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 2008

FINANCIAL HIGHLIGHTS

The Group's turnover amounted to approximately RMB2,488.4 million in 2008, representing a significant increase of approximately RMB1,445.9 million or approximately 138.7% as compared to approximately RMB1,042.5 million in 2007.

The net profit attributable to the equity holders of the Company for the year ended 31 December 2008 was approximately RMB1,003.4 million, representing a sharp increase of approximately RMB433.1 million or approximately 75.9% as compared to approximately RMB570.3 million in 2007.

The basic earnings per share attributable to ordinary equity holders of the Company amounted to approximately RMB48.7 cents in 2008.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2008.

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 2008 together with the comparative figures for the corresponding period in 2007 as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	**2008** ***RMB'000***	2007 *RMB'000*
Turnover	4	**2,488,449**	1,042,541
Cost of sales		**(942,370)**	(364,134)
Gross profit		**1,546,079**	678,407
Other income	5	**34,164**	283,109
Distribution expenses		**(208,944)**	(48,878)
Administrative expenses		**(233,521)**	(210,225)
Fair value adjustment on convertible note		**—**	(65,602)
Net loss on derivatives and held-for-trading investments		**(40,192)**	(6,155)
Finance costs	6	**(32,398)**	(38,808)
Profit before tax	7	**1,065,188**	591,848
Income tax expense	8	**(62,880)**	(22,527)
Profit for the year		**1,002,308**	569,321
Attributable to:			
Equity holders of the Company		**1,003,350**	570,289
Minority interests		**(1,042)**	(968)
		1,002,308	569,321
Dividends	9	**173,040**	—
Earnings per share, basic *(RMB cents)*	10	**48.7**	37.1

CONSOLIDATED BALANCE SHEET

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**5,129,237**	2,632,821
Prepaid lease payments		**31,737**	32,414
Deposits for acquisition of coal mines		**—**	24,000
Intangible assets		**119,591**	—
Goodwill		**11,065**	—
		5,291,630	2,689,235
CURRENT ASSETS			
Inventories		**132,851**	65,288
Bills and trade receivables	11	**686,158**	274,455
Bills receivables discounted with recourse	11	**315,140**	80,600
Other receivables and prepayments		**103,136**	122,460
Other loan receivables		**—**	—
Amount due from related parties		**7,645**	—
Held-for-trading investments		**23,139**	—
Pledged and restricted bank deposits		**31,448**	1,248,682
Bank balances and cash		**694,820**	2,560,779
		1,994,337	4,352,264

CURRENT LIABILITIES			
Bills and trade payables	12	**130,528**	45,395
Advances drawn on bills receivables discounted with recourse		**315,140**	80,600
Other payables and accrued expenses		**697,878**	478,146
Amounts due to a related party		**2,200**	1,000
Derivative financial instruments		**1,873**	47,981
Tax payables		**51,086**	32,894
Bank borrowings		**160,000**	1,333,900
		1,358,705	2,019,916
NET CURRENT ASSETS		**635,632**	2,332,348
		5,927,262	5,021,583
CAPITAL AND RESERVES			
Share capital		**198,605**	198,605
Share premium and reserves		**5,640,190**	4,809,880
Equity attributable to equity holders of the Company		**5,838,795**	5,008,485
Minority interests		**35,759**	6,982
TOTAL EQUITY		**5,874,554**	5,015,467
NON-CURRENT LIABILITIES			
Provision for restoration and environmental costs		**7,843**	6,116
Deferred tax liabilities		**44,865**	—
		52,708	6,116
		5,927,262	5,021,583

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 parent company and 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 company and its subsidiaries are engaged in mining and sale of coke, raw coal 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 "Our reorganisation" on page 128 of the Prospectus of the Company dated 10 September 2007.

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

The Group resulting from the Reorganisation is regarded as a continuing entity for the year ended 31 December 2007. Accordingly, the consolidated financial statements of the Group for the year ended 31 December 2007 have been prepared as if the current group structure had been in existence throughout the years ended 31 December 2007, whichever is the shorter period.

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")

In the current year, the Group has applied the following standards, amendments 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 or have become effective.

IAS 39 and IFRS 7 (Amendments)	Reclassification of Financial Assets
IFRIC Int 11	IFRS 2 — Group and Treasury Share Transactions
IFRIC Int 12	Service Concession Arrangements
IFRIC Int 14	IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirement and Their Interaction

The adoption of the new IFRSs had no material effect on how the results and financial position for the current or prior accounting years have been prepared and presented. Accordingly, no prior year adjustment has been required.

