Hidili 恒鼎

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)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

FINANCIAL HIGHLIGHTS

The Group's turnover amounted to approximately RMB1,042.5 million in 2007, representing an increase of approximately RMB227.7 million, or approximately 27.9% as compared to approximately RMB814.8 million in 2006.

The net profit attributable to the equity holders of the Company for the year ended 31 December 2007 was approximately RMB570.3 million, representing a sharp increase of approximately RMB480.6 million or approximately 535.8% as compared to approximately RMB89.7 million in 2006.

The basic earnings per share attributable to ordinary equity holders of the Company amounted to approximately RMB37.1 cents in 2007.

The Board proposed the payment of a final cash dividend of RMB8.4 cents per share to all shareholders of the Company.

The board (the "Board") of directors (the "Directors") of Hidili Industry International Development Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2007 together with the comparative figures for the corresponding period in 2006 as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	2007 RMB'000	2006 RMB'000
Turnover	4	**1,042,541**	814,832
Cost of sales		**(364,134)**	(325,329)
Gross profit		**678,407**	489,503
Other income	5	**283,109**	38,785
Distribution costs		**(48,878)**	(45,269)
Administrative expenses		**(210,225)**	(52,086)
Fair value adjustment on convertible note		**(65,602)**	(292,628)
Net loss on derivative financial instruments classified as held-for-trading		**(6,155)**	—
Finance costs	6	**(38,808)**	(30,318)
Profit before taxation	7	**591,848**	107,987
Taxation	8	**(22,527)**	(18,310)
Profit for the year		**569,321**	89,677
Attributable to:			
Equity holders of the Company		**570,289**	89,677
Minority interests		**(968)**	—
		569,321	89,677
Dividends	9	**—**	220,000
Earnings per share, basic (RMB cents)	10	**37.1**	7.5

CONSOLIDATED BALANCE SHEET

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**2,632,821**	681,339
Prepaid lease payment		**32,414**	6,260
Deposits for acquisition of coal mines		**24,000**	133,616
		2,689,235	821,215
CURRENT ASSETS			
Inventories		**65,288**	31,111
Bills and trade receivables	*11*	**274,455**	232,834
Bills receivables discounted with recourse	*11*	**80,600**	220,032
Other receivables and prepayments		**122,460**	64,251
Other loan receivables		**—**	6,454
Amounts due from related parties		**—**	2,057
Pledged bank deposits		**1,248,682**	68,577
Bank balances and cash		**2,560,779**	200,522
		4,352,264	825,838
CURRENT LIABILITIES			
Trade payables	*12*	**45,395**	19,211
Advances drawn on bills receivables discounted with recourse		**80,600**	220,032
Other payables and accrued expenses		**478,146**	218,061
Amounts due to related parties		**1,000**	1,717
Derivative financial instruments		**47,981**	—
Tax payables		**32,894**	29,275
Bank and other borrowings		**1,333,900**	289,974
		2,019,916	778,270
NET CURRENT ASSETS		**2,332,348**	47,568
		5,021,583	868,783

	2007	2006
	RMB'000	*RMB'000*
CAPITAL AND RESERVES		
Share capital	**198,605**	8
Reserves	**4,809,880**	244,964
Equity attributable to equity holders of the parent	**5,008,485**	244,972
Minority interests	**6,982**	—
TOTAL EQUITY	**5,015,467**	244,972
NON-CURRENT LIABILITIES		
Provision for restoration and environmental costs	**6,116**	3,982
Convertible note	**—**	619,829
	6,116	623,811
	5,021,583	868,783

NOTES TO FINANCIAL STATEMENTS

1. GENERAL

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

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. 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"). Details of the Reorganisation are set out in the paragraph headed "Corporate reorganisation" on page 4 to 8 of Appendix VII (statutory and general information) to the Prospectus of the Company dated 10 September 2007 (the "Prospectus").

