Province
PRC

Ping An Bank Co., Ltd.
Kunming Branch
No. 450, Qingnian Road
Kunming, Sichuan Province
PRC

Wing Lung Bank
16/F, Wing Lung Bank Building
45 Des Voeux Road Central
Central, Hong Kong

## OUTLOOK

During the six months ended 30 June 2020 (the "Review Period"), wild range of curbing and quarantine policies were implemented by the government during the outbreak of COVID-19, mining and coal washing activities of Hidili Industry International Development Limited (the "Company") in Sichuan and Guizhou provinces were affected. Accordingly, to avoid community transmission of the COVID-19, only limited production was maintained in certain coal mines and coal washing plants. The raw coal production cannot be completed on schedule. As the strict prevention and control measures imposed by the government were gradually released, the Company believed that mining and coal washing activities can be properly resumed by September 2020.

During the Review Period, the Company, a steering committee of the holders of the US$400 million 8.625% senior notes due 2015 (the "Notes") (the "Steering Committee") and a creditors committee of the onshore lending banks (the "Lending Banks") (the "Onshore Creditors Committee") have reached significant constructive terms of the debt restructuring (the "Debt Restructuring"). On 21 April 2020, the Company and the Onshore Creditors Committee have reached an agreement on a preliminary restructuring framework regarding the settlement of the onshore banks indebtedness of the Company (the "Preliminary Restructuring Framework") pursuant to which (i) the Company has agreed to convert the interest payable to the Lending Banks from the date of default to 31 December 2018 charged at 4.75% per annum to newly issued ordinary shares of the Company; and (ii) the Company, Hidili Industry (China) Group Limited ("Hidili China"), Mr. Xian Yang and Lending Banks have agreed to enter into a post syndication agreement (the "Post Syndication Agreement") to (a) extend the terms of the remaining onshore banks indebtedness to 4 February 2025; (b) charge interest at 3% per annum in the first three years and 4.275% per annum in the fourth to fifth years from the date of the Post Syndication Agreement respectively; and (c) repay the remaining onshore banks indebtedness in accordance with a fixed and variable portion.

On 13 July 2020, the Company and the Steering Committee entered into a termsheet (the "2020 Termsheet"), which are binding on the Company and the Steering Committee, pursuant to which the parties agreed to the key commercial terms for the swap of the Notes into the newly issued ordinary shares of the Company with an option to participate in the share placement programme (the "SPP") to be conducted by the Company.

Currently, the Company is working closely with the onshore and offshore creditors together with the professionals to strive to finalize the detailed terms of the Debt Restructuring as soon as possible and prepare the formal documentation for approval in shareholders' meeting. Upon the completion of the restructuring, the Company believes that it will have a healthy financial position and sustainable cashflow for operation and development.

## FINANCIAL HIGHLIGHTS

| | Six months ended 30 June | | |
|---|---|---|---|
| | **2020** | 2019 | Change |
| | **RMB'000** | RMB'000 | % |
| | **(Unaudited)** | (Unaudited) | |
| Revenue | **498,932** | 570,651 | (12.6%) |
| Gross profit | **167,223** | 160,196 | 4.4% |
| Loss before tax | **(134,562)** | (125,737) | 7.0% |
| Loss and total comprehensive expense for the period | **(134,562)** | (125,675) | 7.1% |
| EBITDA | **80.013** | 125,248 | (36.1%) |
| Basic loss per share (RMB cents) | **(7)** | (6) | 16.7% |

## FINANCIAL REVIEW

### REVENUE

During the Review Period, revenue of the Group amounted to approximately RMB499.0 million, representing a decrease of approximately 12.6%, as compared with approximately RMB570.7 million in the corresponding period in 2019. The decrease was primarily attributable to the decrease in both sales volumes and average selling prices (net of value added tax) of clean coal. The revenue from sales of clean coal decreased from approximately RMB506.2 million in the corresponding period in 2019 to approximately RMB436.4 million, representing a decrease of 13.8%, resulting from a decrease of sales volume from 489,400 tonnes to 432,000 tonnes and a decrease of average selling price from RMB1,034.4 per tonne to RMB1,010.3 per tonne, representing a decrease of 11.7% and 2.3% respectively. The decrease was in line with the decrease in production volume of raw coal during the Review Period due to the outbreak of the novel coronavirus (COVID-19).

The following table sets forth the Group's revenue contribution, sales volume and average selling price by products for the Review Period, together with the comparative amounts for the corresponding period in 2019:

| | Six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2019 | | |
| | 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 | **436,428** | **432.0** | **1,010.3** | 506,238 | 489.4 | 1,034.4 |
| By-products | | | | | | |
| High-ash thermal coal | **35,801** | **194.2** | **184.4** | 41,257 | 228.8 | 180.3 |
| Other products | | | | | | |
| Raw coal | **20,898** | **57.4** | **364.2** | 18,443 | 49.1 | 375.8 |
| Others | **5,805** | | | 4,713 | | |
| Other products total | **26,703** | | | 23,156 | | |
| Total turnover | **498,932** | | | 570,651 | | |

## COST OF SALES

Cost of sales for the Review Period was approximately RMB331.7 million, representing a decrease of approximately RMB78.8 million, or approximately 19.2%, as compared with approximately RMB410.5 million in the corresponding period in 2019. During the Review Period, mining in the Company's coal mines in Sichuan and Guizhou provinces was affected during the outbreak of COVID-19 under strict prevention and control measures imposed by the government to avoid community transmission, the Company maintained limited production and certain coal mines and coal washing plants were temporarily shut down. Accordingly, production of raw coal and clean coal cannot be completed on schedule. The production volume of raw coal and clean coal amounted to approximately 1,302,000 tonnes and 475,000 tonnes respectively, maintained at similar volume reported in the corresponding period in 2019 of approximately 1,324,000 tonnes and 515,000 tonnes respectively.

The following table illustrates the production volume of the principal products in Sichuan and Guizhou provinces of principal products for the respective period.

