Hidili Industry International Development Limited
恒鼎實業國際發展有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1393)

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2007	2006	Change
	RMB'000	*RMB'000*	%
	(Unaudited)	(Unaudited)	
Turnover	**398,443**	292,156	+36.4%
Gross Profit	**256,921**	177,845	+44.5%
Profit before taxation	**153,801**	141,053	+9.0%
Profit attributable to equity holders of the Company	**143,477**	134,867	+6.4%
Basic earnings per share (RMB cents)	**11.4**	11.2	+1.8%

The board of directors (the "Board") of Hidili Industry International Development Limited 恒鼎實業國際發展有限公司 (the "Company") is pleased to announce the unaudited condensed combined income statement of the Company and its subsidiaries (together the "Group") for the six months ended 30 June 2007 (the "Review Period"), together with the comparative amounts for the corresponding period of last year.

Condensed Combined Income Statement
For the six months ended 30 June 2007

	NOTES	Six months ended 30 June 2007 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)
Turnover	4	**398,443**	292,156
Cost of sales		**(141,522)**	(114,311)
Gross profit		**256,921**	177,845
Other income	5	**35,749**	5,848
Distribution costs		**(21,538)**	(17,310)
Administrative expenses		**(31,747)**	(16,725)
Other expenses		**(3,464)**	(907)
Fair value adjustment on convertible note	17	**(65,602)**	—
Finance costs	6	**(16,518)**	(7,698)
Profit before taxation	7	**153,801**	141,053
Taxation	8	**(10,379)**	(6,186)
Profit for the period		**143,422**	134,867
Attributable to:			
Equity holders of the Company		**143,477**	134,867
Minority interests		**(55)**	—
		143,422	134,867
Dividends	9	**—**	220,000
Earnings per share, in RMB cents			
Basic	10	**11.4**	11.2

Condensed Combined Balance Sheet
As at 30 June 2007

	NOTES	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	**995,235**	681,339
Prepaid lease payment		**10,719**	6,260
Deposits for acquisition of coal mines	12	**—**	133,616
		1,005,954	821,215
CURRENT ASSETS			
Inventories		**49,276**	31,111
Bills and trade receivables	13	**114,055**	232,834
Bills receivables discounted with recourse		**186,453**	220,032
Other receivables and prepayments		**85,825**	64,251
Other loan receivables		**954**	6,454
Amounts due from related parties	20(b)	**234**	2,057
Pledged bank deposits		**287,158**	68,577
Bank balances and cash		**302,466**	200,522
		1,026,421	825,838
CURRENT LIABILITIES			
Trade payables	14	**17,855**	19,211
Advances drawn on bills receivables discounted with recourse		**186,453**	220,032
Other payables and accrued expenses		**172,758**	218,061
Amounts due to related parties	20(b)	**761**	1,717
Tax payables		**28,817**	29,275
Bank and other borrowings — due within one year	15	**546,444**	289,974
		953,088	778,270
NET CURRENT ASSETS		**73,333**	47,568
		1,079,287	868,783
CAPITAL AND RESERVES			
Paid-in capital	16	**10**	8
Reserves		**1,073,870**	244,964
Equity attributable to equity holders of the Company		**1,073,880**	244,972
Minority interests		**545**	—
Total equity		**1,074,425**	244,972
NON-CURRENT LIABILITIES			
Provision for restoration and environmental costs		**4,862**	3,982
Convertible note	17	**—**	619,829
		4,862	623,811
		1,079,287	868,783

Notes:

1. **General**

Hidili Industry International Development Limited 恒鼎實業國際發展有限公司 (the "Company") was incorporated in the Cayman Islands under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 1 September 2006. In the opinion of the directors, the Company's ultimate holding company is Sanlian Investment Holding Limited ("Sanlian Investment"), a company incorporated in the British Virgin Islands.

Pursuant to the group reorganisation (the "Reorganisation") in preparation of the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the group formed after the completion of the Reorganisation. Details of the Reorganisation are set out in the paragraph headed "Our reorganisation" set out in page 128 of the Prospectus of the Company dated 10 September 2007 (the "Prospectus"). The Reorganisation was completed on 25 August 2007 with a final step of the exchange of shares of the Company with all the issued shares of Hidili Investment Holding Limited ("Hidili Investment").

The Company together with its subsidiaries are hereafter collectively referred to as the Group. The Company's subsidiaries are engaged in coal mining, manufacture and sale of coke and clean coal and provision of transportation.

The Company's shares were listed on the Main Board of the Stock Exchange on 21 September 2007.

2. **Basis of Preparation of Condensed Combined Financial Statements**

The directors of the Company consider that meaningful information as regards the historical performance of the companies now comprising the Group is provided by treating the Group resulting from the Reorganisation as a continuing entity. Accordingly, for the purpose of this report, the condensed combined income statement, condensed combined cash flow statement, and condensed combined statement of changes in equity of the Group for the six months ended 30 June 2006 and 2007 include the financial information of the companies now comprising the Group as if the current group structure had been in existence throughout the six months ended 30 June 2006 and 2007 or since their respective dates of incorporation/registration or becoming the group member, whichever is the shorter period.

The condensed combined balance sheet of the Group as at 31 December 2006 and 30 June 2007 have been prepared to present the assets and liabilities of the Group as if the group structure after the Reorganisation had been in existence as at these dates.