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

The Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, for the purpose of this announcement, the consolidated financial statements of the Group have been prepared using principles of merger accounting in accordance with the accounting policy set out in Note 3, as if the current group structure had been in existence throughout the years ended 31 December 2006 and 2007.

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

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

The Group has applied all the standards, amendment and interpretations ("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 year beginning on 1 January 2007.

The Group has not early applied the following new and revised standards or interpretations that have been issued at the date of this announcement but are not yet effective.

IAS 1 (Revised)	Presentation of Financial Statements[1]
IAS 23 (Revised)	Borrowing Costs[1]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
IAS 32 & IAS 1 (Amendment)	Putable Financial Instruments and Obligations Arising on Liquidation[1]
IFRS 2 (Amendment)	Vesting Condition and Cancellations[1]
IFRS 3 (Revised)	Business Combinations[2]
IFRS 8	Operating Segments[1]
IFRIC-INT 11	IFRS 2: Group and Treasury Share Transactions[3]
IFRIC-INT 12	Service Concession Arrangements[4]
IFRIC-INT 13	Customer Loyalty Programmes[5]
IFRIC-INT 14	IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

4. TURNOVER AND SEGMENT INFORMATION

The Group is engaged in manufacture and sale of coke, clean coal, alloy pig iron and related products.

Turnover is related to revenue earned from the sales described above and exclude applicable value-added tax in the PRC.

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

Business segments

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

Principal activities of the Group are as follows:

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

Consolidated income statement

	For the year ended 31 December 2007				
	Coal Mining *RMB'000*	**Coking** *RMB'000*	**Others** *RMB'000*	**Inter-segment eliminations** *RMB'000*	**Consolidated** *RMB'000*
GROSS REVENUE					
External	434,553	537,580	70,408	—	1,042,541
Inter-segment	224,984	—	—	(224,984)	—
Total	659,537	537,580	70,408	(224,984)	1,042,541

Inter-segment transactions were carried out at cost.

RESULT					
Segment results	256,142	341,361	33,693	—	631,196
Unallocated corporate expenses					(210,225)
Unallocated corporate income					281,442
Fair value adjustment on convertible note					(65,602)
Net loss on derivative financial instruments classified as held-for-trading					(6,155)
Finance costs					(38,808)
Profit before taxation					591,848
Taxation					(22,527)
Profit for the year					569,321

Consolidated balance sheet

	At 31 December 2007			
	Coal mining	Coking	Others	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS				
Segment assets	2,493,734	412,852	155,181	3,061,767
Unallocated corporate assets				3,979,732
				7,041,499
LIABILITIES				
Segment liabilities	404,373	79,845	8,880	493,098
Unallocated corporate liabilities				1,532,934
				2,026,032

Other information

	For the year ended 31 December 2007				
	Coal mining	Coking	Others	Unallocated	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Capital additions	1,953,333	14,995	40,122	19,908	2,028,358
Impairment loss recognised on financial asssets	637	36	—	4,471	5,144
Amortisation of prepaid lease payments	—	—	—	380	380
Depreciation and amortisation of property, plant and equipment	37,637	8,753	4,204	5,480	56,074
Provision for restoration and environmental costs	2,134	—	—	—	2,134

Consolidated income statement

	For the year ended 31 December 2006				
	Coal Mining	**Coking**	**Others**	**Inter-segment eliminations**	**Consolidated**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
GROSS REVENUE					
External	427,218	383,607	4,007	—	814,832
Inter-segment	166,115	—	—	(166,115)	—
Total	593,333	383,607	4,007	(166,115)	814,832

Inter-segment transactions were carried out at cost.