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | **2020 Raw coal ('000 tonnes)** | **2020 Clean coal ('000 tonnes)** | 2019 Raw coal ('000 tonnes) | 2019 Clean coal ('000 tonnes) |
| Production volume | | | | |
| Panzhihua | **90** | **40** | 178 | 77 |
| Guizhou | **1,212** | **435** | 1,146 | 438 |
| | **1,302** | **475** | 1,324 | 515 |

Material, fuel and power costs for the Review Period were approximately RMB76.5 million, representing a decrease of approximately RMB32.2 million, or approximately 29.6%, as compared with approximately RMB108.7 million in the corresponding period in 2019. During the Review Period, the utilization of raw material, fuel and power was decreased due to the temporary shut down of certain coal mines and coal washing plant.

Staff costs for the Review Period were approximately RMB144.4 million, representing a decrease of approximately RMB43.4 million, or approximately 23.1%, as compared with approximately RMB187.8 million in the corresponding period of 2019. The decrease was mainly attributable to the decrease of staff costs arising from the temporary shut down of certain coal mines and coal washing plants during the Review Period.

Depreciation and amortization for the Review Period were approximately RMB52.1 million, maintained at similar level and in line with the raw coal production volume, as compared with approximately RMB53.3 million in the corresponding period of 2019.

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

| | Six months ended 30 June | |
|---|---|---|
| | **2020 RMB per tonne** | 2019 RMB per tonne |
| Coal mining | | |
| Cash cost | **237** | 246 |
| Depreciation and amortization | **39** | 36 |
| Total production cost | **276** | 282 |
| Average cost of clean coal | **696** | 722 |

## GROSS PROFIT

As a result of the foregoing, the gross profit for the Review Period was approximately RMB167.2 million, representing a slight increase of approximately RMB7.0 million or approximately 4.4%, as compared with approximately RMB160.2 million in the corresponding period in 2019. The gross profit margin during the Review Period was approximately 33.5% as compared with approximately 28.1% in the corresponding period in 2019.

## OTHER INCOME

During the Review Period, other income amounted to approximately RMB3.4 million, representing a decrease of approximately RMB2.6 million, as compared to approximately RMB6.0 million in the corresponding period in 2019. The decrease was mainly attributable to the decrease in the government grant of approximately RMB3.6 million.

## OTHER GAINS AND LOSSES

During the Review Period, the Company recorded an aggregate loss of approximately RMB20.2 million, representing a decrease of approximately RMB38.6 million, as compared to an aggregate gain of approximately RMB18.4 million in the corresponding period in 2019. The decrease was mainly attributable to: (i) the increase in exchange loss of approximately RMB18.2 million and (ii) reversal of impairment of receivables of approximately RMB6.0 million and the waiver of other payable of approximately RMB14.8 million in the corresponding period in 2019.

## DISTRIBUTION EXPENSES

Distribution expenses for the Review Period were approximately RMB47.0 million, representing an increase of approximately RMB2.6 million or approximately 5.9%, as compared to approximately RMB44.4 million in the corresponding period of 2019. Despite the decrease in sales volume of principal products and its by-products, the increase in distribution expenses was mainly resulted from the increase in transportation expenses in relation to the curbing and quarantine policies adopted and implemented by the government during the outbreak of COVID-19.

## ADMINISTRATIVE EXPENSES

Administrative expenses during the Review Period were approximately RMB55.6 million, representing a slight increase of approximately RMB1.9 million or approximately 3.5%, as compared to approximately RMB53.7 million in the corresponding period in 2019.

## FINANCE COSTS

Finance costs for the Review Period amounted to approximately RMB156.5 million, representing a decrease of approximately RMB41.4 million or approximately 20.9%, as compared with approximately RMB197.9 million in the corresponding period in 2019. The decrease was mainly attributable to the decrease in interest expenses on bank borrowings of approximately RMB46.8 million as the rate applied to the calculation of accrued interest to the Lending Banks decreased to 3% per annum pursuant to the Post Syndication Agreement entered into during the Review Period.

## INCOME TAX CREDIT

No income tax expenses of the Company incurred during the Review Period, while an income tax credit of approximately RMB0.1 million in the corresponding period in 2019.

## LOSS FOR THE PERIOD

As a result of the foregoing, the loss attributable to the owners of the Company for the Review Period was approximately RMB135.6 million, representing an increase of approximately RMB4.8 million or approximately 3.7%, as compared with approximately RMB130.8 million in the corresponding period in 2019.

## EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION ("EDITDA")

The following table illustrates the Group's EBITDA for the respective periods. The Group's EBITDA margin was 16.0% for the Review Period as compared with 21.9% in the corresponding period in 2019.

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Loss for the period | **(134,562)** | (125,675) |
| Finance costs | **156,485** | 197,948 |
| Income tax credit | **–** | (62) |
| Depreciation and amortization | **58,090** | 53,037 |
| EBITDA | **80,013** | 125,248 |

## ADDITIONAL INFORMATION ON AUDITORS' DISCLAIMER OF OPINION ON THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Regarding the consolidated financial statements of the Company for the year ended 31 December 2019, ZHONGHUI ANDA CPA Limited ("ZHONGHUI ANDA"), the auditors of the Company, issued disclaimer of opinion on the following aspects:

(i) Property, plant and equipment and impairment loss on property, plant and equipment;

(ii) Interest in a joint venture and share of loss of joint venture; and

(iii) Going concern

## DETAILS AND THE COMPANY'S VIEW ON THE AUDIT QUALIFICATIONS

**For the audit qualification (i) and (ii)**

The Sichuan, Guizhou and Yunnan provincial government have undergone mining resource consolidation program for couple of years. The program is intended to encourage consolidation of small mines into larger mining enterprises in order to achieve economies of scale and to close down mine which were not economically efficient or environmentally friendly or were exposed to safety hazards. All the Company's coal mines located in Sichuan and Guizhou provinces together with the joint venture in Yunnan province participated in the program. Upon the completion of the program, 16 mines will be consolidated into 5 consolidated core mines in Sichuan province and 20 mines will be consolidated into 9 consolidated core mines in Guizhou respectively. All the mines held by the Company's joint venture in Yunnan province are required to develop and upgrade to 8 consolidated core mines. The provincial government will issue new mining right licenses with expended mining area and annual production capacity. Up to the date of this report, the mining resource consolidation program in Sichuan, Guizhou and Yunnan provinces are still ongoing and final mining right licenses have not yet been issued to the coal mines of the Company and its joint venture. Accordingly, no assessment of coal resources and coal reserves with JORC standards has been updated by the Company.