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

3. **Principal Accounting Policies**

The condensed combined financial information have been prepared on the historical cost basis. The accounting policies used in the condensed combined financial information are consistent with those followed in the preparation of the Group's financial information for the three years ended 31 December 2006 and 3 months ended 31 March 2007 included in the Prospectus.

The Group has adopted all of new and revised Standards and Interpretations (hereinafter collectively referred to as "new IFRSs") issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are effective for the Group's financial period beginning on 1 January 2007, in the preparation of its interim financial information.

At the date of these combined interim financial statements, the IASB and the IFRIC of the IASB issued the following new and revised International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS") and Interpretations which are not yet effective.

IAS 1 (Revised)	Presentation of Financial Statements[1]
IAS 23 (Revised)	Borrowing Costs[1]
IFRS 8	Operating Segments[1]
IFRIC 11	IFRS 2 — Group and Treasury Share Transactions[2]
IFRIC 12	Service Concession Arrangements[3]
IFRIC 13	Customer Loyalty Programme[4]
IFRIC 14	IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

[1] Effective for annual periods beginning on or after 1 January 2009.
[2] Effective for annual periods beginning on or after 1 March 2007.
[3] Effective for annual periods beginning on or after 1 January 2008.
[4] Effective for annual periods beginning on or after 1 July 2008.

The Group has not early adopted these new/revised standards and interpretations in the preparation of these condensed combined financial statements. The Group has considered the above new/revised standards and interpretations and anticipate that the adoption of these new/revised standards, and interpretations in the future periods will have no material effect on how the results of operations and financial position of the Group are prepared and presented.

4. **Turnover and Segment Information**

The Group is engaged in manufacture and sales of coke, clean coal, alloy pig iron and related products and all of the Group's revenue are generated in the People's Republic of China (the "PRC") market and all of its assets are located in the PRC.

The following table provides an analysis of the Group's sales by products:

	Six months ended 30 June 2007 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)
Clean Coal	**139,683**	90,488
Coke	**217,985**	178,623
Alloy pig iron	**11,752**	—
Other coals and by-products	**29,023**	23,045
Total	**398,443**	292,156

Business segments

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

Principal activities are as follows:

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

Combined income statement

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

Inter-segment transactions were carried out at cost.

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

	Six months ended 30 June 2006 (Unaudited)				
	Coal mining *RMB'000*	Coking *RMB'000*	Others *RMB'000*	Inter-segment eliminations *RMB'000*	Combined *RMB'000*
GROSS REVENUE					
External	106,954	185,184	18	—	292,156
Inter-segment	76,862	—	—	(76,862)	—
Total	183,816	185,184	18	(76,862)	292,156

Inter-segment transactions were carried out at cost.

RESULT					
Segment results	57,457	103,078	—	—	160,535
Unallocated corporate expenses					(17,632)
Unallocated corporate income					5,848
Finance costs					(7,698)
Profit before taxation					141,053
Taxation					(6,186)
Profit for the period					134,867

5. Other Income

	Six months ended 30 June	
	2007 *RMB'000* **(Unaudited)**	2006 *RMB'000* (Unaudited)
Government grant *(Note)*	**30,000**	3,460
Net gain on disposal of property, plant and equipment	**2,059**	—
Bank interest income	**1,600**	1,592
Net gain on exchange	**1,530**	—
Others	**560**	796
	35,749	5,848

Note: The amount for the six months period ended 30 June 2007 represented the unconditional grants from the PRC government specifically for encouraging the Group's business development in Sichuan Province, the PRC, which is granted to a subsidiary of the Company from Panzhihua City Economic Committee, Panzhihua City Development and Reformation Committee and Panzhihua City Science and Technology Bureau to appraise that the Group had successfully developed the new products of which combined vanadium, titanium and magnet which will encourage new business development in Panzhihua.

6. Finance Costs

	Six months ended 30 June	
	2007 *RMB'000* **(Unaudited)**	2006 *RMB'000* (Unaudited)
Interest expenses on:		
— bank borrowings wholly repayable within five years	**5,058**	3,803
— bills receivable discounted	**8,366**	3,895
— other loan	**3,094**	—
	16,518	7,698

7. Profit Before Taxation

	Six months ended 30 June	
	2007 *RMB'000* **(Unaudited)**	2006 *RMB'000* (Unaudited)
Profit before taxation has been arrived at after charging:		
Amortisation of prepaid lease payment	**67**	67
Provision for restoration and environmental costs	**880**	555
Depreciation and amortisation of property, plant and equipment	**24,325**	17,582
Net loss on disposal of property, plant and equipment	**—**	164

8. Taxation

	Six months ended 30 June	
	2007 *RMB'000* **(Unaudited)**	2006 *RMB'000* (Unaudited)
The charge comprises:		
Current PRC Enterprise Income Tax ("EIT")	**10,379**	6,186

The provision for EIT is based on a statutory rate of 33% of the assessable profit of the group entities as determined in accordance with the relevant income tax rules and regulations of the PRC for both periods presented except for certain subsidiaries of the Company which are exempted for EIT in accordance with the approval from the respective tax bureau which are summarized as follows:

During the six months ended 30 June 2007, pursuant to the tax incentives of "2 years' exemption and 3 years' deduction", 攀枝花市三聯運輸有限公司 (Panzhihua City Sanlian Transportation Company Limited*) ("Sanlian Transportation") entitled to the income tax rate of 16.5% whilst 四川恒鼎實業有限公司 (Sichuan Hidili Industry Company Limited*) ("Sichuan Hidili") and 攀枝花市恒鼎煤焦化有限公司 (Panzhihua City Hidili Coke Company Limited*) ("Hidili Coal") entitled to a tax rate of 3% with 30% exemption. In addition, most of the Company's PRC subsidiaries adopted income tax rate of 33% according to the Provisional Regulation of Enterprise Income Tax from 1 January 2007 to 14 February 2007 and applied the income tax rate of 3% with 30% exemption from 15 February 2007 to 30 June 2007 with the adoption of the Income Tax Law of Foreign Investment Enterprise since they have been approved to reform to Reinvestment Enterprise by Foreign Investment Enterprise on 15 February 2007.

During the six months ended 30 June 2006, Hidili Coal was exempted from the EIT as an enterprise situated in old revolutionary base areas and areas inhabited by ethnic minorities, remote and impoverished while Sanlian Transportation was exempted from tax under the policy of "2 years' exemption and 3 years' deduction".

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

On 16 March 2007, the National People's Congress promulgated the Corporate Income Tax Law of the PRC (the new "CIT") which will be effective from 1 January 2008. The new CIT will impose a single income tax rate of 25% for both domestic and foreign invested enterprises. The existing Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises (the "FIE and FE tax laws") and Provisional Regulations of the PRC on Enterprise Income Tax (collectively referred to as the "existing tax laws") will be abolished simultaneously. Currently, the Company's subsidiaries in PRC applied tax rates under the existing tax laws to provide for current tax. The Corporate Income Tax Law detailed implementation rulings have not been released. It is uncertain for the Company, at this stage, to assess the impact of such new law. The Directors of the Company will continue to assess the future financial impact on the Group upon release of detailed implementation rulings.

9. Dividends

No dividend has been declared by the Company since its date of incorporation.

For the six months ended 30 June 2006, two wholly owned subsidiaries of the Company paid dividends of RMB200,000,000 and RMB20,000,000 respectively to their then shareholders.

The rates of dividends and the number of share ranking for dividends are not presented as such information is not considered meaningful having regard to the purpose of this report.

10. Earnings Per Share

The calculation of the basic earnings per share are based on the profit attributable to equity holders of the Company for the six months ended 30 June 2007 and the six months ended 30 June 2006 and on the weighted average number of 1,261,326,000 and 1,200,000,000 shares, respectively, assuming that the Reorganisation had been effective on 1 January 2006.

No diluted earnings per share has been presented for the six months ended 30 June 2006 as there are no outstanding potential ordinary shares during that period. No diluted earnings per share has been presented for the six months ended 30 June 2007 as the inclusion of the effect of potential ordinary shares would increase the profit per share for the period.

11. Property, Plant and Equipment

During the six months ended 30 June 2007, the Group incurred approximately RMB351,764,000 (six months ended 30 June 2006: RMB69,404,000) on acquisition of property, plant and equipment.

In April 2007, the Group disposed of its mine in Bajiaowan with carrying value of RMB7,741,000, at a consideration of RMB9,800,000.

12. Deposits for Acquisition of Coal Mines

Balance as at 31 December 2006 represents deposits paid for acquisition of four coal mines in Guizhou, the PRC, at an aggregate consideration of RMB230,100,000. The acquisition has been completed in 2007.

13. Bills and Trade Receivables

	30 June 2007 *RMB'000* **(Unaudited)**	31 December 2006 *RMB'000* (Audited)
Trade receivables	**108,792**	192,254
Impairment loss recognised	**(5,787)**	(5,787)
	103,005	186,467
Bills receivables	**11,050**	46,367
	114,055	232,834

The Group generally allows an average credit period ranged from 90–120 days to its trade customers. The aged analysis of trade receivables is as follows:

	30 June 2007 *RMB'000* **(Unaudited)**	31 December 2006 *RMB'000* (Audited)
Aged:		
0–90 days	**98,760**	173,084
91–120 days	**319**	7,109
121–180 days	**1,035**	—
181–365 days	**2,891**	6,274
	103,005	186,467

14. Trade Payables

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

	30 June 2007 *RMB'000* **(Unaudited)**	31 December 2006 *RMB'000* (Audited)
Aged:		
0–90 days	**14,114**	15,332
91–180 days	**1,564**	1,492
181–365 days	**1,107**	1,567
Over 365 days	**1,070**	820
	17,855	19,211

15. Bank and other Borrowings

	30 June 2007 *RMB'000* **(Unaudited)**	31 December 2006 *RMB'000* (Audited)
Bank loans, secured	**484,570**	226,570
Other loans, secured	**61,874**	62,324
Other loans, unsecured	**—**	1,080
	546,444	289,974

The maturity profile of above borrowings is as follows:

	30 June 2007 *RMB'000* **(Unaudited)**	31 December 2006 *RMB'000* (Audited)
On demand or within one years:		
Bank loans *(note i)*	**484,570**	226,570
Other loans	**61,874**	63,404
	546,444	289,974
Other loans from:		
Entities		
Secured *(note ii)*	**61,874**	62,324
Individuals		
Unsecured *(note iii)*	**—**	1,080
	61,874	63,404

Notes:

(i) As at 30 June 2007, the bank loans of RMB48 million (at 31 December 2006: RMB60 million) was secured by the Group's 100% interests in 攀枝花市天道勤工貿有限公司 (Panzhihua City Tiandaoqin Industry & Trading Company Limited*), 攀枝花市揚帆工貿有限公司 (Panzhihua Yangfan Industry & Trading Company Limited*) and 攀枝花沿江實業有限責任公司 (Panzhihua Yanjiang Industrial Company Limited*).