RESULT					
Segment results	238,578	203,750	1,906	—	444,234
Unallocated corporate expenses					(52,086)
Unallocated corporate income					38,785
Fair value adjustment on convertible note					(292,628)
Finance costs					(30,318)
Profit before taxation					107,987
Taxation					(18,310)
Profit for the year					89,677

Consolidated balance sheet

	At 31 December 2006			
	Coal mining	**Coking**	**Others**	**Consolidated**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS				
Segment assets	625,142	439,266	88,608	1,153,016
Unallocated corporate assets				494,037
				1,647,053
LIABILITIES				
Segment liabilities	238,440	133,738	23,669	395,847
Unallocated corporate liabilities				1,006,234
				1,402,081

Other information

	For the year ended 31 December 2006				
	Coal mining *RMB'000*	**Coking** *RMB'000*	**Others** *RMB'000*	**Unallocated** *RMB'000*	**Consolidated** *RMB'000*
Capital additions	60,780	49,663	73,022	11,375	194,840
Amortisation of prepaid lease payment	—	—	—	135	135
Depreciation and amortisation of property, plant and equipment	32,251	8,026	—	4,439	44,716
Net loss on disposal of property, plant and equipment	—	—	—	51	51
Provision for restoration and environmental costs	2,439	—	—	—	2,439

5. OTHER INCOME

	2007 *RMB'000*	2006 *RMB'000*
Bank interest income arising from subscription monies received in global offering	**188,157**	—
Bank interest income — other	**59,894**	3,260
Government grant	**30,000**	34,260
Gain on disposal of property, plant and equipment	**1,667**	—
Gain on disposal of held-for-trading investments	**1,888**	—
Others	**1,503**	1,265
	283,109	38,785

6. FINANCE COSTS

	2007 *RMB'000*	2006 *RMB'000*
Interest expenses on borrowings wholly repayable within five years:		
— bank borrowings	**25,423**	8,649
— advances drawn on bills receivables discounted	**13,385**	8,875
Issue cost of convertible note	**—**	12,794
	38,808	30,318

7. PROFIT BEFORE TAXATION

	2007	2006
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging (crediting):		
Impairment loss (reversal of impairment loss) recognised on		
— trade receivable	**673**	—
— other receivables and prepayments	**4,968**	—
— other loan receivables	**(497)**	—
Impairment loss recognised on financial assets	**5,144**	—
Amortisation of prepaid lease payment	**380**	135
Provision for restoration and environmental costs	**2,134**	2,439
Depreciation and amortisation of property, plant and equipment	**56,074**	44,716
Loss on disposal of property, plant and equipment	**—**	51
Expenses relating to listing of shares (included in administrative expenses)	**44,114**	5,880
Cost of inventories recognised in the consolidated income statement	**346,254**	297,656
Transportation costs of coal and coke	**17,880**	27,673
Gain on disposal of property, plant and equipment	**(1,667)**	—
Loss on fair value change of outstanding derivative financial instruments	**47,981**	—
Gain on derivative financial instruments which matured during the year	**(41,826)**	—
Exchange loss (included in administrative expenses)	**89,340**	—

8. TAXATION

	2007	2006
	RMB'000	*RMB'000*
The charge comprise:		
Current PRC Enterprise Income Tax ("EIT")	**22,527**	18,310

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

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

The provision for EIT is based on a statutory rate of 33% (including 30% State EIT and 3% local EIT) of the assessable profit of the group entities as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain PRC subsidiaries which are exempted from EIT in accordance with the approval from the relevant tax bureau.

Pursuant to "Application of preferential tax treatment for Foreign Investment Enterprise", Sichuan Hidili Industry Company Limited ("Sichuan Hidili") is entitled to 2 years exemption from State EIT from 2007 to 2008 and a 50% deduction of State EIT for three years from 2009 to 2011. Therefore, Sichuan Hidili is subject to 3% local EIT with exemption of 30% State EIT (2006: 3% local EIT with 30% State EIT).

Panzhihua City Hidili Coke Company Limited ("Hidili Coal") was exempted from the EIT up to 2006 as an enterprise situated in old revolutionary base areas and areas inhabited by ethnic minorities, remote and impoverished ("老少邊窮地區"). In 2007, Hidili Coal is further entitled to the tax incentives of 2 years' exemption and 3 years' deduction. Therefore, Sichuan Hidili is subject to 3% local EIT with exemption of 30% State EIT (2006: exempted).

