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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1393)

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2016	2015	Change
	RMB'000	*RMB'000*	*%*
	(Unaudited)	(Unaudited)	
Revenue	**144,502**	396,484	(63.6%)
Gross (loss)/profit	**(12,120)**	14,622	(182.9%)
Loss before tax	**(420,984)**	(386,308)	9.0%
Loss and total comprehensive expense for the period	**(420,986)**	(390,516)	7.8%
Adjusted EBITDA	**(191,846)**	(92,942)	(106.4%)
Basic loss per share *(RMB cents)*	**(21)**	(19)	10.5%

The board of directors (the "Board") of Hidili Industry International Development Limited 恒鼎實業國際發展有限公司 (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (together, the "Group") for the six months ended 30 June 2016 (the "Review Period"), together with the comparative figures for the corresponding period in 2015.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Note	Six months ended 30 June	
		2016	2015
		RMB'000	*RMB'000*
		(unaudited)	(unaudited)
Revenue	*4*	**144,502**	396,484
Cost of sales		**(156,622)**	(381,862)
Gross (loss)/profit		**(12,120)**	14,622
Other income, gain and losses	*5*	**(32,147)**	(33,568)
Distribution expenses		**(22,947)**	(19,649)
Administrative expenses		**(154,745)**	(107,020)
Share of losses of associates		**–**	(1,148)
Share of losses of a joint venture		**–**	(16,353)
Finance costs	*6*	**(199,025)**	(223,192)
Loss before tax		**(420,984)**	(386,308)
Taxation	*7*	**(2)**	(4,208)
Loss and total comprehensive expense for the period		**(420,986)**	(390,516)
Loss and total comprehensive expense for the period attributable to owners of the Company		**(420,806)**	(390,502)
Loss and total comprehensive expense attributable to non-controlling interests		**(180)**	(14)
		(420,986)	(390,516)
Loss per share	*10*		
Basic *(RMB cents)*		**(21)**	(19)
Diluted *(RMB cents)*		**(21)**	(19)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**8,351,884**	8,248,722
Prepaid lease payments		**82,162**	83,617
Interest in a joint venture		**2,309,594**	2,309,594
Interest in associates		**43,330**	43,330
Available-for-sale investments		**30,778**	30,778
Long term deposits		**149,039**	169,009
Pledged and restricted bank deposits		**6,950**	10,320
		10,973,737	10,895,370
CURRENT ASSETS			
Inventories		**138,792**	115,671
Bills and trade receivables	*11(a)*	**72,715**	109,697
Bills receivables discounted with recourse	*11(b)*	**23,000**	9,000
Other receivables and prepayments		**467,556**	588,491
Amount due from a joint venture		**32,151**	34,417
Pledged and restricted bank deposits		**14,790**	778,762
Bank balances and cash		**39,802**	17,680
		788,806	1,653,718
CURRENT LIABILITIES			
Bills and trade payables	*12*	**262,358**	578,985
Advances drawn on bills receivables discounted with recourse		**23,000**	9,000
Other payables and accrued expenses		**1,259,912**	935,314
Amount due to an associate		**25,126**	23,777
Tax payables		**21,349**	39,687
Senior notes		**1,302,939**	1,258,844
Bank and other borrowings – due within one year		**5,936,184**	6,350,897
		8,830,868	9,196,504
NET CURRENT LIABILITIES		**(8,042,062)**	(7,542,786)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,931,675**	3,352,584

	Note	**30 June 2016** *RMB'000* **(Unaudited)**	31 December 2015 *RMB'000* (Audited)
CAPITAL AND RESERVES			
Share capital		**197,506**	197,506
Reserves		**2,660,914**	3,081,900
Equity attributable to owners of the Company		**2,858,420**	3,279,406
Non-controlling interests		**32,923**	33,103
TOTAL EQUITY		**2,891,343**	3,312,509
NON-CURRENT LIABILITIES			
Provision for restoration and environmental costs		**7,107**	6,850
Other long term payables		**25,200**	25,200
Deferred tax liabilities		**8,025**	8,025
		40,332	40,075
		2,931,675	3,352,584

NOTES TO THE CONDENSED 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 "Stock Exchange"). The address of the registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The address of its principal place of business of the Company is Room 1306, 13th Floor, Tai Tung Building, 8 Fleming Road, Wanchai, Hong Kong. In the opinion of the Directors, the Company's parent company is Sanlian Investment Holding Limited, a company incorporated in the British Virgin Islands and the ultimate holding company is Sarasin Trust Company Guernsey Limited, which is controlled by Mr. Xian Yang, the executive directors of the Company. The Company together with its subsidiaries are hereafter collectively referred to as the Group. The Company acts as investment holding company and its subsidiaries are engaged in mining and sale of raw coal and clean coal.

