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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 2020

FINANCIAL HIGHLIGHTS

| | Six months ended 30 June | | Change % |
|--|---------------------------------------|---------------------------------------|-------------|
| | 2020 <i>RMB'000</i> (Unaudited) | 2019 <i>RMB'000</i> (Unaudited) | |
| Revenue | 498,932 | 570,651 | (12.6%) |
| Gross profit | 167,223 | 160,196 | 4.4% |
| Loss before tax | (134,562) | (125,737) | 7.0% |
| Loss and total comprehensive expense for the period | (134,562) | (125,675) | 7.1% |
| EBITDA | 80.013 | 125,248 | (36.1%) |
| Basic loss per share (<i>RMB cents</i>) | (7) | (6) | 16.7% |

The board (the “**Board**”) of directors (the “**Directors**”) 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 2020 (the “**Review Period**”), together with the comparative figures for the corresponding period in 2019.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

FOR THE SIX MONTHS ENDED 30 JUNE 2020

| | <i>Note</i> | Six months ended 30 June | |
|---|-------------|---------------------------------|-----------------------|
| | | 2020 | 2019 |
| | | <i>RMB'000</i> | <i>RMB'000</i> |
| | | (Unaudited) | (Unaudited) |
| Revenue | 4 | 498,932 | 570,651 |
| Cost of sales | | <u>(331,709)</u> | <u>(410,455)</u> |
| Gross profit | | 167,223 | 160,196 |
| Interest revenue | | 1,040 | 666 |
| Other income | 5 | 3,372 | 6,031 |
| Other gains and losses | 6 | (20,249) | 18,390 |
| Distribution expenses | | (46,985) | (44,381) |
| Administrative expenses | | (55,606) | (53,660) |
| Share of loss of a joint venture | | (26,872) | (15,031) |
| Finance costs | 7 | <u>(156,485)</u> | <u>(197,948)</u> |
| Loss before tax | | (134,562) | (125,737) |
| Income tax credit | 8 | <u>–</u> | <u>62</u> |
| Loss and total comprehensive expense for the period | | <u>(134,562)</u> | <u>(125,675)</u> |
| Loss and total comprehensive expense for the period attributable to: | | | |
| – Owners of the Company | | (135,583) | (130,783) |
| – Non-controlling interests | | <u>1,021</u> | <u>5,108</u> |
| | | <u>(134,562)</u> | <u>(125,675)</u> |
| Loss per share | 11 | | |
| Basic (<i>RMB cents</i>) | | (7) | (6) |
| Diluted (<i>RMB cents</i>) | | <u>(7)</u> | <u>(6)</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

| | <i>Note</i> | 30 June 2020 RMB'000 (Unaudited) | 31 December 2019 RMB'000 (Audited) |
|---|-------------|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 8,411,371 | 8,314,523 |
| Right-of-use assets | | 115,941 | 119,858 |
| Prepaid lease payments | | 27,116 | 27,167 |
| Interest in a joint venture | | 1,460,689 | 1,487,561 |
| Long-term deposits | | 15,899 | 15,899 |
| Restricted bank deposits | | 2 | 2 |
| | | 10,031,018 | 9,965,010 |
| CURRENT ASSETS | | | |
| Inventories | | 65,626 | 45,552 |
| Bills and trade receivables | 12(a) | 150,653 | 182,888 |
| Bills receivables discounted with recourse | 12(b) | 48,000 | 97,649 |
| Other receivables and prepayments | | 650,873 | 577,081 |
| Amount due from a joint venture | | 80,536 | 70,853 |
| Pledged bank deposits | | 841 | 841 |
| Bank and cash balances | | 7,424 | 17,986 |
| | | 1,003,953 | 992,850 |
| CURRENT LIABILITIES | | | |
| Bills and trade payables | 13 | 512,898 | 483,615 |
| Contract liabilities | | 262,836 | 248,389 |
| Advances drawn on bills receivables discounted with recourse | | 48,000 | 97,649 |
| Accruals and other payables | | 2,394,138 | 2,190,549 |
| Lease liabilities | | 48,757 | 38,476 |
| Tax payables | | 29,422 | 29,422 |
| Senior notes | | 1,391,024 | 1,370,727 |
| Bank and other borrowings | | 5,888,719 | 5,903,412 |
| | | 10,575,794 | 10,362,239 |
| NET CURRENT LIABILITIES | | (9,571,841) | (9,369,389) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 459,177 | 595,621 |