According to the confirmation from State Tax Bureau of Panzhihua Renhe District, Panzhihua City Tiandaoqin Industry & Trading Company Limited ("Tiandaoqin"), Panzhihua Yanjiang Industrial Company Limited ("Yanjiang") and Panzhihua City Tianchou Industry & Trading Company Limited ("Tianchou") were approved to reform to Reinvestment Enterprise by Foreign Investment on 15 February 2007. Pursuant to "Application of preferential tax treatment for Foreign Investment Enterprise", Tiandaoqin, Yanjiang and Tianchou are entitled to 2 years exemption from State EIT from 2007 to 2008 and a 50% deduction of State EIT from 2009 to 2011. In the actual income tax filing of the first quarter of 2007, from 1 January to 14 February 2007, Tiandaoqin, Yanjiang and Tianchou still adopted income tax rate of 33% and were entitled to the preferential tax treatment from 15 February to 31 December 2007.

According to the confirmation from State Tax Bureau of Panzhihua West District, Panzhihua Yangfan Industry & Trading Company Limited ("Yangfan") was approved to reform to Reinvestment Enterprise by Foreign Investment on 5 February 2007. Pursuant to "Application of preferential tax treatment for Foreign Investment Enterprise", Yangfan is entitled to 2 years exemption from State EIT from 2007 to 2008 and a 50% deduction of State EIT from 2009 to 2011. In the actual income tax filing of the first quarter of 2007, from 1 January to 14 February 2007, Yangfan still adopted income tax rate of 33% and was entitled to the preferential tax treatment from 15 February to 31 December 2007.

Panzhihua City Sanlian Transportation Company Limited ("Sanlian Transportation") is entitled to the tax incentives in connection with the development of the western part of the PRC. According to the official approval issued by State Administration of Taxation of Sichuan province, Sanlian Transportation is entitled to the policy of 2 years' exemption and 3 years' deduction from 2005 to 2009. The applicable tax rate for 2007 is 16.5% (2006: exempted).

On 16 March 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations would impose a single income tax rate of 25% for all enterprises from 1 January 2008. According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2007] No. 39), those entities that previously enjoyed preferential tax treatment would be granted a five-year transitional period. The tax exemption and deduction from Foreign Enterprise Income Tax for the foreign investment enterprises is still applicable until the end of the five-year transitional period under the New Law.

There was no significant unprovided deferred taxation for the year or at the balance sheet date.

9. DIVIDENDS

No dividend has been declared and paid by the Company since its incorporation.

The dividends for the year ended 31 December 2006 represented the dividends declared and paid by Sichuan Hidili and Hidili Coal of RMB200,000,000 and RMB20,000,000 respectively to their then shareholders prior to the Reorganisation.

The directors recommended the payment of a final dividend of RMB8.4 cents per share for the year ended 31 December 2007. This proposed dividend is subject to approval by the shareholders in the forthcoming annual general meeting.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company for the years ended 31 December 2007 and 2006 and on the weighted average number of 1,538,356,164 and 1,200,000,000 shares respectively, assuming that the shares issued upon Reorganisation and the share capitalisation had been effective on 1 January 2006.

No diluted earnings per share has been presented for both years as the inclusion of the effect of potential ordinary shares will increase the earning per share for both years.

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

(a) Bills and trade receivables

	2007	2006
	RMB'000	*RMB'000*
Trade receivables	**123,034**	192,254
Impairment loss recognised	**(3,460)**	(5,787)
	119,574	186,467
Bills receivables	**154,881**	46,367
	274,455	232,834

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

	2007	2006
	RMB'000	*RMB'000*
Aged:		
0–90 days	**273,055**	218,951
91–120 days	**863**	7,609
121–180 days	**386**	—
181–365 days	**151**	6,274
	274,455	232,834

(b) Bills receivables discounted with recourse

The Group generally allows an average credit period ranging from 90–120 days to its customers.

