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 2009

FINANCIAL HIGHLIGHTS

The Group's turnover amounted to approximately RMB1,495.4 million in 2009, representing a decrease of approximately RMB993.0 million or approximately 39.9% as compared to approximately RMB2,488.4 million in 2008.

The profit attributable to the owner of the Company for the year ended 31 December 2009 was approximately RMB403.5 million, representing a decrease of approximately RMB599.9 million or approximately 59.8% as compared to approximately RMB1,003.4 million in 2008.

The basic earnings per share attributable to ordinary equity holders of the Company amounted to approximately RMB19.6 cents in 2009.

The Board proposed the payment of a final cash dividend of RMB10 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 2009 together with the comparative figures for the corresponding period in 2008 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	**2009** *RMB'000*	2008 *RMB'000*
Turnover	4	**1,495,396**	2,488,449
Cost of sales		**(624,126)**	(942,370)
Gross profit		**871,270**	1,546,079
Other income	5	**11,428**	30,395
Distribution expenses		**(153,849)**	(208,944)
Administrative expenses		**(233,142)**	(233,521)
Net gain (loss) on derivatives and held-for-trading investments		**19,003**	(36,423)
Finance costs	6	**(56,349)**	(32,398)
Profit before tax	7	**458,361**	1,065,188
Income tax expenses	8	**(56,382)**	(62,880)
Profit and total comprehensive income for the year		**401,979**	1,002,308
Attributable to:			
Owners of the Company		**403,509**	1,003,350
Minority interests		**(1,530)**	(1,042)
		401,979	1,002,308
Earnings per share			
Basic *(RMB cents)*	10	**19.6**	48.7
Diluted *(RMB cents)*	10	**19.5**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**7,968,805**	5,129,237
Prepaid lease payments		**31,062**	31,737
Deposits		**219,950**	—
Deposit paid for acquisition of land use rights		**25,274**	—
Deposit paid for acquisition of additional interests in a subsidiary		**36,000**	—
Intangible assets		**111,691**	119,591
Goodwill		**11,065**	11,065
		8,403,847	5,291,630
CURRENT ASSETS			
Inventories		**144,704**	132,851
Bills and trade receivables	11	**516,366**	686,158
Bills receivables discounted with recourse	11	**241,019**	315,140
Other receivables and prepayments		**210,177**	103,136
Other loan receivables		**—**	—
Amount due from related parties		**83,755**	7,645
Held-for-trading investments		**48,641**	23,139
Pledged and restricted bank deposits		**577,883**	31,448
Bank balances and cash		**674,545**	694,820
		2,497,090	1,994,337

	Notes	**2009** *RMB'000*	2008 *RMB'000*
CURRENT LIABILITIES			
Bills and trade payables	12	**131,875**	130,528
Advances drawn on bills receivables discounted with recourse		**241,019**	315,140
Other payables and accrued expenses		**698,389**	697,878
Amount due to a related party		**—**	2,200
Derivative financial instruments		**—**	1,873
Tax payables		**47,952**	51,086
Secured bank and other borrowings —– due within one year		**2,467,084**	160,000
		3,586,319	1,358,705
NET CURRENT (LIABILITIES) ASSETS		**(1,089,229)**	635,632
		7,314,618	5,927,262
CAPITAL AND RESERVES			
Share capital		**198,605**	198,605
Share premium and reserves		**6,079,391**	5,640,190
Equity attributable to owners of the Company		**6,277,996**	5,838,795
Minority interests		**145,087**	35,759
TOTAL EQUITY		**6,423,083**	5,874,554
NON-CURRENT LIABILITIES			
Provision for restoration and environmental costs		**9,329**	7,843
Deferred tax liabilities		**244,682**	44,865
Other long term payables		**142,524**	—
Secured bank and other borrowings —– due after one year		**495,000**	—
		891,535	52,708
		7,314,618	5,927,262

NOTES TO THE CONSOLIDATED 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. Its shares are listed on the Stock Exchange of Hong Kong Limited. The address of the registered office and principal place of business of the Company is Room 3702, 37th Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong. In the opinion of the directors, the Company's parent company and ultimate holding company is Sanlian Investment Holding Limited, a company incorporated in the British Virgin Islands. 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.

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

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

In the current year, the Group has applied the following new and revised Standards, Amendment and Interpretations ("new and revised IFRSs") issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB.