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

2. BASIS OF PREPARATION

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

Going concern basis

In preparing these condensed consolidated financial statements, the Directors have given due and careful consideration to the future liquidity of the Group in light of the fact that the Group's current liabilities position of approximately RMB8,042 million as at 30 June 2016 and incurred loss of approximately RMB421 million for the six months ended 30 June 2016.

In 2015, the Group has breached of several loans covenants, including: (i) repayment of a short-term unsecured loan from a PRC bank which fell due in June 2015 of approximately RMB311 million; and (ii) repayment of the outstanding principal and accrued interest of the US$400 million 8.625% senior notes due 2015 (the "Notes") of approximately USD191 million (equivalent to RMB1,259 million) which fell due on 4 November 2015. The aforesaid breaches constitute events of default under certain of the Group's loan facilities that contain cross-default provisions. In addition, certain other loan agreements of the Group provide that the lenders have the right to demand immediate repayment of any outstanding amount if the Group experiences material financial crises or other material adverse changes, the business of the Group deteriorates, or there occurs any event that could adversely affect lenders' interest or suggests the Group inability to repay any outstanding amount. Therefore, it is possible that the lenders to the Group could accelerate their loans as a result of breach of the other loans to the Group. Subsequent to the period end, the Group has not repaid a long term secured loan to a Hong Kong bank of approximately USD135 million (equivalent to RMB873 million) which fell due on 4 January 2016 ("Offshore Loan").

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

The Group intended to pursue a consensual restructuring with the holders of the Notes (the "Holders") ("Debt Restructuring") and a steering committee of the Holders has been formed in December 2015. On 11 March 2016, the Company provided Holders with the key indicative terms of a proposed restructuring of the Notes. Up to the date of these financial statements, the negotiations with the Holders are still ongoing.

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

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

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

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

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

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

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

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, the following new or revised International Financial Reporting Standards ("IFRSs").

Amendments to IFRSs	Annual improvements to IFRSs 2012-2014 cycle
Amendments to IAS 1	Presentation of financial statements: Disclosure initiative

The application of the above amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

4. REVENUE AND SEGMENT INFORMATION

Operating segments are 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. Information reported to the chief operating decision maker (i.e. the executive directors) for the purposes of resource allocation and performance assessment focuses on the Group's business operations, which is the basis upon which the Group is organised.

The Group's reportable and operating segments under IFRS 8 are comprised of: (i) coal mining, (ii) trading and (iii) others. The management identifies the Group's segments by the nature of the Group's operation.

Principal activities are as follows:

Coal mining – Production and sales of clean coal and its by-products
Trading – Trading of magnetic iron powder
Others – Manufacture and sales of alloy pig iron and others

Segments revenues and results

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

	Six months ended 30 June 2016 (unaudited)			
	Coal mining	**Trading**	**Others**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
REVENUE				
External	**144,502**	**–**	**–**	**144,502**
RESULTS				
Segment losses	**(26,022)**	**–**	**–**	**(26,022)**
Other income, gains and losses				**(41,192)**
Administrative expenses				**(154,745)**
Share of losses of associates				**–**
Share of losses of a joint venture				**–**
Finance costs				**(199,025)**
Loss before tax				**(420,984)**

	Six months ended 30 June 2015 (unaudited)			
	Coal mining	Trading	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE				
External	207,612	188,872	–	396,484
RESULTS				
Segment losses	(41,416)	(9,336)	–	(50,752)
Other income, gains and losses				12,157
Administrative expenses				(107,020)
Share of losses of associates				(1,148)
Share of losses of a joint venture				(16,353)
Finance costs				(223,192)
Loss before tax				(386,308)

Segment losses represents (losses) profit incurred by each segment without allocation of other income, gains and losses, administrative expenses, finance costs, share of losses of a joint venture and share of losses of associates. This is the measure reported to the chief operating decision maker (i.e. the executive directors of the Company) for the purpose of resource allocation and assessment of segment performance.

5. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Interest income	**14,854**	19,438
Government grant	**9,045**	13,526
Exchange (loss)/gain	**(56,778)**	83
Gain/(loss) on disposal of property, plant and equipment	**446**	(2,248)
Impairment loss recognised on trade receivables	**–**	(2,057)
Impairment loss recognised on other receivables	**–**	(26,269)
Impairment loss recognised in respect of property, plant and equipment	**–**	(30,925)
Impairment loss recognised on an available-for-sale investment	**–**	(7,000)
Others	**286**	1,884
	(32,147)	(33,568)

6. FINANCE COSTS

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Interest expenses on borrowings wholly repayable within five years:		
– bank and other borrowings	**192,601**	191,761
– advances drawn on bills receivables discounted	**6,424**	2,222
Interest expense on senior notes	**–**	48,309
Effective interest expense on convertible loan notes	**–**	24
	199,025	242,316
Less: Interest capitalised in construction in progress	**–**	(19,124)
	199,025	223,192

7. TAXATION

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax:		
PRC Enterprise Income Tax ("EIT")	**2**	4,208
Deferred tax	**–**	–
	2	4,208

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

8. LOSS FOR THE PERIOD

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Loss for the period has been arrived at after charging the following items:		
Amortisation of intangible assets	**–**	2,515
Release of prepaid lease payments	**1,455**	964
Provision for restoration and environmental costs	**257**	233
Depreciation of property, plant and equipment	**28,401**	35,770
Directors' remunerations	**1,559**	1,214
Salaries and other benefits	**64,364**	69,360
Retirement benefits scheme contribution	**2,952**	408
Total staff costs	**68,875**	70,982

9. DIVIDENDS

No dividends were paid, declared or proposed for the period ended 30 June 2016 and 2015 or since the end of the reporting period.

10. LOSS PER SHARE

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

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Loss		
Loss for the purpose of basic and diluted loss per share		
Loss for the period attributable to owners of the Company	**(420,806)**	(390,502)

	Six months ended 30 June	
	2016	2015
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**2,045,598**	2,045,598

The computation of diluted loss per share for the six months ended 30 June 2016 and 2015 does not assume the conversion of the Company's convertible loan notes and the exercise of the Company's share options since their assumed conversion and exercise would result in a decrease in loss per share.

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

(a) Bills and trade receivables

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

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

	30 June 2016 *RMB'000* **(Unaudited)**	31 December 2015 *RMB'000* (Audited)
Aged:		
0-90 days	**45,746**	44,119
91-120 days	**7,508**	1,380
121-180 days	**11,438**	14,950
181-365 days	**7,483**	49,248
	72,175	109,697

(b) Bills receivables discounted with recourse

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

	30 June 2016 *RMB'000* **(Unaudited)**	31 December 2015 *RMB'000* (Audited)
0-90 days	**8,500**	9,000
91-120 days	**14,500**	–
	23,000	9,000

12. BILLS AND TRADE PAYABLES

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

	30 June 2016 *RMB'000* **(Unaudited)**	31 December 2015 *RMB'000* (Audited)
Aged:		
0-90 days	**181,180**	341,067
91-180 days	**3,952**	63,596
181-365 days	**33,201**	40,715
Over 365 days	**44,025**	133,607
	262,358	578,985

13. CAPITAL COMMITMENTS

	30 June 2016 *RMB'000* **(Unaudited)**	31 December 2015 *RMB'000* (Audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	**300,978**	269,415
The Group's share of the capital commitment made jointly with other joint ventures relating to its joint venture, Yunnan Dongyuan Hidili Coal Industry Company, is as follows:		
Commitment for the acquisition of property, plant and equipment	**149,001**	135,184

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

During the Review Period, revenue of the Group recorded approximately RMB144.5 million, representing a decrease of approximately 63.6%, as compared with approximately RMB396.5 million in the corresponding period in 2015.