The aged analysis of bills receivables discounted with recourse is as follows:

	2007	2006
	RMB'000	*RMB'000*
Aged:		
0–90 days	**21,300**	160,786
91–120 days	**15,800**	31,370
121–180 days	**43,500**	27,876
	80,600	220,032

12. TRADE PAYABLES

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

	2007	2006
	RMB'000	*RMB'000*
Aged:		
0–90 days	**42,987**	15,332
91–180 days	**897**	1,492
181–365 days	**361**	1,567
Over 365 days	**1,150**	820
	45,395	19,211

The average credit period on purchases of goods is 90 days.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Turnover

During the year, turnover of the Group reached approximately RMB1,042.5 million, representing an increase of approximately 27.9%, as compared to approximately RMB814.8 million in the year 2006. The increase was primarily attributable to the increase in sales volumes and average selling prices of coke under the keen demand from state-owned steel manufacturing companies. Besides, during the year, the Group also enlarged the production and sales of alloy pig iron and related by-products and engaged in the sales of raw coal in Guizhou, contributing approximately 6.7% and 2.2% respectively to the Group's turnover.

The following table sets forth the Group's turnover contribution, sales volume and average selling price by products for the year, together with the comparative amounts for the year 2006:

	2007			2006		
	Turnover	**Sales volume**	**Average selling price**	Turnover	Sales volume	Average selling price
	RMB'000	***(thousand tonnes)***	***(RMB/ tonne)***	*RMB'000*	*(thousand tonnes)*	*(RMB/ tonne)*
Principal products						
Clean coal	**382,402**	**587.5**	**650.9**	390,669	621.1	629.0
Coke	**520,245**	**514.6**	**1,010.9**	371,772	472.2	787.4
Principal products total	**902,647**			762,441		
By-products						
High-ash thermal coal	**29,544**	**272.1**	**108.6**	36,549	335.0	109.1
Coal tar	**17,335**	**12.8**	**1,354.1**	11,835	9.3	1,273.7
Titanium slag	**13,582**	**13.1**	**1,036.4**	681	0.8	841.1
Other by-products	**128**	**—**	**—**	263	—	—
By-products total	**60,589**			49,328		
Other products						
Alloy pig iron	**56,698**	**25.9**	**2,189.4**	3,063	1.7	1,849.5
Raw coal	**22,607**	**61.7**	**366.5**	—	—	—
Other products total	**79,305**			3,063		
Total turnover	**1,042,541**			814,832		

Cost of sales

Cost of sales for the year was approximately RMB364.1 million, an increase of approximately RMB38.8 million, or approximately 11.9%, as compared with approximately RMB325.3 million in 2006. The increase was primarily due to the increase in cost of material, fuel and power, staff costs and depreciation and amortization in line with the increase in turnover during the year.

Material, fuel and power costs for the year were approximately RMB155.8 million, an increase of approximately RMB15.1 million, or approximately 11.0%, as compared with approximately RMB140.7 million in 2006. The increase was primarily due to the enlarged production volumes of coke and alloy pig iron in Panzhihua and raw coal in Guizhou.

Staff costs for the year were approximately RMB123.1 million, an increase of approximately RMB22.9 million, or approximately 22.9%, as compared with approximately RMB100.2 million in 2006. The increase was primarily attributable to the increase of numbers of mine workers to 3,736 during the year resulted in the commencement of coal production in Guizhou and the rising wages in line with the enlarged production volumes.

Depreciation and amortization for the year were approximately RMB51.3 million, an increase of approximately RMB9.6 million, or approximately 23.0%, as compared with approximately RMB41.7 million in 2006. The increase was primarily attributable to the additional capital expenditure incurred in connection with the coal mines and alloy pig iron and titanium slag plant.