During the audit, the Company has closely communicated with the external valuer, competent person and ZHOUGHUI ANDA for the assessment and estimation of the coal resources and coal reserves of both the Company and its joint venture in accordance with the JORC standards in order to adopt and accept as the fundamental assumption applied in the valuation of coal mines of the Company. In the prior years, there were some restrictions faced by the Company including:

(i) adjustments in the mining areas;

(ii) limited original coal quality and bore hole documentation; and

(iii) limited update geological reports with corresponding coal seam correlation interpretation and, bore hole loggings.

Since the Company's coal mines in Sichuan and Guizhou provinces have gradually entered into production stage, the Company began to engage PRC professionals for updating geological reports and local reserves reports in order to facilitate the competent person and the external valuer to assess the coal reserves and resources and perform valuation in respective coal mines.

However, in January 2020, due to the recent epidemic of the COVID-19 and the curbing and quarantine policies adopted and/or implemented by the Chinese government, both the external valuer and competent person were unable to perform and complete observation and relevant working on site in all the coal mines of the Company on schedule to finalize the assessment and estimation of the coal resources and coal reserves. Accordingly, no fundamental assumption can be adopted in the valuation of coal mines.

To facilitate the impairment assessment of ZHONGHUI ANDA, the Company has performed cash flow forecast and adopted discounted cash flow approach to assess the valuation of coal mines of the Company and its joint venture with reference to the proposed reserves as the Chinese government may recognize in accordance with relevant policies upon the completion of the consolidation. However, ZHONGHUI ANDA was unable to ascertain whether the impairment assessment conducted was adequate.

Currently, the Company closely monitors and coordinates with relevant government authorities for the approval of the revised consolidation plans and the issuance of the revised mining licenses. The Company's mining technicians continue to work out with the PRC professionals for updating geological reports and local reserves reports with the most recent available information. The update of the geological reports and local reserves reports of all the coal mines of the Company in Sichuan and Guizhou provinces are expected to be completed by the end of 2020. Meanwhile, the competent person and the external valuer can commence their work in the fourth quarter of 2020. Accordingly, the coal mine valuation can form part of the impairment test adopted by ZHONGHUI ANDA during the audit for the year ending 31 December 2020.

The competent person, the external valuer and ZHONGHUI ANDA will commence their work on site as early as practicable once the curbing and quarantine policies released.

The mining resource consolidation program of the Company in Yunnan province was delayed since the relevant government authorities in Yunnan province have entirely devoted their time and resources in the coal mines consolidation and debt restructure of a state-owned mining company. The Company encountered difficulties in updating and revising mining information of the respective coal mines. Currently, the information on hand was not adequate enough for the PRC professionals to perform either the geological reports or local reserves reports.

The Company has discussed with ZHONGHUI ANDA for the impairment test of the joint venture for the year ending 31 December 2020 with limited available information. Alternatively, the Company has approached external valuer to perform a business valuation on the entire joint venture as a whole instead of valuation on respective coal mines. The Company will closely communicate with ZHONGHUI ANDA and external valuer for the detailed assumptions and the methodology. To the worst case, the Company will consider to make certain amount of provision regarding the impairment of the joint venture.

**For the audit qualification (iii)**

During the audit, the Company has provided update progress of the debt restructuring with both onshore and offshore creditors and the status of petitions. However, negotiations with the creditors are still in progress and no definitive agreement has been reached. Accordingly, ZHONGHUI ANDA is unable to consider the validity of the going concern basis depending upon (i) the successful completion of the restructuring and (ii) the successful outcome that certain measures to improve its financial position, to provide liquidity and cash flows.

As at the date of this report, the Company and the Onshore Creditors Committee have reached the Preliminary Restructuring Framework regarding the settlement of the onshore banks indebtedness of the Company pursuant to which the Company will convert part of the total indebtedness into newly issued ordinary shares of the Company and extend the remaining indebtedness to February 2025 under the Post Syndication Agreement. On the other hand, the Company and the Steering Committee have entered into the 2020 Termsheet pursuant to which the parties agreed to the key commercial terms for the swap of the Notes into the newly issued ordinary shares of the Company with an option to participate in the SPP to be conducted by the Company. Currently, the Company is working closely with the onshore and offshore creditors together with the professionals to strive to finalize the detailed terms of the Debt Restructuring as soon as possible and prepare the formal documentation for approval in shareholders' meeting. Upon the completion of the restructuring, the Company believes that it will have a healthy financial position and sustainable cashflow for operation and development.

The Company will closely communicate with ZHONGHUI ANDA for further information required to substantiate the Group as a going concern for the audit of the financial statements for the year ending 31 December 2020.

### AUDIT COMMITTEE'S VIEW ON THE AUDIT QUALIFICATIONS

The audit committee of the Company (the "Audit Committee") has strictly reviewed the audit qualifications and the management position and action plan to address the audit qualifications. The Audit Committee had also discussed with ZHONGHUI ANDA, by which it understood that the main cause of the audit qualifications are, as mentioned. In light of the above, the Audit Committee concurs with the management's view with respect to the audit qualifications, the Group's ability to continue as a going concern and the actions or measures to be implemented by the Group. The Audit Committee is also of the view that the management should continue its efforts in implementing the actions and measures set out in the action plan with the intention of removing the audit qualifications.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2020, the Group incurred net current liabilities of approximately RMB9,572 million as compared to approximately RMB9,369 million as at 31 December 2019.