International Accounting Standard ("IAS") 1 (Revised 2007)	Presentation of Financial Statements
IAS 23 (Revised 2007)	Borrowing Costs
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
International Financial Reporting Standard ("IFRS") 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 2 (Amendment)	Vesting Conditions and Cancellations
IFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
IFRS 8	Operating Segments
IFRIC 9 and IAS 39 (Amendments)	Embedded Derivatives
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 18	Transfers of Assets from Customers
IFRSs (Amendments)	Improvements to IFRSs issued in 2008, except for the amendment to IFRS 5 that is effective for annual periods beginning or after 1 July 2009
IFRSs (Amendments)	Improvements to IFRSs issued in 2009 in relation to the amendment to paragraph 80 of IAS 39

Except as described below, the adoption of the new and revised IFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Adoption of new and revised IFRSs affecting presentation and disclosure only

IAS 1 (Revised 2007) Presentation of Financial Statements

IAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

IFRS 8 Operating Segments

IFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's reportable segments (See Note 4), nor has the adoption of IFRS8 changed the basis of measurement of segment profit or loss.

The Group early adopted amendment to IFRS8 as part of the Improvements to IFRSs issued in 2009. The amendment clarifies that an entity shall report a measure of total assets for each reportable segment if such amount is regularly provided to the chief operating decision maker.

Improving Disclosures about Financial Instruments
(Amendments to IFRS 7 Financial Instruments: Disclosures)

The amendments to IFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

New and revised IFRSs affecting the reported results and financial position

IAS 23 (Revised 2007) Borrowing Costs

In previous years, the Group expensed all borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. IAS 23 (Revised 2007) removes the option previously available to expense all borrowing costs when incurred. The adoption of IAS 23 (Revised 2007) has resulted in the Group changing its accounting policy to capitalise all such borrowing costs as part of the cost of the qualifying asset. The Group has applied the revised accounting policy to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009 in accordance with the transitional provisions in IAS 23 (Revised 2007). As the revised accounting policy has been applied prospectively from 1 January 2009, this change in accounting policy has not resulted in restatement of amounts reported in respect of prior accounting periods.

In the current year, borrowing costs of RMB9,040,000 were capitalised as part of the cost of mining structures and mining rights. Profit for the year ended 31 December 2009 has therefore been increased by RMB9,040,000.

Standards, amendments or interpretations issued but are not yet effective

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)	Amendment to IFRS 5 as part of Improvements to IFRSs 2008[1]
IFRSs (Amendments)	Improvements to IFRSs April 2009[2]
IAS 24 (Revised)	Related Party Disclosures[6]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
IAS 32 (Amendment)	Classification of Rights Issues[4]
IAS 39 (Amendment)	Eligible Hedged Items[1]
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters[5]
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
IFRS 3 (Revised)	Business Combinations[1]
IFRS 9	Financial Instruments[7]
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
IFRIC 17	Distributions of Non-cash Assets to Owners[1]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[5]

[1] Effective for annual periods beginning on or after 1 July 2009.

[2] Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

[3] Effective for annual periods beginning on or after 1 January 2010.

[4] Effective for annual periods beginning on or after 1 February 2010.

[5] Effective for annual periods beginning on or after 1 July 2010.

[6] Effective for annual periods beginning on or after 1 January 2011.

[7] Effective for annual periods beginning on or after 1 January 2013.

The application of IFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. IAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

IFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of IFRS 9 might affect the classification and measurement of the Group's financial assets.

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 consolidated financial statements.

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 of Hong Kong Limited and by the Hong Kong Companies Ordinance.

4. REVENUE AND SEGMENT INFORMATION

The Group has adopted IFRS 8 “Operating Segments” with effect from 1 January 2009. IFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (IAS 14, “Segment Reporting”) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group’s primary reporting format was business segments. The application of IFRS 8 has not resulted in a redesignation of the Group’s reportable segments as compared with the primary reportable segments determined in accordance with IAS 14. Nor has the adoption of IFRS 8 changed the basis of measurement of segment profit or loss.

Information reported to the chief operating decision makers (i.e. the executive directors) for the purposes of resource allocation and performance assessment focuses on the Group’s business operations.

The Group’s operating segments under IFRS 8 are comprised of: (i) coal mining; (ii) coking; (iii) others.