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

IFRSs (Amendments)	Improvements to IFRSs[1]
IAS 1 (Revised)	Presentation of Financial Statements[2]
IAS 23 (Revised)	Borrowing Costs[2]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
IAS 39 (Amendments)	Eligible Hedged Items[3]
IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
IFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
IFRS 3 (Revised)	Business Combinations[3]
IFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]

IFRS 8	Operating Segments[2]
IFRIC - INT 9 and IAS 39 (Amendments)	Embedded Derivatives[4]
IFRIC - INT 13	Customer Loyalty Programmes[5]
IFRIC - INT 15	Agreements for the Construction of Real Estate[2]
IFRIC - INT 16	Hedges of a Net Investment in a Foreign Operation[6]
IFRIC - INT 17	Distributions of Non-cash Assets to Owners[3]
IFRIC - INT 18	Transfers of Assets from Customers[7]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to IFRS 5, effective for annual periods beginning on or after 1 July 2009

2 Effective for annual periods beginning on or after 1 January 2009

3 Effective for annual periods beginning on or after 1 July 2009

4 Effective for annual periods ending on or after 30 June 2009

5 Effective for annual periods beginning on or after 1 July 2008

6 Effective for annual periods beginning on or after 1 October 2008

7 Effective for transfer on or after 1 July 2009

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

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 excludes applicable value-added tax in 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 into two 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 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 2008				
	Coal Mining	Coking	Others	Inter-segment eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
GROSS REVENUE					
External	**1,234,831**	**1,242,423**	**11,195**	**—**	**2,488,449**
Inter-segment	**739,451**	**—**	**—**	**(739,451)**	**—**
Total	**1,974,282**	**1,242,423**	**11,195**	**(739,451)**	**2,488,449**

Inter-segment transactions were carried out at a margin of 37%.

RESULT					
Segment results	**627,715**	**708,425**	**995**	**—**	**1,337,135**
Unallocated corporate expenses					**(233,521)**
Unallocated corporate income					**34,164**
Net loss on derivatives and held-for-trading investments					**(40,192)**
Finance costs					**(32,398)**
Profit before tax					**1,065,188**
Income tax expense					**(62,880)**
Profit for the year					**1,002,308**

Consolidated balance sheet

	At 31 December 2008			
	Coal mining	Coking	Others	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS				
Segment assets	**5,349,916**	**700,680**	**310,530**	**6,361,126**
Unallocated corporate assets				**924,841**
				7,285,967
LIABILITIES				
Segment liabilities	**803,454**	**236,540**	**14,731**	**1,054,725**
Unallocated corporate liabilities				**356,688**
				1,411,413

Other information

	For the year ended 31 December 2008				
	Coal mining	Coking	Others	Unallocated	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Capital additions	**2,448,828**	**75,644**	**22,729**	**28,530**	**2,575,731**
Impairment loss on financial assets	**1,919**	**—**	**—**	**948**	**2,867**
Amortisation of prepaid lease payments	**—**	**—**	**—**	**677**	**677**
Depreciation and amortisation	**52,065**	**14,317**	**3,502**	**9,662**	**79,546**
Provision for restoration and environmental costs	**1,727**	**—**	**—**	**—**	**1,727**

Consolidated income statement

	For the year ended 31 December 2007				
	Coal Mining	Coking	Others	Inter-segment eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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.

	Coal Mining	Coking	Others	Inter-segment eliminations	Consolidated
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 derivatives and held-for-trading investments					(6,155)
Finance costs					(38,808)
Profit before taxation					591,848
Income tax expense					(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 on financial assets	637	36	—	4,471	5,144
Amortisation of prepaid lease payments	—	—	—	380	380
Depreciation and amortisation	37,637	8,753	4,204	5,480	56,074
Provision for restoration and environmental costs	2,134	—	—	—	2,134

5. OTHER INCOME

	2008	2007
	RMB'000	*RMB'000*
Bank interest income	**27,526**	59,894
Gain on disposal of held-for-trading investments	**3,769**	1,888
Bank interest income arising from subscription monies received in global offering	**—**	188,157
Government grant *(Note)*	**—**	30,000
Gain on disposal of property, plant and equipment	**—**	1,667
Others	**2,869**	1,503
	34,164	283,109