As at 30 June 2020, the bank and cash balances of the Group amounted to approximately RMB7 million (as at 31 December 2019: approximately RMB18 million).

As at 30 June 2020, the total bank and other borrowings payable within one year of the Group were approximately RMB5,889 million (as at 31 December 2019: approximately RMB5,903 million). As at 30 June 2020, loan amounting to RMB5,846 million carries interest at fixed rate of 3% per annum. The remaining loans carry interest at variable market rates ranging from 3.68% to 5.70% per annum.

The gearing ratio (calculated as the aggregate of total bank and other borrowings and senior notes divided by total assets) of the Group as at 30 June 2020 was 66.0% (as at 31 December 2019: 66.4%).

## RESTRUCTURING

(a) On 30 October 2015, the Company announced that it would not be in a position to pay the principal amount of, or the accrued but unpaid interest on, the Notes on the maturity date, i.e. 4 November 2015. The aggregate amount due and payable to the holders of the Notes (the "Holders") amounted to approximately US$190.6 million.

(b) On 14 December 2015, following initial discussions with certain Holders, the Steering Committee was formed.

(c) On 8 January 2016, the Company announced that it had not repaid a long term secured loan from an onshore bank which fell due on 4 January 2016 and has not paid the accrued interest thereon.

(d) On 19 January 2016, the Company received the Winding Up Petition filed by a bondholder of the Notes with the High Court of Hong Kong (the "Court") against the Company for the outstanding principal and interest due to the bondholder under the Notes.

(e) On 11 March 2016, the Company made an announcement and the purpose of such announcement was to provide the Holders with the key indicative terms of a proposed restructuring of the Notes and to facilitate discussion with the Holders.

(f) On 15 April 2016, Hidili China, a wholly-owned subsidiary of the Company, received a Notice of Court Action attaching the writ of summons ("2016 Writ") issued by the Higher People's Court of Guangdong Province of the People's Republic of China (廣東省高級人民法院).

(g) On 26 April 2016, the Company held a meeting with all the Lending Banks. Following initial discussion with the Lending Banks, the Onshore Creditors Committee has been set up.

(h) The Board agreed to form a monitoring team, comprising four individuals proposed by the Onshore Creditors Committee, for a term commencing on 1 December 2016 and ending on 30 November 2017 to monitor the mine production, mining operations, mine development, sales of coal products and finance of the Company's mining region in Sichuan and Guizhou provinces.

(i) On 18 January 2017, the Company, the Steering Committee and the Onshore Creditors Committee entered into a termsheet in relation to the proposed restructuring of the onshore and offshore indebtedness of the Company (the "2017 Termsheet").

(j) On 1 June 2017, both of Sichuan Haohang Trading Company Limited ("Sichuan Haohang"), a wholly-owned subsidiary of the Company and Sichuan Hidili Industry Co., Ltd. ("Sichuan Hidili"), a wholly-owned subsidiary of the Company, received a Notice of Court Action attaching the writ of summons ("2017 Writ") issued by the Higher People's Court of Sichuan Province of the People's Republic of China (四川省高級人民法院).

(k) On 17 November 2017, the hearing of the amended Winding Up Petition has been adjourned for substantive argument to a date to be fixed.

(l) On 21 April 2020, the Company and the Onshore Creditors Committee have reached an agreement on the Preliminary Restructuring Framework pursuant to which (i) the Company has agreed to convert the interest payable to the Lending Banks from the date of default to 31 December 2018 charged at 4.75% per annum to newly issued ordinary shares of the Company; and (ii) the Company, Hidili China, Mr. Xian Yang and Lending Banks have agreed to enter into the Post Syndication Agreement to (a) extend the terms of the remaining onshore banks indebtedness to 4 February 2025; (b) charge interest at 3% per annum in the first three years and 4.275% per annum in the fourth to fifth years from the date of the Post Syndication Agreement respectively; and (c) repay the remaining onshore banks indebtedness in accordance with a fixed and variable portion.

As of the date of this report, the terms of the conversion of newly issued ordinary shares of the Company under the Preliminary Restructuring Framework have not yet been finalised. Also, further documents and/or agreements containing detailed terms for the Preliminary Restructuring Framework subject to the latest status of the outstanding onshore banks indebtedness will be concluded and signed by individual Lending Banks with the Company.

(m) On 13 July 2020, the Company and the Steering Committee entered into the 2020 Termsheet, which are binding on the Company and the Steering Committee, pursuant to which the parties agreed to the key commercial terms for the swap of the Notes into the newly issued ordinary shares of the Company with an option to participate in the SSP to be conducted by the Company.

(n) Negotiations with the creditors are still in progress and no definitive agreement has been reached as at the date of this report.

## PLEDGE OF ASSETS OF THE GROUP

As at 30 June 2020, the Group pledged its property, plant and equipment, bank deposits and bill receivables in an aggregate amount of approximately RMB3,723 million (as at 31 December 2019: approximately RMB3,723 million) to banks for credit facilities.

As at 30 June 2020, the executive director of the Company, Mr. Xian Yang, guaranteed the bank borrowings of approximately RMB4,875 million (as at 31 December 2019: approximately RMB4,875 million).

## EMPLOYEES

As at 30 June 2020, the Group maintained an aggregate of 8,253 employees as compared with 5,795 employees at 31 December 2019. During the Review Period, the staff costs (including directors' remuneration in the form of salaries and other allowances) was approximately RMB178 million (corresponding period in 2019: approximately RMB219 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 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 US$ 0.2 million and HK$0.1 million.

## SIGNIFICANT INVESTMENTS

During the Review Period, the Group did not hold any significant investments.

## MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the Review Period, there was no material acquisition or disposal of subsidiaries, associates and joint ventures by the Group.