During the Review Period, the Company adjusted its sales mix by selling more raw coal since clean coal still led a very low market price as a results of further slowdown in the demand from steel manufacturers. The sales volume of clean coal amounted to approximately 102,300 tonnes as compared to approximately 201,800 tonnes in the corresponding period in 2015, representing a decrease of 49.3%. The average selling price (net of value added tax) of clean coal amounted to approximately RMB513.0 per tonne as compared to approximately RMB748.8 per tonne in the corresponding period in 2015, representing a decrease of approximately 31.5%. Accordingly, the Company has committed sales of raw coal of approximately RMB82.0 million in order to supplement its clean coal sales.

The following table sets forth the Group's revenue contribution, sales volume and average selling price by products for the Review Period, together with the comparative amounts for the corresponding period in 2015:

	Six months ended 30 June					
	2016			2015		
	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	**52,510**	**102.3**	**513.0**	151,104	201.8	748.8
By-products						
High-ash thermal coal	**9,910**	**76.9**	**128.9**	13,124	43.3	302.8
Other products						
Raw coal	**81,979**	**362.1**	**226.4**	38,001	113.1	336.0
Magnetic iron powder	**–**	**–**	**–**	188,872	365.9	516.1
Others	**103**			5,383		
Other products total	**82,082**			232,256		
Total turnover	**144,502**			396,484		

Cost of sales

Cost of sales for the Review Period was approximately RMB156.6 million, representing a decrease of approximately RMB225.3 million, or approximately 59.0%, as compared with approximately RMB381.9 million in the corresponding period in 2015. During the Review Period, the Company still led a low production level under the coal mines consolidation in Sichuan and Guizhou provinces, production volume of raw coal increased slightly from approximately 570,000 tonnes in the corresponding period in 2015 to approximately 633,000 tonnes during the period, representing an increase of approximately 11.1%.

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

	Six months ended 30 June			
	2016	**2016**	2015	2015
	Raw coal	**Clean coal**	Raw coal	Clean coal
	('000 tonnes)	***('000 tonnes)***	*('000 tonnes)*	*('000 tonnes)*
Production volume				
Sichuan	**214**	**82**	120	48
Guihou	**419**	**31**	450	80
	633	**113**	570	128
Purchase volume	**–**	**–**	–	26

Material, fuel and power costs for the Review Period were approximately RMB79.0 million, representing a significant decrease of approximately RMB237.5 million, or approximately 75.0%, as compared with approximately RMB316.5 million in corresponding period in 2015. The decrease was primarily attributable to (i) no purchase of magnetic iron powder during the Review Period as compared with the purchase of approximately RMB188.8 million for trading purpose in corresponding period in 2015, (ii) no purchase of clean coal and raw coal during the Review Period and (iii) saving on materials, fuel and power consumptions during the Review Period.

Staff costs for the Review Period were approximately RMB48.2 million, representing an increase of approximately RMB7.0 million, or approximately 17.0%, as compared with approximately RMB41.2 million in corresponding period of 2015. The increase was in line with the increase in production volume of raw coal during the Review Period.

Depreciation and amortization for the Review Period were approximately RMB22.0 million, representing an increase of approximately RMB5.0 million, or approximately 29.4%, as compared with approximately RMB17.0 million in corresponding period of 2015. The increase was in line with the increase in production volume of raw coal in the Review Period.

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

	Six months ended 30 June	
	2016	2015
	RMB per tonne	*RMB per tonne*
Coal mining		
Cash cost	**226**	175
Depreciation and amortisation	**35**	31
Total production cost	**261**	207
Average cost of clean coal	**645**	667
Purchase cost of clean coal	**–**	750

Gross (loss)/profit

As a result of the foregoing, the gross loss for the Review Period was approximately RMB12.1 million, representing a significant decrease of approximately RMB26.7 million or approximately 182.9%, as compared with gross profit of approximately RMB14.6 million in corresponding period in 2015. The gross profit margin during the Review Period was approximately -8.4% as compared with approximately 3.7% in corresponding period in 2015.