| | <i>Note</i> | 30 June 2020 RMB'000 (Unaudited) | 31 December 2019 RMB'000 (Audited) |
|---|-------------|---|---|
| NON-CURRENT LIABILITIES | | | |
| Provision for restoration and environmental costs | | 10,768 | 10,271 |
| Lease liabilities | | 27,006 | 29,385 |
| Deferred tax liabilities | | 8,025 | 8,025 |
| | | <u>45,799</u> | <u>47,681</u> |
| NET ASSETS | | <u>413,378</u> | <u>547,940</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | | 197,506 | 197,506 |
| Reserves | | 186,405 | 321,988 |
| Equity attributable to owners of the Company | | 383,911 | 519,494 |
| Non-controlling interests | | 29,467 | 28,446 |
| TOTAL EQUITY | | <u>413,378</u> | <u>547,940</u> |

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 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 principal place of business of the Company is Room 1306, 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 director of the Company. The Company acts as investment holding company and its subsidiaries are engaged in mining and sale of clean coal and its by-products.

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. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“**IFRSS**”)

In the current interim period, the Group has adopted all the new and revised IFRSs that are relevant to its operations and effective for its accounting year beginning on 1 January 2020. IFRSs comprise International Financial Reporting Standards (“**IFRS**”), International Accounting Standards (“**IAS**”), and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current interim period.

The Group has not applied the new and revised IFRSs that have been issued but not yet effective. The Group has already commenced an assessment of the impact of these new and revised IFRSs but is not yet in a position to state whether these new and revised IFRSs would have a material impact on its results of operations and financial position.

3. 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 (the “**Listing Rules**”).

In preparing these condensed consolidated financial statements, the Directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group’s current liabilities position of approximately RMB9,572 million as at 30 June 2020 and incurred loss of approximately RMB135 million for the six months ended 30 June 2020.

During the years ended 31 December 2015, 2016, 2017, 2018 and 2019, 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; (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 RMB1,391 million) which fell due on 4 November 2015 and (iii) repayment of a short-term loan from a PRC bank which fell due on August 2016 with default interest of approximately RMB268 million. 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.

The Group intended to pursue a consensual restructuring with the holders of the Notes (the “**Holders**”) (the “**Debt Restructuring**”) and a steering committee of Holders (the “**Steering Committee**”) has been formed in December 2015. 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. On 11 March 2016, the Company provided Holders with the key indicative terms of a proposed restructuring of the Notes.

On 18 January 2017, the Company, the Steering Committee and a creditors committee of the onshore lending banks (the “**Lending Banks**”) (the “**Onshore Creditors Committee**”) have entered into a termsheet in relation to the proposed restructuring of the onshore and offshore indebtedness of the Company (the “**2017 Termsheet**”).

On 21 April 2020, the Company and the Onshore Creditors Committee have reached an agreement on a preliminary restructuring framework regarding the settlement of the onshore banks indebtedness of the Company (the “**Preliminary Restructuring Framework**”) pursuant to which (i) the Company has agreed to convert the interest payable to the Lending Banks from the date of default to 31 December 2018 charged at 4.75% per annum to newly issued ordinary shares of the Company; and (ii) the Company, Hidili Industry (China) Group Limited (“**Hidili China**”), Mr. Xian Yang and Lending Banks have agreed to enter into a post syndication agreement (the “**Post Syndication Agreement**”) to (a) extend the terms of the remaining onshore banks indebtedness to 4 February 2025; (b) charge interest at 3% per annum in the first three years and 4.275% per annum in the fourth to fifth years from the date of the Post Syndication Agreement respectively; and (c) repay the remaining onshore banks indebtedness in accordance with a fixed and variable portion.

On 13 July 2020, the Company and the Steering Committee entered into a termsheet (the “**2020 Termsheet**”), which are binding on the Company and the Steering Committee, pursuant to which the parties agreed to the key commercial terms for the swap of the Notes into the newly issued ordinary shares of the Company with an option to participate in the share placement programme (the “**SPP**”) to be conducted by the Company.