## FUTURE PLANS FOR MATERIAL INVESTMENT AND CAPITAL ASSETS

Save as disclosed in this report, the Group does not have other plans for material investment and capital assets during the Review Period.

## EVENTS AFTER THE REVIEW PERIOD

Save as disclosed in this report, there is no other material subsequent event undertaken by the Company or the Group after 30 June 2020 and up to the date of this report.

## CONTINGENT LIABILITIES

(a) On 19 January 2016, the Company received a Winding Up Petition filed by a bondholder of the Notes with the Court against the Company for the outstanding principal and interest due to the bondholder under the Notes. The hearing of the amended Winding Up Petition has been adjourned for substantive argument to a date to be fixed.

(b) Hidili China, a wholly owned subsidiary of the Company, received a Notice of Court Action attaching the 2016 Writ issued by the Higher People's Court of Guangdong Province of the People's Republic of China (廣東省高級人民法院) on 15 April 2016.

Pursuant to the 2016 Writ, China Merchants Bank, Shenzhen Chegongmiao Branch ("2016 Plaintiff") filed a civil claim against (i) Hidili China, (ii) Liupanshui Hidili Industry Co., Ltd. ("Liupanshui Hidili"), a wholly owned subsidiary of the Company. (iii) Panxian Xileqing Coal Industry Co., Ltd. ("Panxian Xileqing"), a wholly owned subsidiary of the Company, and (iv) Sichuan Hidili, a wholly owned subsidiary of the Company, in respect of a loan agreement dispute case. The 2016 Plaintiff claimed against Hidili China for relief, among others, the outstanding principal amount and the default interest payment of approximately RMB576 million as of 20 January 2016 under the security agreement entered into between 2016 Plaintiff and Hidili China on 13 January 2013 where Liupanshui Hidili and Panxian Xileqing acted as guarantors and Liupanshui Hidili, Panxian Xileqing and Sichuan Hidili pledged certain assets and mining rights.

(c) Both of Sichuan Haohang and Sichuan Hidili received the 2017 Writ issued by the Higher People's Court of Sichuan Province of the People's Republic of China (四川省高級人民法院) on 1 June 2017.

Pursuant to the 2017 Writ, Chengdu Branch of Shanghai Pudong Development Bank ("2017 Plaintiff") filed a civil claim against (i) Sichuan Haohang, (ii) Sichuan Hidili, (iii) Liupanshui Hidili and (iv) Hidili China in respect of a loan agreement dispute case. The 2017 Plaintiff claimed against Sichuan Haohang and Sichuan Hidili for relief, among others, the outstanding principal amount as of 25 August 2016 and the default interest payment (calculated as at 18 April 2017) of approximately RMB134 million and RMB134 million respectively under the Agreement of Establishing Bank Promissory Note Business entered into between the 2017 Plaintiff and Sichuan Haohang and Sichuan Hidili on 25 February 2016 where Liupanshui Hidili pledged certain assets and mining rights and Hidili China acted as guarantor.

As advised by the legal advisor of the Company, it is not practical to assess the outcome of the cases at this stage, accordingly, no provision was made in the consolidated financial statements.

Save as disclosed above, as at 30 June 2020, the Group did not have any material contingent liabilities.

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

As at 30 June 2020, 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 Rules Governing the Listing of Securities on the Stock Exchanges of Hong Kong Limited (the "Stock Exchange") (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 (L) | Founder and beneficiary of trust | 53.81% (L) |
| 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 (L) | Interest of controlled corporation | 0.95% (L) |
| Mr. Sun | Able Accord Enterprises Limited ("Able Accord") | 1,000 | Beneficial owner | 100% |
| Mr. Zhuang Xianwei | The Company | 500,000 (L) | Beneficial owner | 0.02% (L) |

* (L)-Long position, (S)-Short position

*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 entire 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.

Save as disclosed above, to the best knowledge of the Directors, as at 30 June 2020, 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 period was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2020, 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 | 27.44% (L) |
| Sanlian Investment *(Note 1)* | 1,100,674,000 (L) | Beneficial owner | 53.81% (L) |
| Mr. Xian *(Note 1)* | 1,100,674,000 (L) | Interest of controlled corporation | 53.81% (L) |
| Ms. Qiao Qian *(Note 2)* | 1,100,674,000 (L) | Interest of spouse | 53.81% (L) |

* (L)-Long position, (S)-Short position

*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.

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.

## AUDIT COMMITTEE

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

As at the date of this report, the Audit Committee consists of three independent non-executive Directors, namely, Mr. Chan Shiu Yuen Sammy (Chairman), Mr. Huang Rongsheng and Ms. Xu Manzhen.

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 unaudited consolidated financial statements of the Group for the Review Period.

## CORPORATE GOVERNANCE

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

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

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

## PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

By Order of the Board
**Hidili Industry International Development Limited**
**Xian Yang**
*Chairman*

Hong Kong
31 August 2020

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

*For the six months ended 30 June 2020*

| | Note | Six months ended 30 June 2020 RMB'000 (Unaudited) | 2019 RMB'000 (Unaudited) |
|---|---|---|---|
| Revenue | *4* | **498,932** | 570,651 |
| Cost of sales | | **(331,709)** | (410,455) |
| Gross profit | | **167,223** | 160,196 |
| Interest revenue | | **1,040** | 666 |
| Other income | *5* | **3,372** | 6,031 |
| Other gains and losses | *6* | **(20,249)** | 18,390 |
| Distribution expenses | | **(46,985)** | (44,381) |
| Administrative expenses | | **(55,606)** | (53,660) |
| Share of loss of a joint venture | | **(26,872)** | (15,031) |
| Finance costs | *7* | **(156,485)** | (197,948) |
| Loss before tax | | **(134,562)** | (125,737) |
| Income tax credit | *8* | **–** | 62 |
| Loss and total comprehensive expense for the period | *9* | **(134,562)** | (125,675) |
| Loss and total comprehensive expense for the period attributable to: | | | |
| – Owners of the Company | | **(135,583)** | (130,783) |
| – Non-controlling interests | | **1,021** | 5,108 |
| | | **(134,562)** | (125,675) |
| Loss per share | *11* | | |
| Basic *(RMB cents)* | | **(7)** | (6) |
| Diluted *(RMB cents)* | | **(7)** | (6) |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2020*