Note: The amount represented the unconditional grants from the PRC government specifically for encouraging the Group's business development in Sichuan Province, the PRC. During the year ended 31 December 2007, a subsidy of RMB30 million was granted to 攀枝花市恒鼎煤焦化有限公司 (Panzhihua City Hidili Coal Company Limited*) from Panzhihua City Economic Committee, Panzhihua City Development and Reformation Committee and Panzhihua City Science and Technology Bureau to appraise in recognition of the achievement of the Group in having successfully developed new products combining vanadium, titanium and magnet which would encourage new business development in Panzhihua.

6. FINANCE COSTS

	2008	2007
	RMB'000	*RMB'000*
Interest expenses on borrowings wholly repayable within five years:		
— bank borrowings	**31,488**	25,423
— advances drawn on bills receivables discounted	**910**	13,385
	32,398	38,808

7. PROFIT BEFORE TAX

	2008	2007
	RMB'000	*RMB'000*
Profit before tax has been arrived at after charging (crediting):		
Impairment loss (reversal of impairment loss) recognised on		
— trade receivables	**1,915**	673
— other receivables and prepayments	**952**	4,968
— other loan receivables	**—**	(497)
Impairment loss recognised on financial assets	**2,867**	5,144

Amortisation of prepaid lease payments	**677**	380
Amortisation of intangible assets	**2,609**	—
Provision for restoration and environmental costs	**1,727**	2,134
Depreciation and amortisation of property, plant and equipment	**76,937**	56,074
Loss on disposal of property, plant and equipment	**794**	—
Cost of inventories recognised in the consolidated income statement	**927,510**	346,254
Transportation costs of coal and coke	**14,860**	17,880
Gain on disposal of property, plant and equipment	**—**	(1,667)
Exchange loss (included in administrative expenses)	**69,345**	89,340
Expenses relating to listing of shares (included in administrative expenses)	**—**	44,114

8. INCOME TAX EXPENSE

	2008	2007
	RMB'000	*RMB'000*
Current tax:		
PRC Enterprise Income Tax ("EIT")	**44,970**	22,527
Overprovision in prior years	**(15,890)**	—
	29,080	22,527
Deferred tax	**33,800**	—
	62,880	22,527

On 16 March 2007, the PRC promulgated the Law of the EIT (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 changed the tax rate from 33% to 25% for the Group's subsidiaries from 1 January 2008 onwards.

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

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

The provision for EIT is based on a statutory rate of 25% (2007:33%) (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 of the Company which are exempted from EIT in accordance with the approval obtained from the respective tax bureau.

The Tax Law of the PRC requires withholding tax upon distribution of profits earned by the PRC subsidiaries since 1 January 2008. Deferred tax of approximately RMB33,800,000 has been provided for in the consolidated financial statements in respect of the temporary differences attributable to such profits.

9. DIVIDENDS

	2008	2007
	RMB'000	*RMB'000*
Dividends, paid recognised as distribution during the year:		
Final for 2007, paid — RMB8.4 cents per share (2007: Nil)	**173,040**	—

The directors do not recommend the payment of a final dividend for the year ended 31 December 2008 (2007: RMB8.4 cents per share).

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 year ended 31 December 2008 and on the number of 2,060,000,000 shares (2007: weighted average number of 1,538,356,164 shares).

No diluted earnings per share has been presented for the year ended 31 December 2008 as there were no potential dilutive share in issue.

No diluted earnings per share has been presented for the year ended 31 December 2007 as the inclusion of the effect of potential ordinary shares would increase the earning per share for that year.

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

(a) Bills and trade receivables

	2008	2007
	RMB'000	*RMB'000*
Trade receivables	**261,758**	123,034
Impairment loss recognised	**(2,690)**	(3,460)
	259,068	119,574
Bills receivables	**427,090**	154,881
	686,158	274,455

The Group generally allows an average credit period ranging from 90-120 days to its trade customers and the average credit period for bills receivables is ranging from 90-180 days. The aged analysis of trade receivables and bills receivables, net of allowances, is as follows:

	2008	2007
	RMB'000	*RMB'000*
Aged:		
0 - 90 days	**605,236**	273,055
91 - 120 days	**56,255**	863
121 - 180 days	**16,415**	386
181 - 365 days	**8,252**	151
	686,158	274,455