Gross profit

As a result of the foregoing, the gross profit for the year was approximately RMB678.4 million, an increase of approximately RMB188.9 million or approximately 38.6%, as compared with approximately RMB489.5 million in 2006. The gross profit margin was approximately 65.1% as compared with approximately 60.1% in 2006.

Other income

Other income for the year amounted to approximately RMB283.1 million, an increase of approximately RMB244.3 million or approximately 629.6%, as compared with approximately RMB38.8 million in 2006. The increase was mainly related to the interest income arising from subscription monies received in global offering of the Company's shares in September 2007 of approximately RMB188.2 million and increase in other bank interest income resulted from IPO money received and brought up the Group's average bank balances.

Distribution costs

Distribution costs for the year were approximately RMB48.9 million, a slight increase of approximately RMB3.6 million or approximately 7.9%, as compared to approximately RMB45.3 million in 2006. The increase was primarily attributable to the increase in transportation costs which is in line with the increase in sales volumes of the Company's products.

Administrative expenses

Administrative expenses were approximately RMB210.2 million, representing a significant increase of approximately RMB158.1 million approximately 303.5%, as compared with approximately RMB52.1 million in 2006. The sharp increase was contributed from the one-time charges of IPO expenses of approximately RMB44.1 million and an exchange loss of approximately RMB89.3 million resulting from the appreciation of RMB to Hong Kong dollars.

Fair value adjustment on convertible note

The amount represented 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, amounting to approximately RMB65.6 million

Net loss on derivative financial instruments classified as held-for-trading

The amount represented the net impact of a loss on fair value change of outstanding derivative financial instruments of approximately RMB48.0 million and a gain on derivative financial instruments which matured during the year of approximately RMB41.8 million which matured during the year. The derivative financial instruments entered into during the year by the Group principally related to foreign currency forward exchange contracts. The Group aimed at hedge against the appreciation of RMB.

Finance costs

Finance costs for the year amounted to approximately RMB38.8 million, an increase of approximately RMB8.5 million or approximately 28.1%, as compared with approximately RMB30.3 million in 2006. During the year, the Group recorded an increase in interest expenses in both bank borrowings wholly repayable within five years and bills receivable discounted of an aggregate amount of approximately RMB21.3 million or approximately 121.7% as compared with approximately RMB17.5 million in 2006. At the same time, no interest expense relating to the issue cost for convertible note was charged during the year as compared to approximately RMB12.8 million in 2006.

Taxation

Taxation during the year was approximately RMB22.5 million, an increase of approximately RMB4.2 million or approximately 23.0%, as compared with approximately RMB18.3 million in 2006. The effective income tax rate decreases from 17.0% to 3.8%. The decrease was mainly due to the decrease in negative fair value adjustment on the convertible note of approximately RMB227.0 million which was not subject to income tax and the change of tax rate and entitlement of tax exemption of the Company's subsidiaries upon conversion into foreign-invested enterprise during the year.

Profit for the year

As a result of the foregoing, the profit for the year was approximately RMB569.3 million, an increase of approximately RMB479.6 million or approximately 534.7%, as compared with approximately RMB89.7 million in 2006. The net profit margin was approximately 54.6% for the year as compared with approximately 11.0% in 2006.

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 31 December 2007 were approximately RMB2,332.3 million (2006: RMB47.6 million). As at 31 December 2007, the bank balances and cash of the Group amounted to approximately RMB2,560.8 million (2006: RMB200.5 million). The increase was mainly attributable to the listing of the Company's shares on the Main Board of Stock Exchange in September 2007 brought along with net proceeds of approximately RMB3,457.9 million.

As at 31 December 2007, the total bank and other borrowings of the Group were approximately RMB1,333.9 million (2006: RMB290.0 million), which are repayable within one year, with effective weighted average interest rate of 6.37%.