| | Note | 30 June 2020 RMB'000 (Unaudited) | 31 December 2019 RMB'000 (Audited) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | *12* | **8,411,371** | 8,314,523 |
| Right-of-use assets | | **115,941** | 119,858 |
| Prepaid lease payments | | **27,116** | 27,167 |
| Interest in a joint venture | | **1,460,689** | 1,487,561 |
| Long-term deposits | | **15,899** | 15,899 |
| Restricted bank deposits | | **2** | 2 |
| | | **10,031,018** | 9,965,010 |
| **CURRENT ASSETS** | | | |
| Inventories | | **65,626** | 45,552 |
| Bills and trade receivables | *13(a)* | **150,653** | 182,888 |
| Bills receivables discounted with recourse | *13(b)* | **48,000** | 97,649 |
| Other receivables and prepayments | | **650,873** | 577,081 |
| Amount due from a joint venture | | **80,536** | 70,853 |
| Pledged bank deposits | | **841** | 841 |
| Bank and cash balances | | **7,424** | 17,986 |
| | | **1,003,953** | 992,850 |
| **CURRENT LIABILITIES** | | | |
| Bills and trade payables | *14* | **512,898** | 483,615 |
| Contract liabilities | | **262,836** | 248,389 |
| Advances drawn on bills receivables discounted with recourse | | **48,000** | 97,649 |
| Accruals and other payables | | **2,394,138** | 2,190,549 |
| Lease liabilities | | **48,757** | 38,476 |
| Tax payables | | **29,422** | 29,422 |
| Senior notes | | **1,391,024** | 1,370,727 |
| Bank and other borrowings | *15* | **5,888,719** | 5,903,412 |
| | | **10,575,794** | 10,362,239 |
| **NET CURRENT LIABILITIES** | | **(9,571,841)** | (9,369,389) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **459,177** | 595,621 |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2020*

| | Note | **30 June 2020 RMB'000 (Unaudited)** | 31 December 2019 RMB'000 (Audited) |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Provision for restoration and environmental costs | | **10,768** | 10,271 |
| Lease liabilities | | **27,006** | 29,385 |
| Deferred tax liabilities | | **8,025** | 8,025 |
| | | **45,799** | 47,681 |
| **NET ASSETS** | | **413,378** | 547,940 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | *16* | **197,506** | 197,506 |
| Reserves | | **186,405** | 321,988 |
| Equity attributable to owners of the Company | | **383,911** | 519,494 |
| Non-controlling interests | | **29,467** | 28,446 |
| **TOTAL EQUITY** | | **413,378** | 547,940 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 June 2020*

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Special reserve | Statutory surplus reserve | Future development fund | Other reserve | Equity investment revaluation reserve | Accumulated losses | Total | Attributable to 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 |
| At 1 January 2020 (audited) | **197,506** | **2,935,794** | **695,492** | **451,303** | **109,346** | **(99,070)** | **(18,000)** | **(3,752,877)** | **519,494** | **28,446** | **547,940** |
| Loss and total comprehensive expense for the period | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(135,583)** | **(135,583)** | **1,021** | **(134,562)** |
| At 30 June 2020 (unaudited) | **197,506** | **2,935,794** | **695,492** | **451,303** | **109,346** | **(99,070)** | **(18,000)** | **(3,888,460)** | **383,911** | **29,467** | **413,378** |
| At 1 January 2019 (audited) | 197,506 | 2,935,794 | 695,492 | 451,303 | 109,346 | (99,070) | – | (3,499,134) | 791,237 | 43,985 | 835,222 |
| Loss and total comprehensive expense for the period | – | – | – | – | – | – | – | (130,783) | (130,783) | 5,108 | (125,675) |
| At 30 June 2019 (unaudited) | 197,506 | 2,935,794 | 695,492 | 451,303 | 109,346 | (99,070) | – | (3,629,917) | 660,454 | 49,093 | 709,547 |

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

*For the six months ended 30 June 2020*

| | Note | Six months ended 30.6.2020 RMB'000 (unaudited) | 30.6.2019 RMB'000 (unaudited) |
|---|---|---|---|
| **Net cash from operating activities** | | **101,779** | 104,602 |
| **Net cash used in investment activities** | | | |
| Additions to property, plant and equipment | 12 | **(42,656)** | (27,293) |
| Proceeds from disposal of property, plant and equipment | | **500** | – |
| Withdrawal of pledged and restricted bank deposits | | **–** | 3 |
| | | **(42,156)** | (27,290) |
| **Net cash used in financing activities** | | | |
| New bank and other borrowings raised | 15 | **–** | – |
| Repayment of bank and other borrowings | 15 | **(16,097)** | (35,652) |
| Interest paid | | **(54,088)** | (34,714) |
| | | **(70,185)** | (70,366) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(10,562)** | 6,946 |
| **Cash and cash equivalents at 1 January** | | **17,986** | 11,166 |
| **Cash and cash equivalents at 30 June** | | **7,424** | 18,112 |

## 1. GENERAL

Hidili Industry International Development Limited 恒鼎實業國際發展有限公司 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 "Stock Exchange"). The address of the registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is Room 1306, Tai Tung Building, 8 Fleming Road, Wanchai, Hong Kong. In the opinion of the Directors, the Company's parent company is Sanlian Investment Holding Limited, a company incorporated in the British Virgin Islands and the ultimate holding company is Sarasin Trust Company Guernsey Limited, which is controlled by Mr. Xian Yang, the executive directors of the Company. The Company acts as investment holding company and its subsidiaries are engaged in mining and sales of clean coal and its by-products.