Principal activities 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

Segments revenues and results

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

	For the year ended 31 December 2009				
	Coal mining	**Coking**	**Others**	**Inter-segment eliminations**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE					
External	**614,522**	**871,702**	**9,172**	**—**	**1,495,396**
Inter-segment	**636,382**	**—**	**—**	**(636,382)**	**—**
Total	**1,250,904**	**871,702**	**9,172**	**(636,382)**	**1,495,396**

Inter-segment transactions were carried out at a margin of 41%.

RESULTS					
Segment profit	**256,483**	**458,683**	**2,255**	**—**	**717,421**
Other income					**11,428**
Administrative expenses					**(233,142)**
Net gain on derivatives and held-for-trading investments					**19,003**
Finance costs					**(56,349)**
Profit before tax					**458,361**

	For the year ended 31 December 2008				
	Coal mining	**Coking**	**Others**	**Inter-segment eliminations**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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%.

RESULTS					
Segment profit	627,715	708,425	995	—	1,337,135
Other income					30,395
Administrative expenses					(233,521)
Net loss on derivatives and held-for-trading investments					(36,423)
Finance costs					(32,398)
Profit before tax					1,065,188

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

Segment assets and liabilities

No Segment assets and liabilities are presented as they are not regularly reviewed by the chief operating decision makers (i.e. the executive directors).

Other segment information

	For the year ended 31 December 2009					
	Coal mining	**Coking**	**Others**	**Subtotal**	**Adjustments**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(Note)*	*RMB'000*
Amounts included in the measure of segment profit or loss						
Impairment loss on financial assets	**785**	**—**	**—**	**785**	**—**	**785**
Depreciation and amortisation	**65,317**	**21,733**	**—**	**87,050**	**12,489**	**99,539**
Provision for restoration and environmental costs	**1,486**	**—**	**—**	**1,486**	**—**	**1,486**

	For the year ended 31 December 2008					
	Coal mining	**Coking**	**Others**	**Subtotal**	**Adjustments**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(Note)*	*RMB'000*
Amounts included in the measure of segment profit or loss						
Impairment loss on financial assets	1,919	—	—	1,919	948	2,867
Depreciation and amortisation	52,065	14,317	3,502	69,884	10,339	80,223
Provision for restoration and environmental costs	1,727	—	—	1,727	—	1,727

Note: The reconciling item to adjust expenditures incurred for the Corporate headquarters, which is not included in segment information.

Geographical information

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

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2009	2008
	RMB'000	*RMB'000*
Customer A	**594,262**	766,202
Customer B	**309,986**	785,498
Customer C	**153,793**	—[1]
Customer D	**—[1]**	333,656

The revenue from the above customers are from coking and coal mining segment.

1 The corresponding revenue did not contribute over 10% of the total sales of the Group.

5. OTHER INCOME

	2009	2008
	RMB'000	*RMB'000*
Bank interest income	**8,119**	27,526
Dividend income from held-for-trading investments	**660**	—
Others	**2,649**	2,869
	11,428	30,395

6. FINANCE COSTS

	2009	2008
	RMB'000	*RMB'000*
Interest expenses on borrowings wholly repayable within five years:		
— bank borrowings	**24,566**	31,488
— advances drawn on bills receivables discounted	**40,823**	910
	65,389	32,398
Less: Interest capitalised in mining structure and mining rights	**(9,040)**	—
	56,349	32,398

7. PROFIT FOR THE YEAR

	2009	2008
	RMB'000	*RMB'000*
Profit for the year has been arrived at after charging (crediting):		
Impairment loss (reversal of impairment loss) recognised on		
— trade receivables	**6,148**	1,915
— other receivables and prepayments	**247**	952
— other loan receivables	**(5,610)**	—
Impairment loss recognised on financial assets	**785**	2,867
Amortisation of prepaid lease payments	**675**	677
Amortisation of intangible assets (of which RMB3,800,000 (2008: RMB1,584,000) included in distribution expenses and RMB4,100,000 (2008: RMB1,025,000) included in cost of sales)	**7,900**	2,609
Provision for restoration and environmental costs	**1,486**	1,727
Depreciation and amortisation of property, plant and equipment	**90,964**	76,937
Loss on disposal of property, plant and equipment	**206**	794
Cost of inventories recognised as an expense	**624,126**	942,370
Net exchange loss (included in administrative expenses)	**853**	69,345