Other income, gains and losses

During the Review Period, the Group recorded an aggregate losses of approximately RMB32.1 million, representing a slight decrease of approximately RMB1.5 million, as compared to of approximately RMB33.6 million in the corresponding period in 2015. The decrease in aggregate losses was mainly attributable to a decrease in impairment losses of approximately RMB66.3 million recognized in receivables, property, plants and equipment and available-for-sales investments but off set by an increase in exchange loss of approximately RMB56.8 million during the Review Period.

Distribution expenses

Distribution expenses for the Review Period were approximately RMB22.9 million, representing a slight increase of approximately RMB3.3 million or approximately 16.8%, as compared to approximately RMB19.6 million in corresponding period of 2015. The increase was mainly attributable to the increase in transportation expenses in relation to the shipment of raw coal.

Administrative expenses

Administrative expenses during the Review Period were approximately RMB154.7 million, representing an increase of approximately RMB47.7 million or approximately 44.6%, as compared to approximately RMB107.0 million in corresponding period in 2015. The increase was mainly attributable to the compensation and restoration costs of approximately RMB103.0 million payable to contractors in relation to the closure of coal mines under the consolidation but off set by further cost saving in staff costs of approximately RMB10.0 million and in administrative and office expenses of approximately RMB30.0 million.

Finance costs

Finance costs for the Review Period amounted to approximately RMB199.0 million, representing a decrease of approximately RMB24.2 million or approximately 10.8%, as compared with approximately RMB223.2 million in corresponding period in 2015. The decrease was mainly attributable to a decrease in interest capitalised on construction in progress of approximately RMB19.1 million and a decrease in interest payable to senior notes of approximately RMB48.3 million.

Taxation

Taxation for the Review Period amounted to approximately RMB2,000, representing tax provision of PRC Enterprise Income Tax ("EIT") of the Company.

Loss for the period

As a result of the foregoing, the loss attributable to the owners of the Company for the Review Period was approximately RMB420.8 million, representing an increase of approximately RMB30.3 million or approximately 7.8%, as compared with approximately RMB390.5 million in corresponding period in 2015.

EDITDA

The following table illustrates the Group's adjusted EBITDA for the respective periods. The Group's EBITDA margin was -132.8% for the Review Period as compared with -23.4% in corresponding period in 2015.

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Loss for the period	**(420,986)**	(390,516)
Adjusted for:		
– Impairment on property, plant and equipment	**–**	30,925
	(420,986)	(359,591)
Finance costs	**199,025**	223,192
Taxation	**2**	4,208
Depreciation and amortization	**30,113**	39,249
Adjusted EBITDA	**(191,846)**	(92,942)

Note: Taxation mentioned above only considers provision for EIT for the period for the calculation of adjusted EBITDA.

Liquidity, financial resources and capital structure

As at 30 June 2016, the Group incurred net current liabilities of approximately RMB8,042 million as compared to approximately RMB7,543 million at 31 December 2015.

As at 30 June 2016, the bank balances and cash of the Group amounted to approximately RMB40 million (as at 31 December 2015: approximately RMB18 million).

As at 30 June 2016, the total bank and other borrowings payable within one year of the Group were approximately RMB5,936 million (as at 31 December 2015: approximately RMB6,351 million). As at 30 June 2016, loan amounting to RMB1,887 million carries interest at fixed rate ranging from 6.90% to 12.00% per annum. The remaining loans carry interest at variable market rates ranging from 3.30% to 9.25% per annum.

The gearing ratio (calculate as the aggregate of total bank and other borrowings, convertible loan notes and senior notes divided by total assets) of the Group as at 30 June 2016 was 61.5% (as at 31 December 2015: 60.6%).

Restructuring

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

On the same day, the Company announced that it had appointed UBS AG Hong Kong Branch as financial advisor to the Company for the purposes of providing advice with respect to the potential restructuring of the Notes.

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

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

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

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

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

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

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

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

(j) On 18 January 2017, the hearing of the amended Winding Up Petition has been adjourned for substantive argument to a date to be fixed (not earlier than 31 March 2017) in consultation with counsel's diaries.