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. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current interim period, the Group has adopted all the new and revised IFRSs that are relevant to its operations and effective for its accounting year beginning on 1 January 2020. IFRSs comprise International Financial Reporting Standards ("IFRS"), International Accounting Standards ("IAS"), and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current interim period.

The Group has not applied the new and revised IFRSs that have been issued but not yet effective. The Group has already commenced an assessment of the impact of these new and revised IFRSs but is not yet in a position to state whether these new and revised IFRSs would have a material impact on its results of operations and financial position.

## 3. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (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 the Group's current liabilities position of approximately RMB9,572 million as at 30 June 2020 and incurred loss of approximately RMB135 million for the six months ended 30 June 2020.

During the years ended 31 December 2015, 2016, 2017, 2018 and 2019, the Group has breached of several loans covenants, including: (i) repayment of a short-term unsecured loan from a PRC bank which fell due in June 2015 of approximately RMB311 million; (ii) repayment of the outstanding principal and accrued interest of the Notes of approximately USD191 million (equivalent to RMB1,391 million) which fell due on 4 November 2015 and (iii) repayment of a short-term loan from a PRC bank which fell due on August 2016 with default interest of approximately RMB268. The aforesaid breaches constitute events of default under certain of the Group's loan facilities that contain cross-default provisions. In addition, certain other loan agreements of the Group provide that the lenders have the right to demand immediate repayment of any outstanding amount if the Group experiences material financial crises or other material adverse changes, the business of the Group deteriorates, or there occurs any event that could adversely affect lenders' interest or suggests the Group inability to repay any outstanding amount. Therefore, it is possible that the lenders to the Group could accelerate their loans as a result of breach of the other loans to the Group.

The Group intended to pursue a consensual restructuring with the Holders (the "Debt Restructuring") and the Steering Committee has been formed in December 2015. On 19 January 2016, the Company received the Winding Up Petition filed by a bondholder of the Notes with the Court against the Company for the outstanding principal and interest due to the bondholder under the Notes. On 11 March 2016, the Company provided Holders with the key indicative terms of a proposed restructuring of the Notes.

On 18 January 2017, the Company, the Steering Committee and the Onshore Creditors Committee have entered into the 2017 Termsheet in relation to the proposed restructuring of the onshore and offshore indebtedness of the Company.

On 21 April 2020, the Company and the Onshore Creditors Committee have reached the Preliminary Restructuring Framework pursuant to which (i) the Company has agreed to convert the interest payable to the Lending Banks from the date of default to 31 December 2018 charged at 4.75% per annum to newly issued ordinary shares of the Company; and (ii) the Company, Hidili China, Mr. Xian Yang and Lending Banks have agreed to enter into the Post Syndication Agreement to (a) extend the terms of the remaining onshore banks indebtedness to 4 February 2025; (b) charge interest at 3% per annum in the first three years and 4.275% per annum in the fourth to fifth years from the date of the Post Syndication Agreement respectively; and (c) repay the remaining onshore banks indebtedness in accordance with a fixed and variable portion.

## 3. BASIS OF PREPARATION *(Continued)*

On 13 July 2020, the Company and the Steering Committee entered into the 2020 Termsheet, which are binding on the Company and the Steering Committee, pursuant to which the parties agreed to the key commercial terms for the swap of the Notes into the newly issued ordinary shares of the Company with an option to participate in the SPP to be conducted by the Company.

Regarding the execution of the Debt Restructuring, the Holders and the Lending Banks have agreed to standstill and not take action against the Company to allow all parties to formulate the formal documentation and thereafter extend the standstill in accordance with the terms of the formal documentation.

The hearing of the Amended Winding Up Petition has been adjourned for substantive argument to a date to be fixed.

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

(i) The Group is negotiating with banks to roll over the loan repayments and extend repayment of interests;

(ii) The Group is negotiating with its lenders to restructure of their debt to equity;

(iii) The Group is looking for potential investor to invest to the Group;

(iv) The Group is looking for opportunity for disposal of certain assets of the Group.

In addition, the Group is currently focusing on the integration of coal mines and strengthening its operations of production and sales of clean coal, and the management is also implementing cost-saving measures to improve its operating cash flows and financial position.

On the basis that the Group can successfully complete the Debt Restructuring and certain measures as mentioned above to improve its operating results and cash flows, the Directors of the Company believe that the Group will have sufficient funds to finance its current working capital requirements in the next twelve months from the end of the reporting date. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

## 4. REVENUE AND SEGMENT INFORMATION

The Group's operation is solely derived from the production and sales of clean coal and its by-products. For the purpose of resources allocation and performance assessment, the chief operating decision maker reviews the overall results and financial position of the Group as a whole prepared based on same accounting policies with the Group. Accordingly, the Group has only one single operating segment and no further analysis of this single segment is presented.

An analysis of the Group's revenue from its major products is as follows:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Sales of coal and its by-products: | | |
| Clean coal | **436,428** | 506,238 |
| Raw coal | **20,898** | 18,443 |
| High-ash thermal coal | **35,801** | 41,257 |
| Other products | **5,805** | 4,713 |
| Revenue from contracts with customers | **498,932** | 570,651 |

### TIME OF REVENUE RECOGNITION

All timing of revenue recognition is at a point of time for the six months ended 30 June 2020 and 2019.