8. INCOME TAX EXPENSES

	2009	2008
	RMB'000	*RMB'000*
Current tax:		
PRC Enterprise Income Tax ("EIT")	**50,072**	44,970
Overprovision in prior years	**(4,945)**	(15,890)
	45,127	29,080
Deferred tax	**11,255**	33,800
	56,382	62,880

9. DIVIDENDS

The directors recommended the payment of a final dividend of RMB0.1 per share (2008: Nil) for the year ended 31 December 2009. 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 and diluted earnings per share attributable to the owners of the Company is based on the following data:

Earnings	**2009**	2008
	RMB'000	*RMB'000*
Earnings for the purposes of basic and diluted earnings per share	**403,509**	1,003,350

Number of shares	**2009**	2008
	RMB'000	*RMB'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,060,000**	2,060,000
Effect of dilutive potential ordinary shares:		
Options	**12,092**	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,072,092**	2,060,000

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

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

(a) Bills and trade receivables

	2009	2008
	RMB'000	*RMB'000*
Trade receivables	**397,047**	261,758
Less: allowance for doubtful debts	**(8,838)**	(2,690)
	388,209	259,068
Bills receivables	**128,157**	427,090
	516,366	686,158

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, presented based on the invoice date at the end of the reporting period, is as follows:

	2009	2008
	RMB'000	*RMB'000*
Aged:		
0 - 90 days	**482,559**	605,236
91 - 120 days	**14,560**	56,255
121 - 180 days	**14,337**	16,415
181 - 365 days	**4,910**	8,252
	516,366	686,158

(b) Bills receivables discounted with full recourse

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

	2009	2008
	RMB'000	*RMB'000*
Aged:		
0 - 90 days	**162,749**	315,140
91 - 120 days	**78,270**	—
	241,019	315,140

12. BILLS AND TRADE PAYABLES

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

	2009	2008
	RMB'000	*RMB'000*
Aged:		
0 - 90 days	**116,640**	116,833
91 - 180 days	**13,499**	9,415
181 - 365 days	**1,736**	3,014
Over 365 days	**—**	1,266
	131,875	130,528

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 RMB1,495.4 million, representing a decrease of approximately 39.9%, as compared with approximately RMB2,488.4 million in the year 2008. The decrease was primarily attributable to the decrease in sales volumes of clean coal and average selling prices of the principal products and by-products due to the decrease in demand of coal products by the steel manufacturers. The sales volume recorded for clean coal and coke during the year amounted to approximately 610,000 tonnes and 688,000 tonnes respectively as compared to approximately 862,000 tonnes and 682,000 tonnes respectively in 2008, representing a decrease in volume of approximately of 29.2% and an increase of 0.9% respectively. The average selling price of both clean coal and coke decreased significantly from RMB1,311.9 per tonne and RMB1,777.7 per tonne respectively in 2008 to RMB869.8 per tonne and RMB1,234.3 per tonne for the year, representing a decrease of approximately of 33.7% and 30.6% respectively.

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 2008:

	2009			2008		
	Turnover *RMB'000*	**Sales volume** *(thousand tonnes)*	**Average selling price** *(RMB/ tonne)*	Turnover *RMB'000*	Sales volume *(thousand tonnes)*	Average selling price *(RMB/ tonne)*
Principal products						
Clean coal	**530,487**	**609.9**	**869.8**	1,130,830	862.0	1,311.9
Coke	**849,404**	**688.2**	**1,234.3**	1,212,540	682.1	1,777.7
Principal products total	**1,379,891**			2,343,370		

By-products						
High-ash thermal coal	**76,465**	**416.9**	**183.4**	80,685	467.2	172.7
Coal tar	**22,298**	**16.1**	**1,384.2**	29,884	16.5	1,807.2
By-products total	**98,763**			110,569		
Other products						
Raw coal	**7,570**	**18.2**	**416.7**	23,316	74.8	311.7
Benzene	**5,677**	**3.2**	**1,787.5**	9,886	3.2	3,128.1
Others	**3,495**			1,308		
Other products total	**16,742**			34,510		
Total turnover	**1,495,396**			2,488,449		

Cost of sales

Cost of sales for the year was approximately RMB624.1 million, representing a decrease of approximately RMB318.3 million, or approximately 33.8%, as compared with approximately RMB942.4 million in 2008. During the year, as the Company did not relied on purchased raw coal from outside suppliers in Guizhou, it resulted in a large decrease in materials costs. However, following the commencement of production in new mines in Guizhou and Yunnan provinces, the material, fuel and power, staff costs and depreciation and amortization experienced an increase in overall production costs during the year.