(b) Bills receivables discounted with full 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 full recourse is as follows:

	2008	2007
	RMB'000	*RMB'000*
Aged:		
0 - 90 days	**315,140**	21,300
91 - 120 days	**—**	15,800
121 - 180 days	**—**	43,500
	315,140	80,600

12. BILLS AND TRADE PAYABLES

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

	2008	2007
	RMB'000	*RMB'000*
Aged:		
0 - 90 days	**116,833**	42,987
91 - 180 days	**9,415**	897
181 - 365 days	**3,014**	361
Over 365 days	**1,266**	1,150
	130,528	45,395

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 RMB2,488.4 million, representing a sharp increase of approximately 138.7%, as compared with approximately RMB1,042.5 million in the year 2007. The increase was primarily attributable to the increase in sales volumes and average selling prices of the principal products and by-products resulting from the expansion of operation in Pan county, Guizhou province and the rapid growth in average selling prices of clean coal and coke throughout the first three quarters of 2008. The sales volume recorded for clean coal and coke during the year amounted to approximately 862,000 tonnes and 682,000 tonnes respectively as compared to approximately 588,000 tonnes and 515,000 tonnes respectively in 2007, representing an increase in volume of approximately of 46.6% and 32.4% respectively. The average selling price for the year 2008 of both clean coal and coke increase significantly from RMB650.9 per tonne and RMB1,010.9 per tonne respectively in 2007 to RMB1,311.9 per tonne and RMB1,777.7 per tonne. Benefiting from the keen demand of coking coal products from State-owned steel manufacturing companies with optimistic estimation of booming demand in steel industry, the selling prices of clean coal and coke hit the highest level of RMB1,800 per tonne and RMB2,100 per tonne respectively in September 2008. However, with the sudden impact of the global financial crisis, the average selling prices of clean coal and coke dropped dramatically in the last quarter to RMB960 per tonne and RMB1,100 per tonne respectively. With the strong support in the first three quarters of 2008, the average selling prices of clean coal and coke for the year still led an increase of RMB661 per tonne, or 101.6%, and RMB766.8 per tonne, or 75.9%, respectively, as compared with the average selling prices in 2007.

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 2007:

	2008			2007		
	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	**1,130,830**	**862.0**	**1,311.9**	382,402	587.5	650.9
Coke	**1,212,540**	**682.1**	**1,777.7**	520,245	514.6	1,010.9
Principal products total	**2,343,370**			902,647		
By-products						
High-ash thermal coal	**80,685**	**467.2**	**172.7**	29,544	272.1	108.6
Coal tar	**29,884**	**16.5**	**1,807.2**	17,335	12.8	1,354.1
Titanium slag	**—**	**—**	**—**	13,582	13.1	1,036.4
Other by-products	**—**	**—**	**—**	128	—	—
By-products total	**110,569**			60,589		
Other products						
Alloy pig iron	**—**	**—**	**—**	56,698	25.9	2,189.4
Raw coal	**23,316**	**74.8**	**311.7**	22,607	61.7	366.5
Benzene	**9,886**	**3.2**	**3,128.1**	—	—	—
Others	**1,308**	**—**	**—**	—	—	—
Other products total	**34,510**			79,305		
Total turnover	**2,488,449**			1,042,541		

Cost of sales

Cost of sales for the year was approximately RMB942.4 million, representing an increase of approximately RMB578.3 million, or approximately 158.8%, as compared with approximately RMB364.1 million in 2007. 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.

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

	2008	2007
	RMB per tonne	*RMB per tonne*
Coal mining		
Cash cost	**110**	104
Depreciation and amortisation	**20**	16
Total production cost	**130**	120
Purchased raw coal	**670**	—
Average cost of raw coal	**235**	120
Average cost of clean coal	**517**	246
Average cost of coke	**702**	363

Material, fuel and power costs for the year were approximately RMB664.5 million, representing an increase of approximately RMB508.7 million, or approximately 326.5%, as compared with approximately RMB155.8 million in 2007. The significant increase was primarily due to (i) the enlarged production volumes of clean coal and coke in Pan county, Guizhou province and (ii) purchase of raw coal from external suppliers for further production in Guizhou province.