As at 31 December 2006, the bank loans of RMB40 million were secured by the Group's 90% interests in Hidili Coal.

(ii) The amount represents loan advanced from a financial institution and carries interest rate at 10% compound per annum and is repayable on 21 October 2007 or the date which is 14 business days after the date of listing of the Company's shares on the Main Board of the Stock Exchange, whichever is the earlier, pursuant to the loan agreement dated 5 September 2006 (the "Loan Agreement") and two amending deeds entered into between Hidili Investment and the financial institution ("Amending Deeds"). In addition, pursuant to Amending Deeds, the financial institution would waive its right to receive the interest, conditional upon listing of the shares of the Company on the Main Board of the Stock Exchange having commenced on or before 30 September 2007.

At 31 December 2006, 5% issued shares in Sanlian Investment held by Mr. Xian Yang and 5% issued shares in Hidili Investment held by Sanlian Investment, respectively were charged to the financial institution for securing the repayment under the Loan Agreement. In addition, 95% issued shares in Sanlian Investment held by Mr. Xian Yang and 95% issued shares in Hidili Investment held by Sanlian Investment were also charged to the financial institution for ensuring the obligation to carry out the group reorganization as stipulated in the note purchase agreement in respect of the convertible note entered into between the financial institution and Hidili Investment. (collectively referred as to the "Share Charge"). On 15 May 2007, Mr. Xian Yang, Sanlian Investment and the financial institution entered into a deed of release in relation to the Share Charge pursuant to which Mr. Xian Yang and Sanlian Investment were released from any further liability under the Share Charge and 100% of the above-mentioned shares charged were released from the Share Charge with effect from the date of the deed of release.

(iii) At 31 December 2006, unsecured other loans from individuals carried interest at a rate of 20% per annum and were repayable on demand.

16. Paid-in Capital

The paid-in capital of the Group at 31 December 2006 and 30 June 2007 represents the paid-in capital of Hidili Investment and the Company.

Hidili Investment was incorporated on 6 July 2006 and authorised to issue a maximum of 50,000 shares of a single class each with a par value of US$1.00. On 7 July 2006, Hidili Investment allotted and issued 1,000 shares of US$1.00 each at par to Sanlian Investment. On 8 August 2006, the capital structure of Hidili Investment was altered so that it was authorised to issue a maximum of 5,000 million shares of a single class each with a par value of US$1.00. On 10 August 2006, every issued share of US$1.00 each in the capital of Hidili Investment was subdivided into 10,000 shares of US$0.0001 each. As such, Sanlian Investment became the holder of 10,000,000 shares of US$0.0001 each in Hidili Investment on 10 August 2006.

On 25 May 2007, as detailed in note 17, the then holder of the convertible note (the "Noteholder") exercised its conversion rights under the convertible note. And thereafter Hidili Investment alloted and issued 2,500,000 shares to the Noteholder at US$0.0001 amounting to approximately RMB2,000 on 1 June 2007.

The Company was incorporated on 1 September 2006 with an authorized share capital of HK$390,000 (equivalent to RMB415,000) divided into 3,900,000 shares of HK$0.1 each and one ordinary share of HK$0.1 was allotted and issued at par.

17. Convertible Note

On 25 May 2007, the Noteholder exercised the conversion right and served a conversion notice on Hidili Investment. Hidili Investment allotted and issued 2,500,000 shares to the Noteholder on 1 June 2007. The conversion price per share in Hidili Investment was US$16.8 (equivalent to approximately HK$131.4).

The change in fair value of the convertible note with embedded derivatives of approximately RMB65,602,000 during the period from 1 January 2007 to the date of conversion has been recognized in the combined income statements for the six months ended 30 June 2007.

18. Capital Commitments

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

	30 June 2007 *RMB'000* **(Unaudited)**	31 December 2006 *RMB'000* (Audited)
Capital expenditure in respect of acquisition of property, plant and equipment — contracted for but not provided in the condensed combined financial statements	**58,389**	88,320

19. Pledge of Assets

Other than as disclosed in note 15, at the balance sheet date, the Group pledged the following assets to banks for credit facilities granted to the Group:

	30 June 2007 *RMB'000* **(Unaudited)**	31 December 2006 *RMB'000* (Audited)
Property, plant and equipment	**280,517**	153,205
Bank deposits	**287,158**	68,577
Prepaid lease payment	**6,328**	6,395
	574,003	228,177