The following table set forth the unit production costs of the principal products.

	2009	2008
	RMB per tonne	*RMB per tonne*
Coal mining		
Cash cost	**136**	110
Depreciation and amortisation	**23**	20
Total production cost	**159**	130
Purchased raw coal	**—**	670
Average cost of raw coal	**159**	235
Average cost of clean coal	**356**	517
Average cost of coke	**499**	702

Material, fuel and power costs for the year were approximately RMB302.3 million, representing a decrease of approximately RMB362.2 million, or approximately 54.5%, as compared with approximately RMB664.5 million in 2008.The decrease in material, fuel and power costs contributed to the decrease in purchase of raw coal of approximately RMB455.7 million in 2008 but increase of materials costs of approximately RMB93.5 million following the increased usage of materials during the development of mining structures in Guizhou and Yunnan provinces.

In the year 2009, the raw coal production volume of approximately 2.8 million tonnes maintained at the similar level as the volume recorded in 2008. In Sichuan province, the volume slightly dropped by approximately 282,000 tonnes due to the coal mine consolidation. In Guizhou and Yunnan provinces, the volumes increased by approximately 292,000 tonnes through the acquisition and development of coal mines.

The following table illustrates the production volume of the principal products in Sichuan, Guizhou and Yunnan provinces.

Principal products	2009 Sichuan Production volume (*'000 tonnes*)	2009 Guizhou and Yunnan Production volume (*'000 tonnes*)	2009 Total Production volume (*'000 tonnes*)	2008 Sichuan Production volume (*'000 tonnes*)	2008 Guizhou Production volume (*'000 tonnes*)	2008 Total Production volume (*'000 tonnes*)
Raw coal production	**1,505**	**1,303**	**2,808**	1,787	1,011	2,798
Raw coal purchased	**—**	**—**	**—**	—	680	680
Clean coal	**787**	**696**	**1,483**	868	794	1,662
Coke	**534**	**174**	**708**	502	167	669

Staff costs for the year were approximately RMB170.9 million, representing an increase of approximately RMB9.1 million, or approximately 5.6%, as compared with approximately RMB161.8 million in 2008. The increase was primarily attributable to the increase in number of mine workers.

Depreciation and amortization for the year were approximately RMB72.4 million, representing an increase of approximately RMB6.5 million, or approximately 9.9%, as compared with approximately RMB65.9 million in 2008. 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 and Yunnan provinces during the year.

Gross profit

As a result of the foregoing, the gross profit for the year was approximately RMB871.3 million, representing a decrease of approximately RMB674.8 million or approximately 43.6%, as compared with approximately RMB1,546.1 million in 2008. The gross profit margin was approximately 58.3% as compared with approximately 62.1% in 2008.

Other income

Other income for the year amounted to approximately RMB11.4 million, representing a decrease of approximately RMB19.0 million or approximately 62.5%, as compared with approximately RMB30.4 million in 2008. The decrease was mainly attributable to the decrease in interest income.

Distribution expenses

Distribution expenses for the year were approximately RMB153.8 million, representing a decrease of approximately RMB55.1 million or approximately 26.4%, as compared to approximately RMB208.9 million in 2008. The main decrease was resulted from the decrease in government levies in Guizhou province.

Administrative expenses

Administrative expenses were approximately RMB233.1 million, remaining at a similar level as compared with approximately RMB233.5 million in 2008. During the year, the Group recorded a significant decrease in net exchange loss of approximately RMB68.5 million as the exposure to foreign currencies fluctuation reduced after all the IPO proceeds already remitted back to PRC in 2008. However, the costs relating to the staff option scheme recognised approximately RMB35.7 million and the administrative expenses increased in line with the enlarged operation of coal mines in Guizhou and Yunnan provinces.

Net gain (loss) on derivative and held-for-trading investments

The amount represented (i) the fair value gain on the Group's investment in certain A shares amounting to approximately RMB25.5 million and (ii) loss on fair value change of derivative financial instruments of approximately RMB6.5 million.