In the year 2008, the raw coal production volume in Panzhihua experienced a slight decrease of approximately 19.1% resulting from the coal mining consolidation and the earthquake in late August. Resulting from the expansion of the Group's operation through development and acquisitions in Guizhou province, the production volume of respective products led a significant increase in 2008.

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

Principal products	**2008 Panzhihua Production volume** *('000 tonnes)*	**2008 Pan county Production volume** *('000 tonnes)*	**2008 Total Production volume** *('000 tonnes)*	2007 Panzhihua Production volume *('000 tonnes)*	2007 Pan county Production volume *('000 tonnes)*	2007 Total Production volume *('000 tonnes)*
Raw coal production	**1,787**	**1011**	**2,798**	2,210	65	2,275
Raw coal purchased	**—**	**680**	**680**	—	—	—
Clean coal	**868**	**794**	**1,662**	1,192	—	1,192
Coke	**502**	**167**	**669**	514	—	514

To support the commencement of coal washing and coking operation since early January 2008 in Guizhou province, the Group purchased approximately 680,000 tonnes of raw coal from external suppliers amounting to RMB455.7 million. Accordingly, the purchased cost of the raw coal gave rise to a substantial increase in total production cost of clean coal and coke.

Staff costs for the year were approximately RMB161.8 million, representing an increase of approximately RMB38.7 million, or approximately 31.4%, as compared with approximately RMB123.1 million in 2007. The increase was primarily attributable to the increase in number of mine workers to 5,069 during the year resulting from the commencement of coal production in Guizhou province and the rising wages in line with the enlarged production volumes.

Depreciation and amortization for the year were approximately RMB65.9 million, representing an increase of approximately RMB14.6 million, or approximately 28.5%, as compared with approximately RMB51.3 million in 2007. The increase was primarily attributable to the additional capital expenditure incurred in connection with the coal mines and the acquisition of coal washing and coking plants in Guizhou province during the year.

Gross profit

As a result of the foregoing, the gross profit for the year was approximately RMB1,546.1 million, representing an increase of approximately RMB867.7 million or approximately 127.9%, as compared with approximately RMB678.4 million in 2007. The gross profit margin was approximately 62.1% as compared with approximately 65.1% in 2007.

Other income

Other income for the year amounted to approximately RMB34.2 million, representing a decrease of approximately RMB248.9 million or approximately 87.9%, as compared with approximately RMB283.1 million in 2007. The decrease was mainly related to the interest income arising from subscription monies received in the initial global offering ("IPO") of the Company's shares in September 2007 of approximately RMB188.2 million and increase in other bank interest income arising from IPO money received (increasing the Group's average bank balances in 2007) and the government grant of RMB30 million in 2007.

Distribution expenses

Distribution expenses for the year were approximately RMB208.9 million, representing a slight increase of approximately RMB160 million or approximately 327.2%, as compared to approximately RMB48.9 million in 2007. The increase was primarily attributable to (i) the increase in transportation costs resulting from the increase in sales volumes of the Group's products, (ii) the increase in the government levies over clean coal and coke in Panzhihua and Pan county with the average charging rate increasing from RMB19 and 22 per tonne respectively in 2007 to RMB79 and RMB53 per tonne respectively for the year and (iii) the railway logistic charges incurred in Guizhou province.

Administrative expenses

Administrative expenses were approximately RMB233.5 million, representing an increase of approximately RMB23.3 million or approximately 11.1%, as compared with approximately RMB210.2 million in 2007. During the year, the saving of approximately RMB64 million from the one-time charges of IPO expenses of approximately RMB44.1 million in 2007 and an exchange loss of approximately RMB20 million resulting from the appreciation of RMB to Hong Kong dollars was fully used up by the increase in administrative expenses in Guizhou province and the legal and professional expenses.

Net loss on derivatives and held-for-trading investments

The amount represented the net impact of a loss on fair value change of outstanding derivative financial instruments of approximately RMB1.9 million, a gain on derivative financial instrument of approximately RMB10.1 million which matured during the year and the change in fair value of financial assets classified as held-for-trading investments of approximately RMB48.4 million. The derivative financial instrument entered into during the year by the Group principally related to foreign currency forward exchange contracts. The Group aimed at hedging against the appreciation of RMB. The held-for-trading investments represented the Group's investment in certain A shares.