20. Related Party Transactions/Balances

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

Name of Company	**Relationship**	**Nature of transactions**	**Six months ended 30 June 2007** *RMB'000* **(Unaudited)**	2006 *RMB'000* (Unaudited)
攀枝花市恒為製鈦有限公司 (Hengwei Zhitai Co., Ltd*) ("Hengwei")	A company ultimately owned by Mr. Xian Fan, brother of Mr. Xian Yang	Sale of goods	**—**	314
Mr. Xian Jilun	Father of Mr. Xian Yang, shareholder and director of the Company	Rental expense	**600**	350

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

	30 June 2007 *RMB'000* **(Unaudited)**	31 December 2006 *RMB'000* (Audited)
Amounts due from related parties		
Mr. Xian Yang *(note i)*	**—**	126
Mr. Wang Rong *(note ii)*	**234**	123
Hengwei	**—**	1,808
	234	2,057
Amounts due to related parties		
Mr. Xian Yang *(note i)*	**361**	—
Mr. Xian Jilun	**400**	1,717
	761	1,717

Notes:

(i) Mr. Xian Yang is the controlling shareholder and the director of the Company.

(ii) Mr. Wang Rong is the director of the Company.

(c) As at 30 June 2007, bank borrowings of RMB48 million (at 31 December 2006: RMB60 million) were also guaranteed by Mr. Xian Yang. As at 31 December 2006, bank borrowings of RMB40 million were jointly guaranteed by Mr. Xian Yang and Mr. Wang Rong.

(d) 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 2007 *RMB'000* **(Unaudited)**	2006 *RMB'000* (Unaudited)
Basic salaries and allowances	**1,272**	381
Retirement benefit scheme contribution	**9**	4
	1,281	385

21. Subsequent Events

(i) Pursuant to the written resolutions of the sole member of the Company on 25 August 2007, the authorised share capital of the Company was increased from HK$390,000 to HK$1,000,000,000 by the creation of an additional 9,996,100,000 shares.

(ii) On 25 August 2007, the Company entered into an agreement with the then shareholders of Hidili Investment pursuant to which, among other things, the Company acquired from them the entire issued share capital of Hidili Investment in consideration of which the Company allotted and issued 12,499,999 shares, credited as fully paid, to them on the same day. Accordingly, the Company became the holding company of the Group on 25 August 2007.

(iii) On 25 August 2007, written resolutions of all the shareholders of the Company were passed, pursuant to which:

(a) a share option scheme of the Company was adopted.

(b) subject to certain conditions which were subsequently fulfilled, the Company issued 500,000,000 new ordinary shares of HK$0.1 each ("New Issue") for cash at HK$6.83 per share; and

(c) subject to the share premium account of the Company being credited as a result of the New Issue, the directors of the Company were authorised to capitalise HK$148,750,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 1,487,500,000 shares of HK$0.1 each for allotment and issue to the shareholders of the Company whose names appear on the register of the members of the Company at the close of business on 27 August 2007 in proportion to their then respective existing shareholdings in the Company.

(iv) Pursuant to written resolutions of the committee of the board of directors of the Company on 19 September 2007, the Company allotted and issued 1,487,500,000 shares of HK$0.1 each and gave effect to the capitalisation issue of 1,487,500,000 shares of HK$0.1 each on the same date. The shares allotted and issued rank pari passu with all shares then in issue.

(v) On 21 September 2007, the Company's shares were listed on the Main Board of the Stock Exchange.

(vi) On 21 September 2007, the over-allotment option was exercised, comprising 60,000,000 new ordinary shares of HK$0.1 each issued by the Company and 30,000,000 ordinary shares of HK$0.1 each sold by Sanlian Investment (together referred as to "Over-allotment Shares"). The Over-allotment Shares were issued/sold on 28 September 2007 and commenced dealing on the Main Board of the Stock Exchange on 28 September 2007. Accordingly, the Company's issued share capital on 28 September 2007 comprises of 2,060,000,000 shares of HK$0.1 each.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Turnover

During the Review Period, turnover of the Group reached approximately RMB398.4 million, representing an increase of about 36.4%, as compared with approximately RMB292.2 million for the corresponding period of last year. The increase was primarily attributable to the sales of coke and clean coal, which had recorded increases in sales volumes and average selling prices of both products. During the Review Period, the Group also engaged in the sales of alloy pig iron and related by-products, contributing approximately 3.5% to the Group's turnover.

The following table sets forth the Group's turnover contribution and average selling price by products and as a percentage of total turnover for the Review Period, together with the comparative amounts for the corresponding period in 2006:

	Six months ended 30 June 2007			Six months ended 30 June 2006		
	Average selling price *RMB*	**Turnover** *RMB million* **(Unaudited)**	**% of total turnover** *%*	Average selling price *RMB*	Turnover *RMB million* (Unaudited)	% of total turnover *%*
Principal products						
Coke	**906.8**	**218.0**	**54.7%**	809.8	178.6	61.1%
Clean coal	**632.7**	**139.7**	**35.1%**	628.2	90.5	31.0%
Principal products total		**357.7**	**89.8%**		269.1	92.1%
By-products						
High-ash thermal coal	**119.4**	**18.7**	**4.7%**	120.8	16.5	5.6%
Coal tar	**1,293.3**	**7.4**	**1.9%**	1,296.6	6.5	2.2%
Titanium slag	**846.9**	**2.4**	**0.6%**	—	—	—
Other by-products	**N/A**	**0.4**	**0.1%**	N/A	0.1	0.1%
By-products total		**28.9**	**7.3%**		23.1	7.9%
Other products						
Alloy pig iron	**1,968.7**	**11.8**	**2.9%**	—	—	—
Total turnover		**398.4**	**100.0%**		292.2	100.0%

Cost of sales

Cost of sales for the Review Period was approximately RMB141.5 million, an increase of approximately RMB27.2 million, or about 23.8%, as compared with approximately RMB114.3 million in the corresponding period of last year. The increase was primarily due to the increase in cost of material, fuel and power, staff costs, depreciation and amortization and transportation costs of coal and coke in line with the increase in turnover during the Review Period.