Finance costs

Finance costs for the year amounted to approximately RMB56.3 million, representing an increase of approximately RMB23.9 million or approximately 73.8%, as compared with approximately RMB32.4 million in 2008. During the year, the Group financed its acquisitions and development of coal mines in Guizhou and Yunnan provinces by bank borrowings and discounting bills receivables, hence increase the level of interest expenses.

Income tax expenses

Income tax expenses during the year were approximately RMB56.4 million, representing a decrease of approximately RMB6.5 million or approximately 10.3%, as compared with approximately RMB62.9 million in 2008. The amount of income tax expense represented EIT of approximately RMB45.1 million and deferred tax of approximately RMB11.3 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 increased to approximately 9.8% as compared with approximately 2.7% in 2008.

Profit for the year

As a result of the foregoing, the profit attributable to owners of the Company for the year was approximately RMB403.5 million, representing a decrease of approximately RMB599.9 million or approximately 59.8%, as compared with approximately RMB1,003.4 million in 2008. The net profit margin was 27.0% for the year as compared with approximately 40.3% in 2008.

Liquidity, financial resources and capital structure

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

As at 31 December 2009, the Group's current liabilities exceeded its current assets by approximately RMB1,089.20 million (2008: net current assets of RMB635.6 million). The Directors are of the opinion that, taking into consideration of the internally generated funds of the Group, the current available banking facilities and the issue of convertible bonds with the principal amount of approximately RMB1,707 million on 19 January 2010, the Group has sufficient working capital for its present requirements for expansion of operation in Guizhou and Yunnan provinces. As at 31 December 2009, the bank balances and cash of the Group amounted to approximately RMB674.5 million (2008: RMB694.8 million).

As at 31 December 2009, the total bank and other borrowings of the Group were RMB2,962.1 million (2007: RMB160 million), in which approximately RMB2,467.1 million are repayable within one year, with effective weighted average interest rate ranging from fixed rates of 2.04% to 9%.

The gearing ratio (calculate as total bank and other borrowings divided by total assets) of the Group as at 31 December 2009 was 27.7% (2008: 2.2%).

Pledge of assets of the Group

As at 31 December 2009, the Group pledged assets in an aggregate amount of approximately RMB1,831.7 million (2008: RMB274.2 million) to banks for credit facilities in the amount of RMB3,712.1 million (2008: RMB160 million) granted to the Group.

Employees

As at 31 December 2009, the number of employees of the Group reached 11,176, 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 amounted to approximately RMB250.2 million (2008: RMB219.5 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 RMB0.1 per share for the year ended 31 December 2009 to all shareholders of the Company whose names appear on the register of members of the Company on 13 August 2010.

Risk in foreign exchange

Since all of the Group's business activities are transacted in RMB, the Directors of the Company 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 USD8.7 million and HKD1.5 million respectively.

Significant investment held

The Group had invested in certain A shares in the PRC which amounted to approximately RMB48.6 million as at 31 December 2009.

Material acquisition and disposal

(i) During the year, the Group entered into various sales and purchase agreements for the acquisition of 8 coal mines in Yunnan province at an aggregate consideration of RMB1,626.9 million.

(ii) On 4 December 2009, the Group entered into a memorandum of undertaking with a connected person for acquisition of equity interests in a coal washing plants and 2 logistic companies in Yunnan province with an aggregate consideration of RMB150 million. The acquisition have not yet been finalized.

Contingent liabilities

As at 31 December 2009, 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 RMB25.5 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.

(iii) In September 2009, the Group entered into a capital contribution agreement with Citic Trust Company Limited ("Citic Trust") for the formation of a joint venture company in which Citic Trust agreed to inject RMB500 million as capital contribution for 49% equity interest. It was further agreed that the 49% equity interest will be repurchased by the Group with a premium of 9% per annum after twelve months from the date of the contribution injected. Accordingly, for the purpose securing the payment of the repurchase consideration, the Group pledged the mining right of Xinda Coal Mine and the 51% equity interest of the joint venture company to Citic Trust. As at 31 December 2009, the amount of capital contribution injected by Citic Trust amounted to RMB250 million.

Subsequent event

On 19 January 2010, the Company successfully issued the convertible bonds, which are RMB denominated and U.S. dollar settled, with an aggregate principal amount of RMB1,707 million. The convertible bonds carry interest at 1.5% and will be due in 2015. The net proceeds from the issue of the Bonds, after deduction of commission and administrative expenses will be use for repayment of the Company's existing short-term indebtedness, plus accrued and unpaid interest and any other amounts payable in connection with such prepayment, and for expanding the Company's network of mines, production plants and facilities in South West China through general acquisitions, and to fund capital expenditure and general working capital of the mines of the Company.