The gearing ratio (calculate as total bank and other borrowings, excluding convertible note, divided by total assets) of the Group as at 31 December 2007 was 18.9% (2006: 17.6%)

Pledge of assets of the Group

As at 31 December 2007, the Group pledged assets in an aggregate amount of approximately RMB1,685.5 million (2006: RMB228.2 million) and also the 100% interests in three PRC subsidiaries to banks for credit facilities in the amount of RMB1,333.9 million (2006: RMB226.6 million) granted to the Group. Subsequent to the year end date, the said pledge of interests in the three PRC subsidiaries was released.

Employees

As at 31 December 2007, the number of employees of the Group reached 6,180, showing a steady increase arising from the Group's development in its Guizhou operations. During the year, the staff costs (including directors' remuneration in the form of salaries and other allowances) was approximately RMB154.3 million (2006: RMB117.5 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.

Final dividend

The Board now recommends the payment of a final cash dividend of RMB8.4 cents per share for the year ended 31 December 2007 to all shareholders of the Company whose names appear on the register of members of the Company on 11 June 2008.

Risk in foreign exchange

The Group mainly operates in the PRC and the exposure in exchange rate risk mainly arises from the foreign currency bank balances. The Group has been monitoring the exchange rate between RMB and Hong Kong dollar and will consider hedging against foreign currency exposure to minimize such risks.

Significant investment held

The Group did not have significant investment held as at 31 December 2007.

From the mid of November 2007 to the end of 2007, the Group had applied for several new PRC A shares. The subscription money paid up at any time during that period for application remained under RMB300 million. The total subscription money involved amounted to approximately RMB733 million. All A shares successfully subscribed by the Group were disposed before 31 December 2007. The Group obtained a profit of approximately RMB2 million from the disposal, representing an around 5% deemed interest rate to the total funding of RMB300 million assuming to be locked up throughout the period.

Material acquisition and disposal

During October to December 2007, the Group entered into various sales and purchase agreements for the acquisition of 9 coal mines in Guizhou province at an aggregate consideration of RMB1,543 million.

Contingent liabilities

As at 31 December 2007, the Group did not have any material contingent liabilities.

Connected transaction

During the year, rental expenses amounting to RMB1.2 million were paid to Mr. Xian Jilun, father of Mr. Xian Yang, shareholder and director of the Company, for the leasing of the Company head office located at 16th and 17th Floor, Dingli Mansion, No. 81 Renmin Road, Panzhihua, Sichuan province, the PRC. The rent paid by the Company is determined with reference to the market rent of comparable properties in the market.

Use of proceeds

The net proceeds from the share offer received by the Company was approximately HK$3,601.3 million (RMB3,457.9 million). The proposed use of proceeds and utilization of the proceeds for the year ended 31 December 2007 is listed as follows:

	Use of proceeds Per Prospectus	**Utilization**
	HK$ million	*HK$ million*
Acquisition of coking coal resources in Liupanshui, Guizhou province	2,062.5	1,302.3
Building of coking plant in Liupanshui	516.4	—
Building of coal washing plant in Liupanshui	103.3	—
Prepayment of Baring loan	62.4	62.4
Purchase of heavy long-haul cargo trucks	40.3	—
Working capital	816.4	—
	3,601.3	1,364.7

OUTLOOK

Seeking rapid and sustainable growth through acquisitions of coal resources

During the first half of 2007, the Company has completed acquisition of 5 coal mines in Guizhou. In the second half of 2007, the Company had completed further acquisition of 9 coal mines in Guizhou with an aggregate consideration of RMB1,543 million.

As at 31 December 2007, the Company has a total of approximately 355 million tonnes of coal reserves (in accordance with the estimation under the PRC coal reserves standard) from all coal mines acquired in Guizhou.

The Company plans to speed up the development of the mining structure in order to reach full capacity in the year 2011 and resulting in an annual production capacity of raw coal of approximately 6 million tonnes.

Vertical integration of production capacity

For the year ended 31 December 2007, the Company maintained the core strategy to expand coal reserves through acquisition and follow by further development of coal processing capacity, in which the raw coal production in Guizhou and the production volume of the alloy pig iron plant experienced an outstanding increase.