Material, fuel and power costs in the Review Period were approximately RMB61.5 million, an increase of approximately RMB13.3 million, or around 27.6%, as compared with approximately RMB48.2 million for the corresponding period of last year. The increase was primarily due to increases in the production volumes of coke and clean coal.

Staff costs in the Review Period were approximately RMB42.2 million, an increase of approximately RMB5.2 million, or about 14.1%, as compared with approximately RMB37.0 million for the corresponding period of last year. The increase was primarily attributable to the increase in mine workers' wages in line with the increased production volumes of coke and clean coal.

Depreciation and amortization in the Review Period were approximately RMB22.6 million, an increase of approximately RMB6.2 million, or about 37.8%, as compared with approximately RMB16.4 million for the corresponding period of last year. The increase was primarily attributable to the additional fixed assets acquired in connection with coal mines and alloy pig iron and titanium slag plant.

Transportation costs in the Review Period were approximately RMB12.0 million, an increase of approximately RMB1.4 million, or about 13.2%, as compared with approximately RMB10.6 million for the corresponding period of last year. The increase was in line with the increase in production volume for the Review Period.

Gross profit

As a result of the foregoing, the gross profit in the Review Period was approximately RMB256.9 million, an increase of approximately RMB79.1 million, or about 44.5%, as compared with approximately RMB177.8 million for the corresponding period of last year. The gross profit margin was about 64.5% in the Review Period as compared with about 60.9% in the corresponding period of last year.

Other income

Other income in the Review Period was approximately RMB35.7 million, an increase of approximately RMB29.9 million, as compared with approximately RMB5.8 million in the corresponding period of last year. The increase was mainly due to a one-time unconditional subsidy from the Panzhihua municipal government in the amount of RMB30 million made payable to the Group in support of the successful development in its alloy pig iron and titanium slag plant.

Distribution costs

Distribution costs in the Review Period were approximately RMB21.5 million, an increase of approximately RMB4.2 million, or about 24.3%, as compared with approximately RMB17.3 million for the corresponding period of last year. The increase was primarily attributable to the increases in sales volumes of coke and clean coal.

Administrative expenses

Administrative expenses in the Review Period were approximately RMB31.7 million, an increase of approximately RMB15.0 million, or about 89.8%, as compared with approximately RMB16.7 million for the corresponding period of last year. The increase was primarily attributable to a general increase in the salaries of the administrative staff, additional costs incurred in connection with the expansion into Guizhou and professional expenses incurred for the global offering (the "Global Offering") and listing of the Company's shares on the Main Board of the Stock Exchange.

Other expenses

Other expenses in the Review Period were approximately RMB3.5 million, an increase of approximately RMB2.6 million, as compared with approximately RMB0.9 million of the corresponding period of last year. Such increase was primarily attributable to increase in relocation compensation to residents near the Group's coal mines.

Fair value adjustment on convertible note

A negative fair value adjustment on convertible note, which was issued on 5 September 2006 and exercised by the then holder of the convertible note on 25 May 2007, was recorded during the Review Period in the amount of approximately RMB65.6 million, as compared with nil in the corresponding period of last year.

Finance costs

Finance costs in the Review Period were approximately RMB16.5 million, an increase of approximately RMB8.8 million, or about 114.3%, as compared with approximately RMB7.7 million for the corresponding period of last year. The increase was primarily due to an increase in our accounts receivable financings to meet the increased working capital needs as a result of expanded operations and an accrual of interest of approximately RMB3.1 million for the other borrowing advanced from a financial institution.

Taxation

Taxation in the Review Period was approximately RMB10.4 million, an increase of approximately RMB4.2 million, or about 67.7%, as compared with approximately RMB6.2 million for the corresponding period of last year. The increase in the effective income tax rate from about 4.4% during the six months ended 30 June 2006 to about 6.7% in the Review Period was mainly due to the negative fair value adjustment on the convertible note of approximately RMB65.6 million which was not subject to income tax and the change of tax rate from full enterprise income tax ("EIT") exemption in the corresponding period of last year to 3% local EIT imposed in Sichuan province of 攀枝花市恒鼎煤焦化有限公司 (Panzhihua City Hidili Coke Company Limited*) ("Hidili Coal"), a major subsidiary of the Group, upon conversion into a foreign-invested enterprise in December 2006.

Profit for the period

As a result of the foregoing, the profit for the Review Period was approximately RMB143.4 million, an increase of approximately RMB8.5 million, or about 6.3%, as compared with approximately RMB134.9 million for the corresponding period of last year. The net profit margin was 36.0% in the Review Period as compared with about 46.2% in the corresponding period of last year.