BUSINESS REVIEW

Since the 4th quarter of 2008, in the face of the shrinking market demand for steel, steelmakers had contracted capacity, which in turn reduced the demand for coal products. Steel market moderately recovered in the first half of 2009. The average sales of the Company's clean coal and coke had seen minor rebounds, with their average prices amounting to approximately RMB811.2 per tonne and RMB1,152.6 per tone respectively. In the second half of 2009, the market gradually picked up. The average unit prices of the Company's clean coal and coke amounted to approximately RMB915.2 per tonne and RMB1,308.1 per tonne respectively. The average unit prices of clean coal and coke were approximately RMB869.8 per tonne and RMB1,234.3 per tonne during 2009, down approximately 33.7% and 30.6% over 2008.

During the year, capacity of the Company's coal mines in Guizhou was able to support our production, requiring no external purchase of raw coal, which substantially reduced production cost. Average cash cost of raw coal was approximately RMB136 per tonne; depreciation and amortization cost of raw coal was approximately RMB23 per tonne; production cost for clean coal was approximately RMB356 per tonne; and production cost for coke was approximately RMB499 per tonne. In 2009, the gross profit margin maintained at around 58.3%, down 3.8% from 62.1% in the previous year.

The lower price in coal market helped the Company to further acquire coal mines with lower cost to increase our coal reserve. During the year, the Company acquired 8 coal mines in the Yunnan Province, with an aggregate reserve of about 190 million tonnes (based on PRC coal reserves standard) and an average acquisition price of approximately RMB8.6 per tonne.

OUTLOOK

2009 would be a tough and challenging year for our operation. The year began amid the financial storm which severely shadowed steel market. Supported by various economic stimulation policies from the government, steel producers are recovering after adjustments. We expect that the operation environment for the Company will turn around.

Presently, the Company is proceeding with the construction of mines and auxiliary facilities in Guizhou and the Yunnan Province as planned. It is expected that the infrastructure construction of 5 coal mines will be completed in 2010, following which the coal mines will enter the trial production stage with an annual designed capacity of approximately 2.25 million tonnes. Meanwhile, taking into account the additional capacity from the 8 coal mines acquired by the Company in the Yunnan Province in 2009, it is expected that the capacity of the Company's raw coal will increase significantly in 2010.

As regards the expansion of sales customers, besides maintaining a friendly business relationship with a number of large state-owned steel enterprises, the Company also entered into a framework agreement with 廣東省韶關鋼鐵集團有限公司 (Guangdong Province Shaoguan Steel Group Company Limited) in 2009 to provide not less than 600,000 tonnes of clean coal in 2010. As such, the Company believe that the expanded capacity of raw coal can be fully absorbed.

Moreover, the Company will continue to implement and promote cost control measures to improve production efficiency. The Company is currently constructing a coal washing plant in Guizhou Province, which has an annual designed capacity of approximately 1.20 million tonnes of clean coal. Since the coal washing plant is ancillary to the Company's coal mines which are subject to capacity expansion, it is expected that the commencement of operation of the coal washing plant will gradually lower the Company's transportation costs.

The Company will finance the working and construction capital for development by seizing the low financing cost opportunity. The proceeds from the issuance of approximately RMB1,707 million worth of convertible bonds in January 2010 were mainly used for reducing short-term bank loans and for construction of coal mines. The Company will continue to prudently and rationally utilize the financial leverage to finance the capital needed for construction of mines. In line with the macro economy and policies, the Company will selectively acquire quality resources of coking coal in Yunnan and Guizhou Province at relatively lower cost. We aim to become an integrator for China's small and mid scale coal mines.

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

OTHER INFORMATION

Closure of the Register of Members

The register of members of the Company will be closed from 16 to 20 August 2010, 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 13 August 2010.

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. Chen Limin and Mr. Huang Rongsheng.

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 2009.

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.

Saved 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 2009.

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

Hong Kong
7 April 2010

As at the date hereof, the executive Directors are Mr. Xian Yang (Chairman), Mr. Sun Jiankun, Mr. Wang Rong and the independent non-executive Directors are Mr. Chan Chi Hing, Mr. Chen Limin and Mr. Huang Rongsheng.