Regarding the execution of the Debt Restructuring, the Holders and the Lending Banks have agreed to standstill and not take action against the Company to allow all parties to formulate the formal documentation and thereafter extend the standstill in accordance with the terms of the formal documentation.

The hearing of the amended Winding Up Petition has been adjourned for substantive argument to a date to be fixed.

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 implemented 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 investor to invest to the Group;
- (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 is also implementing 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 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.

4. REVENUE AND SEGMENT INFORMATION

The Group’s operation is solely derived from the production and sales of clean coal and its by-products. For the purpose of resources allocation and performance assessment, the chief operating decision maker reviews the overall results and financial position of the Group as a whole prepared based on same accounting policies with the Group. Accordingly, the Group has only one single operating segment and no further analysis of this single segment is presented.

An analysis of the Group's revenue from its major products is as follows:

| | Six months ended 30 June | |
|---------------------------------------|---------------------------------|-----------------------|
| | 2020 | 2019 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (unaudited) | (unaudited) |
| Sales of coal and its by-products: | | |
| Clean coal | 436,428 | 506,238 |
| Raw coal | 20,898 | 18,443 |
| High-ash thermal coal | 35,801 | 41,257 |
| Other products | <u>5,805</u> | <u>4,713</u> |
| Revenue from contracts with customers | <u><u>498,932</u></u> | <u><u>570,651</u></u> |

Time of revenue recognition

All timing of revenue recognition is at a point of time for the six months ended 30 June 2020 and 2019.

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.

5. OTHER INCOME

| | Six months ended 30 June | |
|------------------|---------------------------------|-----------------------|
| | 2020 | 2019 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (unaudited) | (unaudited) |
| Government grant | 2,357 | 6,014 |
| Others | <u>1,015</u> | <u>17</u> |
| | <u><u>3,372</u></u> | <u><u>6,031</u></u> |

6. OTHER GAINS AND LOSSES

| | Six months ended 30 June | |
|---|---------------------------------|-----------------------|
| | 2020 | 2019 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (unaudited) | (unaudited) |
| Exchange loss | (20,636) | (2,355) |
| Reversal of impairment of receivables | - | 5,987 |
| Waive of other payable | - | 14,758 |
| Gain on disposal of property, plant and equipment | <u>387</u> | <u>-</u> |
| | <u><u>(20,249)</u></u> | <u><u>18,390</u></u> |

7. FINANCE COSTS

| | Six months ended 30 June | |
|---|--------------------------------------|--------------------------------------|
| | 2020 | 2019 |
| | RMB'000 (unaudited) | RMB'000 (unaudited) |
| Interest expenses on borrowings wholly repayable within five years: | | |
| – bank and other borrowings | 148,709 | 195,451 |
| – advances drawn on bills receivables discounted | <u>7,776</u> | <u>2,497</u> |
| | <u>156,485</u> | <u>197,948</u> |

8. INCOME TAX CREDIT

| | Six months ended 30 June | |
|-----------------------------------|--------------------------------------|--------------------------------------|
| | 2020 | 2019 |
| | RMB'000 (unaudited) | RMB'000 (unaudited) |
| Current tax: | | |
| PRC Enterprise Income Tax (“EIT”) | <u>–</u> | <u>62</u> |

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.

9. LOSS FOR THE PERIOD

| | Six months ended 30 June | |
|---|--------------------------------------|--------------------------------------|
| | 2020 | 2019 |
| | RMB'000 (unaudited) | RMB'000 (unaudited) |
| Loss for the period has been arrived at after charging the following items: | | |
| Release of prepaid lease payments | 51 | 51 |
| Provision for restoration and environmental Costs | 497 | 459 |
| Depreciation of property, plant and equipment | 53,625 | 44,204 |
| Depreciation of right-of-use assets | 3,917 | 8,323 |
| Directors’ remunerations | 1,366 | 1,023 |
| Salaries and other benefits | 175,363 | 212,876 |
| Retirement benefits scheme contribution | 1,152 | 5,507 |
| Total staff costs | <u>177,881</u> | <u>219,406</u> |

10. DIVIDENDS

No dividends were paid, declared or proposed for the period ended 30 June 2020 and 2019 or since the end of the reporting period.