The following table listed out the production volume of respective business segment of the Group for the year ended 31 December 2007 together with the comparative figures of the year 2006.

	2007 *Thousand tonnes*	2006 *Thousand tonnes*
Raw coal production		
Panzhihua	**2,210**	2,180
Guizhou	**65**	—
Clean coal production		
Clean coal	**1,192**	1,195
High-ash thermal coal	**351**	409
Coke production		
Coke	**514**	496
Coal tar	**13**	9
Alloy pig iron production		
Alloy pig iron	**27**	2
Titanium slag	**13**	1

The Company had build up an operational and management team of over 300 employees including expertises in coal industry and technicians in Guizhou to support and implement the development of the mining structures and coal processing facilities. Accordingly, the Company believes the production capacity of respective products in 2008 will lead a further growth.

Development in Guizhou

Coke is the principal raw material in the production of steel. Guizhou ranks third in terms of coking coal resources in the PRC and is the main power exporting province in South West China. 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 to these areas. Considering the abundant coal reserves and the well-established railway transportation infrastructure in Liupanshui, the Company has decided to expose Guizhou as the strategic region for further corporate development and vertical integration of production.

To refine the coking coal extracted from the existing and future coal mines, the Company intends 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.

The Company believes the production volumes of the respective business segments in the year 2008 will continue to rise resulting from the acquisition of raw coal resources and development of coal processing facilities in 2008 in Guizhou. Meanwhile, in line with the rapid growth in coal resources of the Company through acquisition of coal mines, the Company is currently in negotiations with regard to possible acquisition of certain existing coal washing plants, coking plants, warehouse facilities and logistic service providers in area adjacent to the newly acquired coal mines. Such possible acquisitions may or may not constitute notifiable transactions of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company will comply with the applicable requirements under the Listing Rules.

OTHER INFORMATION

Closure of the Register of Members

The register of members of the Company will be closed from 12 June to 18 June 2008, both days inclusive, during which period no transfer of shares will be registered.

In order to qualify for the proposed final dividend, all transfer instruments accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited at shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by shareholders of the Company for registration no later than 4:30 p.m. on 11 June 2008.

Annual General Meeting

The annual general meeting ("AGM") will be held on 18 June 2008. The notice of the AGM will be posted on the websites of the Company and the Stock Exchange respectively and despatched to the shareholders of the Company in due course.

Audit committee

The 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 announcement, the audit committee consists of three independent non-executive Directors, namely, Mr. Chan Chi Hing (Chairman), Mr. Huang Rongsheng and Mr. Wang Zhiguo.

The audit committee has reviewed together with the management the accounting principles, accounting standards and methods adopted by the Company, discussed the matters concerning internal control, auditing and financial reporting matters and has reviewed the consolidated financial statements of the Group for the year ended 31 December 2007.

Corporate governance

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

Apart from disclosed above, the Board is of the view that the Company has complied with the provisions of the Corporate Governance Code during the period from the date of the listing of the shares of the Company on the Main Board of the Stock Exchange to 31 December 2007. No Director is aware of any information that reasonably reveals that there is any non-compliance with Corporate Governance Code by the Company during any time of the year.

Model code for securities transactions by the Directors

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 for Securities Transactions by the Directors (the "Code"). All Directors have confirmed their compliance throughout the period from the date of the listing of the shares of the Company on the Main Board of the Stock Exchange to 31 December 2007 with the required standards set out in the Model Code and the Code.

Purchase, sale 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 period between the date of the listing of shares of the Company on the Main Board of the Stock Exchange and 31 December 2007.

Publication of this announcement

This announcement is published on the website of Hong Kong Exchanges and Clearing Limited at http://www.hkexnews.hk and on the website of the Company at http://www.hidili.com.cn

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

Hong Kong
13 April 2008

As at the date hereof, the executive Directors are Mr. Xian Yang (Chairman), Mr. Sun Jiankun, Mr. Wang Rong, 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.