### GEOGRAPHICAL INFORMATION

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

## 5. OTHER INCOME

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Government grant | **2,357** | 6,014 |
| Others | **1,015** | 17 |
| | **3,372** | 6,031 |

## 6. OTHER GAINS AND LOSSES

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Exchange loss | **(20,636)** | (2,355) |
| Reversal of impairment of receivables | **–** | 5,987 |
| Waive of other payable | **–** | 14,758 |
| Gain on disposal of property, plant and equipment | **387** | – |
| | **(20,249)** | 18,390 |

## 7. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Interest expenses on borrowings wholly repayable within five years: | | |
| – bank and other borrowings | **148,709** | 195,451 |
| – advances drawn on bills receivables discounted | **7,776** | 2,497 |
| | **156,485** | 197,948 |

## 8. INCOME TAX CREDIT

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Current tax: | | |
| PRC Enterprise Income Tax ("EIT") | **–** | 62 |

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

## 9. LOSS FOR THE PERIOD

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Loss for the period has been arrived at after charging the following items: | | |
| Release of prepaid lease payments | **51** | 51 |
| Provision for restoration and environmental Costs | **497** | 459 |
| Depreciation of property, plant and equipment | **53,625** | 44,204 |
| Depreciation of right-of-use assets | **3,917** | 8,323 |
| Directors' remunerations | **1,366** | 1,023 |
| Salaries and other benefits | **175,363** | 212,876 |
| Retirement benefits scheme contribution | **1,152** | 5,507 |
| Total staff costs | **177,881** | 219,406 |

## 10. DIVIDENDS

No dividends were paid, declared or proposed for the period ended 30 June 2020 and 2019 or since the end of the reporting period.

## 11. LOSS PER SHARE

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

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| **Loss** | | |
| Loss for the purpose of basic and diluted loss per share | | |
| Loss for the period attributable to owners of the Company | **135,583** | 130,783 |

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **'000** | '000 |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic and diluted loss per share | **2,045,598** | 2,045,598 |

The effect of all potential ordinary shares is anti-dilutive for the six months ended 30 June 2020 and 2019.

## 12. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group paid approximately RMB27.1 million (six months ended 30 June 2019: RMB11.3 million) and RMB15.6 million (six months ended 30 June 2019: RMB16.0 million) on acquisition of property, plant and equipment and construction in progress, respectively.

Pursuant to Notices issued by Panzhihua Government and Liupanshui Government in October 2013 and September 2013, respectively (collectively "Mines Restructuring Plans"), Panzhihua Government and Liupanshui Government had formulated mines restructuring plans to improve productivity and safety of coal mining operations. The Group's mines located in Guizhou province and Sichuan province with carrying amounts as at 30 June 2020 of approximately RMB7,330 million (six months ended 30 June 2019: RMB7,147 million), which including mining structures and mining rights and construction in progress, are subject to the mines restructuring scheme and hence have to comply with the Mines Restructuring Plans.

## 13. BILLS AND TRADE RECEIVABLES AND BILLS RECEIVABLES DISCOUNTED WITH RECOURSE

### (A) BILLS AND TRADE RECEIVABLES

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

The following is an analysis of trade receivables and bills receivables by age, net of allowances, presented based on the invoice date, which approximately respective revenue recognition dates is as follows:

| | **30 June 2020 RMB'000 (Unaudited)** | 31 December 2019 RMB'000 (Audited) |
|---|---|---|
| Aged: | | |
| 0-90 days | **47,814** | 143,067 |
| 91-120 days | **30,670** | 399 |
| 121-180 days | **43,901** | 32,624 |
| 181-365 days | **28,268** | 6,798 |
| | **150,653** | 182,888 |

### (B) BILLS RECEIVABLES DISCOUNTED WITH RECOURSE

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

| | **30 June 2020 RMB'000 (Unaudited)** | 31 December 2019 RMB'000 (Audited) |
|---|---|---|
| 0-90 days | **48,000** | 97,649 |

## 14. BILLS AND TRADE PAYABLES

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

| | **30 June 2020 RMB'000 (Unaudited)** | 31 December 2019 RMB'000 (Audited) |
|---|---|---|
| Aged: | | |
| 0-90 days | **53,813** | 15,912 |
| 91-180 days | **41,973** | 33,492 |
| 181-365 days | **206,594** | 219,849 |
| Over 365 days | **210,518** | 214,362 |
| | **512,898** | 483,615 |

## 15. BANK AND OTHER BORROWINGS

| | **30 June 2020 RMB'000 (unaudited)** | 31 December 2019 RMB'000 (audited) |
|---|---|---|
| Secured bank loans | **5,888,719** | 5,903,412 |

The bank and other borrowings are repayable as follows:

| | **30 June 2020 RMB'000 (unaudited)** | 31 December 2019 RMB'000 (audited) |
|---|---|---|
| Carrying amount of bank borrowings repayable within one year | **5,888,719** | 5,903,412 |

During the current interim period, the Group obtained nil new borrowings (for the six months ended 30 June 2019: nil) and repaid borrowings in an aggregate amount of approximately RMB16 million (for the six months ended 30 June 2019: RMB36 million). As at 30 June 2020, loan amounting to approximately RMB5,846 million carries interest at fixed rate of 3% per annum. The remaining loans carry interest at variable market rates ranging from 3.68% to 5.70% 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.

## 16. 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 2019, 30 June 2019, 1 January 2020 and 30 June 2020 | 2,045,598,000 | 204,560 | 197,506 |

## 17. CAPITAL COMMITMENTS

| | **30 June 2020 RMB'000 (unaudited)** | 31 December 2019 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 | **414,314** | 414,970 |
| The Group's share of the capital commitment made jointly with its joint venture, Yunnan Dongyuan Hidili Coal Industry Company Limited, is as follows: | | |
| Commitment for the acquisition of property, plant and equipment | **49.952** | 49.952 |

## 18. 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 June 2020 RMB'000 (unaudited)** | 31 December 2019 RMB'000 (audited) |
|---|---|---|
| Property, plant and equipment | **3,721,780** | 3,721,780 |
| Bank deposits | **844** | 844 |
| | **3,722,621** | 3,722,621 |

## 19. 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 parties:

### (I) TRANSACTIONS:

As at 30 June 2020, the director, Mr. Xian Yang guaranteed bank borrowings of approximately RMB4,875 million (31 December 2019: RMB4,875 million).

### (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** | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Short-term benefits | **1,366** | 1,023 |
| Post-employment benefits | **40** | 28 |
| | **1,406** | 1,051 |