11. 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 | |
|--|---------------------------------|-------------------------|
| | 2020 | 2019 |
| | 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 | <u>135,583</u> | <u>130,783</u> |
| | | |
| | Six months ended 30 June | |
| | 2020 | 2019 |
| | '000 | '000 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic and diluted loss per share | <u>2,045,598</u> | <u>2,045,598</u> |

The effect of all potential ordinary shares is anti-dilutive for the six months ended 30 June 2020 and 2019.

12. 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 2020 RMB'000 (Unaudited) | 31 December 2019 RMB'000 (Audited) |
|--------------|---|---|
| Aged: | | |
| 0-90 days | 47,814 | 143,067 |
| 91-120 days | 30,670 | 399 |
| 121-180 days | 43,901 | 32,624 |
| 181-365 days | <u>28,268</u> | <u>6,798</u> |
| | <u>150,653</u> | <u>182,888</u> |

(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 2020 RMB'000 (Unaudited) | 31 December 2019 RMB'000 (Audited) |
|-----------|---|---|
| 0-90 days | <u>48,000</u> | <u>97,649</u> |

13. BILLS AND TRADE PAYABLES

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

| | 30 June 2020 RMB'000 (Unaudited) | 31 December 2019 RMB'000 (Audited) |
|---------------|---|---|
| Aged: | | |
| 0-90 days | 53,813 | 15,912 |
| 91-180 days | 41,973 | 33,492 |
| 181-365 days | 206,594 | 219,849 |
| Over 365 days | <u>210,518</u> | <u>214,362</u> |
| | <u>512,898</u> | <u>483,615</u> |

14. CAPITAL COMMITMENTS

| | 30 June 2020 RMB'000 (Unaudited) | 31 December 2019 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 | <u>414,314</u> | <u>414,970</u> |
| 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: Commitments to contribute funds for the acquisition of property, plant and equipment | <u>49,952</u> | <u>49,952</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

During the Review Period, revenue of the Group amounted to approximately RMB499.0 million, representing a decrease of approximately 12.6%, as compared with approximately RMB570.7 million in the corresponding period in 2019. The decrease was primarily attributable to the decrease in both sales volumes and average selling prices (net of value added tax) of clean coal. The revenue from sales of clean coal decreased from approximately RMB506.2 million in the corresponding period in 2019 to approximately RMB436.4 million, representing a decrease of 13.8%, resulting from a decrease of sales volume from 489,400 tonnes to 432,000 tonnes and a decrease of average selling price from RMB1,034.4 per tonne to RMB1,010.3 per tonne, representing a decrease of 11.7% and 2.3% respectively. The decrease was in line with the decrease in production volume of raw coal during the Review Period due to the outbreak of the novel coronavirus (COVID-19).

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 2019:

| | Six months ended 30 June | | | | | |
|-----------------------|--------------------------|-------------------|-----------------------|-----------------------|-------------------|-----------------------|
| | 2020 | | | 2019 | | |
| | 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 | <u>436,428</u> | 432.0 | 1,010.3 | <u>506,238</u> | 489.4 | 1,034.4 |
| By-products | | | | | | |
| High-ash thermal coal | <u>35,801</u> | 194.2 | 184.4 | <u>41,257</u> | 228.8 | 180.3 |
| Other products | | | | | | |
| Raw coal | 20,898 | 57.4 | 364.2 | 18,443 | 49.1 | 375.8 |
| Others | <u>5,805</u> | | | <u>4,713</u> | | |
| Other products total | <u>26,703</u> | | | <u>23,156</u> | | |
| Total turnover | <u><u>498,932</u></u> | | | <u><u>570,651</u></u> | | |

Cost of sales

Cost of sales for the Review Period was approximately RMB331.7 million, representing a decrease of approximately RMB78.8 million, or approximately 19.2%, as compared with approximately RMB410.5 million in the corresponding period in 2019. During the Review Period, mining in the Company's coal mines in Sichuan and Guizhou provinces was affected during the outbreak of COVID-19 under strict prevention and control measures imposed by the government to avoid community transmission, the Company maintained limited production and certain coal mines and coal washing plants were temporarily shut down. Accordingly, production of raw coal and clean coal cannot be completed on schedule. The production volume of raw coal and clean coal amounted to approximately 1,302,000 tonnes and 475,000 tonnes respectively, maintained at similar volume reported in the corresponding period in 2019 of approximately 1,324,000 tonnes and 515,000 tonnes respectively.