Finance costs

Finance costs for the year amounted to approximately RMB32.4 million, representing a decrease of approximately RMB6.4 million or approximately 16.5%, as compared with approximately RMB38.8 million in 2007. The decrease in finance costs was mainly attributable to the settlement of the Group's borrowing from RMB1,333.9 million to RMB160 million during the year and the decrease of advances drawn on bills receivable discounted during the year.

Income tax expense

Income tax expense during the year was approximately RMB62.9 million, representing an increase of approximately RMB40.4 million or approximately 179.6%, as compared with approximately RMB22.5 million in 2007. The amount of income tax expense represented EIT of approximately RMB29.1 million and deferred tax of approximately RMB33.8 million arising from the withholding tax upon distribution of profits earned by the PRC subsidiaries since 1 January 2008. For the current year EIT, the effective tax rate decreased to approximately 2.7% as compared with approximately 3.8% in 2007. Such decrease was mainly attributable to the overprovision of EIT in prior years of approximately RMB15.9 million.

Profit for the year

As a result of the foregoing, the profit attributable to equity holders of the Company for the year was approximately RMB1,003.4 million, representing an increase of approximately RMB433.1 million or approximately 75.9%, as compared with approximately RMB570.3 million in 2007. The net profit margin was 40.3% for the year as compared with approximately 54.7% in 2007.

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 and short-term bank borrowings. The expansion of operation in Guizhou province was mainly funded by the proceeds arising from the IPO in 2007.

The net current assets as at 31 December 2008 were approximately RMB635.6 million (2007: RMB2,332.3 million). As at 31 December 2008, the bank balances and cash of the Group amounted to approximately RMB694.8 million (2007: RMB2,560.8 million). The decrease was mainly attributable to the utilisation of funding for the capital investment through acquisitions and development in Guizhou province.

As at 31 December 2008, the total bank and other borrowings of the Group were RMB160 million (2007: RMB1,333.9 million), which are repayable within one year, with effective weighted average interest rate of 6.97%.

The gearing ratio (calculate as total bank and other borrowings divided by total assets) of the Group as at 31 December 2008 was 2.2% (2007: 18.9%)

Pledge of assets of the Group

As at 31 December 2008, the Group pledged assets in an aggregate amount of approximately RMB284.7 million (2007: RMB1,685.5 million) to banks for credit facilities in the amount of RMB160 million (2007: RMB1,333.9 million) granted to the Group.

Employees

As at 31 December 2008, the number of employees of the Group reached 9,006, 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) amounted to approximately RMB219.5 million (2007: RMB154.3 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 does not recommend the payment of a final dividend for the year ended 31 December 2008.

Risk in foreign exchange

Since all of the Group's business activities are transacted in RMB, the Directors consider that the Group's risk in foreign exchange is insignificant. Accordingly, the Group was only exposed to exchange rate risk arising from the foreign currency bank balance of approximately USD9.1 million.

Significant investment held

The Group had invested in certain A shares in the PRC which amounted to approximately RMB23.1 million as at 31 December 2008.

Material acquisition and disposal

(i) During the year, the Group entered into various sales and purchase agreements for the acquisition of 6 coal mines in Guizhou province at an aggregate consideration of approximately RMB1,829 million.

(ii) On 14 July 2008, the Group entered into agreements for acquisition of 70% equity interests in each of 盤縣盤鑫焦化有限公司 (Panxian Panxin Coking Company Limited*) ("Panxin Coking") and 盤縣盤翼選煤有限公司 (Panxian Panyi Coal Washing Company Limited*) ("Panyi Coal Washing") with an aggregate consideration of RMB127.5 million. The acquisition was completed on 31 July 2008.

(iii) On 14 July 2008, the Group entered into agreements for acquisition of 37% equity interests in each of 盤縣盤實物流配送有限公司 (Panxian Panshi Logistic Distribution Company Limited*) ("Panxian Panshi") and 盤縣盤鷹物流配送有限公司 (Panxian Panying Logistic Distribution Company Limited*) ("Panxian Panying") in order to obtain a consecutive right for the provision of railway logistic service jointly rendered by Panxian Panshi and Panxian Panying in Pan county, Guizhou province for a guaranteed delivery volume of not less than 900,000 tonnes per annum of the Group's clean coal and coke for a term of 30 years. The consideration for the consecutive right amounted to RMB114 million. The acquisition was completed on 31 July 2008.

Contingent liabilities

As at 31 December 2008, the Group did not have any material contingent liabilities.