Liquidity, Financial Resources and Capital Structure

The Group adopted stringent financial management policies and maintained a healthy financial condition. The Group continued to fund operations principally with internally generated cash flow from operating activities and short-term bank borrowings.

The net current assets as at 30 June 2007 were approximately RMB73.3 million (At 31 December 2006: RMB47.6 million). As at 30 June 2007, the bank balances and cash of the Group amounted to approximately RMB302.5 million. (At 31 December 2006: RMB200.5 million).

As at 30 June 2007, the total bank and other borrowings of the Group were approximately RMB546.4 million (At 31 December 2006: RMB290.0 million), which are repayable within one year, with effective weighted average interest rate of 6.7%.

As at 30 June 2007, all of the Group's bank balances and cash, except amounts of approximately HK$282,000 and approximately US$588, were held in Renminbi ("RMB") and all of its borrowings, except an amount of US$8 million, were made in RMB.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Group as at 30 June 2007 was 26.9% (At 31 December 2006: 17.6%).

Pledge of Assets of the Group

As at 30 June 2007, the Group pledged assets in an aggregate amount of RMB574.0 million (At 31 December 2006: RMB228.2 million) to banks for credit facilities in the amount of RMB484.6 million granted to the Group (At 31 December 2006: RMB226.6 million). Further details are set out under Notes 15 and 19 in the section headed "Notes to The Condensed Combined Financial Statements".

Employees

As at 30 June 2007, the Group had an aggregate of 5,295 employees. The increase in the number of the Group's employees from 4,766 as at 31 March 2007 to 5,295 as at 30 June 2007 is mainly due to the Group's development in its Guizhou operations. During the Review Period, the staff costs (including directors' remuneration in the form of salaries and other allowances) was RMB55.0 million (Corresponding period in 2006: RMB45.7 million).

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

Risk in Foreign Exchange

The revenue and expenses of the Group were denominated in RMB. The directors of the Company (the "Directors") consider that the Group's risk in foreign exchange is insignificant. During the Review Period, the Group did not use any financial instrument for hedging purposes.

Significant Investment Held

The Group did not have significant investment held as at 30 June 2007.

Material Acquisition and Disposal

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

Future Plans Relating to Material Investment or Capital Asset

As at the date of this report, the Group has not executed any agreement in respect of proposed acquisition and did not have any other future plan of material investment or capital asset.

Contingent Liabilities

As at 30 June 2007, the Group did not have any material contingent liabilities.

OUTLOOK

Due to the rapid growth and development in the Chinese economy, strong demand in coal and coke products is expected to continue in the foreseeable future. We have strong confidence that we could benefit from the rapid and continuing growth of the economy of China.

We will strive to continue to maximize our efficiency, improve our profitability and maximize our stakeholders' returns through internal improvement and external growth, and aim to become a leading non-State-owned coking coal producer in China. In order to achieve this objective, we plan to pursue the following strategies:

Exploit and expand our vertically integrated production capacity

Our core strategy is to expand our coal reserves rapidly through acquisitions followed by the further development of our coal processing capacity. The commencement of trial production of our alloy pig iron and titanium slag plant in December 2006 has enabled us to move further down the supply chain by utilizing gas emissions from our coking plant and the abundant locally produced vanadium-bearing titanomagnetite concentrate for refining metal and chemical products. We expect this strategy will assist us in capturing the growing demand from newly expanded steel manufacturing facilities in the south-western part of China ("South West China") for high quality clean coal, coke and alloy pig iron. We expect to complete trial production and commence commercial production in our alloy pig iron and titanium slag plant by the end of 2007. We may seek further opportunities to enhance our coal processing capabilities thereafter should appropriate opportunities arise in the future.

Seek rapid and sustainable growth primarily through acquisitions of coal resources

We have achieved our rapid historical growth primarily through acquisitions of coal resources, coal mines and coal washing and refining facilities at relatively low acquisition costs. Since our inception in 2000, we have rapidly acquired 20 coal mines (one of which, being Bajiaowan Mine, was subsequently sold in April 2007), two coal washing plants and one coking plant and our turnover increased significantly during the past years. We have historically been able to achieve relatively timely and low cost expansion of our coal resources and business operations through acquisitions and will seek to pursue a similar strategy in the near future. As the PRC government is in the process of consolidating mining resources with a view to optimizing resource allocation and creating larger coal mining enterprises to improve the safety level of coal mines, this render us the opportunities to acquire new coal mines with reasonable price and quality.

Focus our growth in Guizhou province

Guizhou province ranks third in terms of coking coal resources in China. Guizhou province is the main power exporting province in South West China and Liupanshui is centrally located in relation to the major steel manufacturers in Sichuan, Yunnan, Guangdong and Hunan provinces, Guangxi Zhuang autonomous region and Chongqing municipality, with railway networks connecting it to these areas. Despite the abundant coal reserves and the well-established railway transportation infrastructure in Liupanshui, the majority of coal mines in Liupanshui are undeveloped raw coal mines owned by local individuals and rural townships that lack the necessary funds, skills and customers to develop their resources. We believe that this presents us with opportunities to acquire additional coking coal mines at attractive prices in Liupanshui.