(k) On 18 January 2017, the Company entered into a term sheet in relation to the proposed restructury or the onshore and offshore indebtedness (including those under the Notes) with, among others, the Steering Committee and a Creditors Committee of the Onshore Lending Banks.

Pledge of Assets of the Group

As at 30 June 2016, the Group pledged its property, plant and equipment, bank deposits and bill receivables in an aggregate amount of approximately RMB3,396 million (as at 31 December 2015: approximately RMB4,199 million) to banks for credit facilities.

As at 30 June 2016, the director of the Company, Mr. Xian Yang, guaranteed the bank borrowings of approximately RMB2,381 million (as at 31 December 2015: approximately RMB2,141 million).

Employees

As at 30 June 2016, the Group maintained an aggregate of 3,793 employees as compared with 5,058 employees at 31 December 2015. During the Review Period, the staff costs (including directors' remuneration in the form of salaries and other allowances) was approximately RMB68.9 million (corresponding period in 2015: approximately RMB71.0 million).

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

Risk in Foreign Exchange

Since all of the Group's business activities are transacted in RMB, the directors (the "Directors") of the Company consider that the Group's risk in foreign exchange is insignificant. However, during the Review Period, the Group was exposed to exchange rate risk mainly arising from the foreign currency bank balances of approximately US$0.8 million and HK$0.2 million.

Significant Investment Held

The Group had invested in unlisted equity investments of RMB30.8 million representing 15%, 5% and 1.24% equity interest in three entities established in the PRC respectively. The principal activities of the investees are manufacturing of mining machinery, provision of trading coal products services, manufacture of lithium salt products respectively.

Material Acquisition and Disposal

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

Contingent Liabilities

(a) On 19 January 2016, the Company received a Winding Up Petition filed by a bondholder of the Notes with the Court against the Company for the outstanding principal and interest due to the bondholder under the Notes. The hearing of the amended Winding Up Petition has been adjourned for substantive argument to a date to be fixed (not earlier than 31 March 2017) in consultation with counsel's diaries.

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

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

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

Save as disclosed above, as at 30 June 2016, the Group did not have any material contingent liabilities.

OUTLOOK

During the Review Period, the Group has been experiencing challenging operating conditions because of slowing growth in the PRC economy, conditions in the coal industry and persistently low commodities prices globally. The Company believes that low commodities prices, in particular coal prices, have adversely affected, and have presented liquidity challenges, to many companies across the industry. The Company has been seeking to address these challenges by, among other things, strengthening its capital management, tightening mining technologies management, increasing its production and construction efficiency and stepping up efforts in the management of production costs and selling expenses. The Company's results of operations have been, and continue to be, adversely affected by the challenging operating environment and the Group's liquidity position continues to be challenging, and cashflow from operating activities remains low due to the limited contributions of our coal mines in Sichuan and Guizhou provinces.

Accordingly, the default in payment of the Notes in November 2015 led to a cross-default and other provisions in the Group's onshore and offshore indebtedness. The debt restructuring with the Holders and the Onshore Creditors Committee is regarded as the only solution to save the Group from the dilemma and enable the Group to operate with less cashflow pressure and to continue coal mine development under consolidation.

OTHER INFORMATION

Audit committee

An audit committee was established on 25 August 2007 in compliance with Rule 3.21 of the Rule Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group.

As at the date of this announcement, the audit committee consists of three independent non-executive Directors, namely, Mr. Sung Wing Sum (Chairman), Mr. Huang Rongsheng and Ms. Xu Manzhen.

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

Corporate governance

The Board is of the view that the Company has complied with the code provisions set out in the Code during the Review Period. The Directors are aware of any information that reasonably reveals that there is any non-compliance with or derivation from the Code by the Company any time during the Review Period.

Model code for securities transactions by directors of the Company

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

Purchase, sales or redemption of listed securities of the Company

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

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

Hong Kong
28 February 2017

As at the date hereof, the executive Directors are Mr. Xian Yang (Chairman), Mr. Sun Jiankun, Ms. Cheng Yuanyun and Mr. Zhaung Xianwei and the independent non-executive Directors are Mr. Huang Rongsheng, Mr. Sung Wing Sum and Ms. Xu Manzhen.