Connected transaction

(i) During the year, rental expenses amounting to RMB1.2 million were paid to Mr. Xian Jilun, father of Mr. Xian Yang, controlling shareholder of the Company and Director, for the leasing of the Company's head office located at 16th Floor 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.

(ii) During the year, transportation costs in an aggregate amount of approximately RMB11 million were paid to Panxian Panshi and Panxian Panying for the provision of railway logistic services. 雲南凱捷實業有限公司 (Yunnan Kaijie Industry Company Limited*), the holder of 57% and 51% equity interest in Panxian Panshi and Panxian Panying respectively, is a substantial shareholder of each of Panxin Coking and Panyi Coal Washing. As Panxian Panshi and Panxian Panying occupy a monopolistic position of the local railway logistic service in Boguozhen, no relevant market price can be obtained. The pricing basis of the railway logistic service under the Framework Agreement is determined with reference to the pricing offered to other customers by Panxian Panshi and Panxian Panying and the current pricing adopted under the agreement made between the former shareholders of Panxian Panshi, Panxian Panying, Panxin Coking and Panyi Coal Washing, an agreed price consisting of the reasonable cost incurred and a reasonable profit margin.

OUTLOOK

Seeking rapid and sustainable growth through acquisitions of coal resources

During the year, the Company has completed acquisition of 6 coal mines in Guizhou province. As at 31 December 2008, the Company has a total of approximately 567 million tonnes of coal reserve (in accordance with the estimation under the PRC coal reserves standard) from 20 coal mines acquired in Guizhou province. Adding up the 60 million tonnes of coal reserve in Panzhihua, the Group's total coal reserve reached 627 million tonnes.

The Company plans to speed up the development of the mining structure in the existing 20 coal mines in order to reach full capacity in the year 2011 and resulting in an annual production capacity of raw coal of approximately 8 million tonnes.

Vertical integration of production capacity

During the year 2008, the Company maintained the core strategy to expand coal reserves through acquisition. The Company completed the acquisitions of two coal washing plants, a coking plant and 37% equity interests in two railway logistic service providers in Guizhou in order to ascertain vertical integration of production capacity. After the acquisitions, the Company had annual production capacity of clean coal and coke of 1,100,000 tonnes and 200,000 million tonnes respectively and a guaranteed delivery volume of 900,000 tonnes per annum of the Company's principal products. Accordingly, the production and sales of clean coal and coke in Guizhou experienced an outstanding increase.

Development in Guizhou province

The Company believes that the macro austerity measures aiming at stimulating domestic demand, coupled with the 4 trillion economic stimulus packages of the State as well as the support plans for ten industries will ease and shorten the downturn in the steel industry, which is thereby poised to see a recovery in the PRC. Meanwhile, in early 2009, the State Council considered and basically approved the introduction of the support plans for the steel industry. The significant investment in construction will drive demand for industries such as steel materials. The Company considers that these measures can help stabilize the coking coal market.

Amidst a global economic recession, the Company will be able to seize opportunities to develop at low financing costs, expand its liquidity and funding for construction. On the other hand, considering its advantage of low gearing ratio and in order to grasp rare opportunities of acquisitions and mergers, the Company will make use of financial leverage in a prudent and reasonable manner to obtain funding for acquisition of coal mine resources. In the year 2009, the Company proposes to acquire coal mines in Guizhou province with additional coal reserves of 200 to 300 million tonnes.

In order to cater for the increasing raw coal output from the existing and future coal mines, the Company intends to further expand the coal washing and coking production capacity and the railway logistic distribution capacity in the coming two to three years. Considering the funding and effectiveness of the development of the production and distribution capacities, the Company will expose the cooperation with several state-owned steel manufacturers and railway logistic providers.

OTHER INFORMATION

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 2008.

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.

Save as disclosed above, the Board is of the view that the Company has complied with the provisions of the Corporate Governance Code during the year. No Director is aware of any information that reasonably reveals that there is any non-compliance with the 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 year 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 year ended 31 December 2008.

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

Hong Kong, 31 March 2009

As at the date of this announcement, the Board comprises Mr. Xian Yang (Chairman), Mr. Sun Jiankun and Mr. Wang Rong as the executive directors, and Mr. Chan Chi Hing, Mr. Wang Zhiguo and Mr. Huang Rongsheng as the independent non-executive directors.

* *For identification purposes only*