On 26 May 2007, we obtained undertakings from certain coal mine owners, which allow us, at our discretion, to purchase coal mining rights and related assets of 11 coal mines (both producing and undeveloped) in Liupanshui within 10 months (12 months for one mine) from the date of the respective undertaking with the prices for the mining rights being within the range of RMB4.0 per tonne to RMB6.0 per tonne of coal resources as defined in the PRC Solid Mineral Resources/ Reserves Classification (中華人民共和國固體礦產資源/儲量分類) (GB/T/7766–1999), subject to the execution of definitive purchase agreements containing exact prices and other material terms which have not been agreed on. Each of the mine owners made a representation in respect of the minimum relevant coal resources in the relevant mine, which amount to 238.0 million tonnes in the aggregate for the 11 mines. However, up to the date of this report, no considerations have been authorized for and no definitive agreements with relevant mine owners have been signed so far. We will continue to investigate the respective coal mines and to finalize the definitive agreements. We will comply with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") applicable to the purchases.

To refine the coking coal extracted from our existing and future coal mines, we also intend to build in Liupanshui by the end of 2009 a coal washing plant with three million tonnes of annual coal washing capacity and a coking plant with one million tonnes of annual coke production capacity.

Subject to further acquisitions and development of sufficient raw coal production, we intend to construct a second coal washing plant with three million tonnes of annual coal washing capacity for a total annual capacity of six million tonnes of washed coal and the second phase of our coking plant comprising an additional one million tonnes of annual coke production capacity for a total annual capacity of two million tonnes of coke. In August 2007, we signed a memorandum of understanding (the "MoU") with 攀鋼集團國際經濟貿易有限公司 (Panzhihua Steel Group International Economy and Trade Company Limited*) ("Panzhihua Steel International Economy and Trade Company"), an independent third party of the Group and a subsidiary of Panzhihua Steel Group, regarding our strategic cooperation for the sale and purchase of coke from our planned coking plant with annual capacity of two million tonnes. The MoU provides that following the construction of both stages of the coking plant, Panzhihua Steel International Economy and Trade Company will purchase all coke produced at our coking plant that meets their quality requirement at market prices. Pursuant to the MoU, our strategic cooperation will extend for 20 years from the date of commencement of production at the coking plant.

Further improve our operating efficiency in mining and coal processing, production safety and environmental protection

Our clean coal production volume increased by 108.2% from approximately 574,000 tonnes in 2004 to approximately 1,194,800 tonnes in 2006 and our coke production volume increased by 91.9% from approximately 258,600 tonnes in 2004 to approximately 496,200 tonnes in 2006. However, the number of our employees has remained substantially at the same level during that period. We were able to achieve this due to improvements in our operating efficiency. To further improve our operating efficiency, we plan to adopt more technologically advanced automated mining techniques in our existing and future mines and future processing plants in Guizhou province. We also intend to install in our future coking plant a set of newly designed ovens with high burning efficiency. We have attached great importance to production safety and environmental protection in the past and will continue to devote substantial resources to bring us closer to international operating standards. We intend to enhance production safety and minimize mine accidents primarily through utilizing more automated mining methods. We have retained Pacific Risk Advisors Ltd. ("Pacific Risk Advisors"), a Hong Kong based risk management consultant, since October 2006 to advise our management on how to improve our management of occupational health and safety as well as environmental standards at our coal mines and coal processing facilities. With Pacific Risk Advisors' assistance, we intend to meet the highest PRC environmental standards by the end of 2007 and obtain ISO14001 certification by the end of 2008. Additionally, we seek to obtain OHSAS18001 certification of our occupational health and safety practices by the end of 2009.

SHARE OPTION SCHEME

The principle terms and conditions of the Share Option Scheme, which was conditionally approved by a resolution of the shareholders of the Company dated 25 August 2007, are set out in the section headed "Share Option Scheme" in Appendix VII to the prospectus of the Company dated 10 September 2007. At the date of this report, no option has been granted under the Share Option Scheme.

AUDIT COMMITTEE

An audit committee was established on 25 August 2007 in compliance with the Code on Corporate Governance Practices (the "Corporate Governance 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.

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

The interim results have been reviewed by the audit committee and Deloitte Touche Tohmatsu, the Company's auditors. The report on review of interim financial information issued by Deloitte Touche Tohmatsu will be set out in the interim report of the Company, which will be sent to shareholders and published on the website of the Stock Exchange (www.hkex.com.hk).

CORPORATE GOVERNANCE

The Directors confirm that the Company has complied with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

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 (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own Code for Securities Transactions by the Officers (the "Code"). All Directors have confirmed their compliance during the period under review with the required standards set out in the Model Code and the Code.

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.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE

The interim report of the Company, which will contain all the information required by the Listing Rules, will be sent to shareholders and published on the website of the Stock Exchange (www.hkex.com.hk).

BOARD OF DIRECTORS

As at the date this announcement, the executive Directors are Mr. Xian Yang, Mr. Sun Jiankun, Mr. Wang Rong and Mr. Tu Xiaoyu; the non-executive Director is Mr. Tsang Kwong Yue Conrad; and the independent non-executive Directors are Mr. Chan Chi Hing, Mr. Wang Zhiguo and Mr. Huang Rongsheng.

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

Chengdu, Sichuan Province, the PRC
28 September 2007

* *for identification purposes only*