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

| | Six months ended 30 June | | | |
|-------------------|---------------------------------|------------------------|-----------------|-----------------|
| | 2020 | 2020 | 2019 | 2019 |
| | Raw coal | Clean coal | Raw coal | Clean coal |
| | ('000 tonnes) | ('000 tonnes) | ('000 tonnes) | ('000 tonnes) |
| Production volume | | | | |
| Panzhihua | 90 | 40 | 178 | 77 |
| Guizhou | 1,212 | 435 | 1,146 | 438 |
| | 1,302 | 475 | 1,324 | 515 |

Material, fuel and power costs for the Review Period were approximately RMB76.5 million, representing a decrease of approximately RMB32.2 million, or approximately 29.6%, as compared with approximately RMB108.7 million in the corresponding period in 2019. During the Review Period, the utilization of raw material, fuel and power was decreased due to the temporary shut down of certain coal mines and coal washing plant.

Staff costs for the Review Period were approximately RMB144.4 million, representing a decrease of approximately RMB43.4 million, or approximately 23.1%, as compared with approximately RMB187.8 million in the corresponding period of 2019. The decrease was mainly attributable to the decrease of staff costs arising from the temporary shut down of certain coal mines and coal washing plants during the Review Period.

Depreciation and amortization for the Review Period were approximately RMB52.1 million, maintained at similar level and in line with the raw coal production volume, as compared with approximately RMB53.3 million in the corresponding period of 2019.

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

| | Six months ended 30 June | |
|-------------------------------|---------------------------------|------------------|
| | 2020 | 2019 |
| | RMB | RMB |
| | per tonne | per tonne |
| Coal mining | | |
| Cash cost | 237 | 246 |
| Depreciation and amortization | 39 | 36 |
| | <hr/> | <hr/> |
| Total production cost | 276 | 282 |
| | <hr/> | <hr/> |
| Average cost of clean coal | 696 | 722 |
| | <hr/> | <hr/> |

Gross profit

As a result of the foregoing, the gross profit for the Review Period was approximately RMB167.2 million, representing a slight increase of approximately RMB7.0 million or approximately 4.4%, as compared with approximately RMB160.2 million in the corresponding period in 2019. The gross profit margin during the Review Period was approximately 33.5% as compared with approximately 28.1% in the corresponding period in 2019.

Other income

During the Review Period, other income amounted to approximately RMB3.4 million, representing a decrease of approximately RMB2.6 million, as compared to approximately RMB6.0 million in the corresponding period in 2019. The decrease was mainly attributable to the decrease in the government grant of approximately RMB3.6 million.

Other gains and losses

During the Review Period, the Company recorded an aggregate loss of approximately RMB20.2 million, representing a decrease of approximately RMB38.6 million, as compared to an aggregate gain of approximately RMB18.4 million in the corresponding period in 2019. The decrease was mainly attributable to: (i) the increase in exchange loss of approximately RMB18.2 million and (ii) reversal of impairment of receivables of approximately RMB6.0 million and the waiver of other payable of approximately RMB14.8 million in the corresponding period in 2019.

Distribution expenses

Distribution expenses for the Review Period were approximately RMB47.0 million, representing an increase of approximately RMB2.6 million or approximately 5.9%, as compared to approximately RMB44.4 million in the corresponding period of 2019. Despite the decrease in sales volume of principal products and its by-products, the increase in distribution expenses was mainly resulted from the increase in transportation expenses in relation to the curbing and quarantine policies adopted and implemented by the government during the outbreak of COVID-19.

Administrative expenses

Administrative expenses during the Review Period were approximately RMB55.6 million, representing a slight increase of approximately RMB1.9 million or approximately 3.5%, as compared to approximately RMB53.7 million in the corresponding period in 2019.

Finance costs

Finance costs for the Review Period amounted to approximately RMB156.5 million, representing a decrease of approximately RMB41.4 million or approximately 20.9%, as compared with approximately RMB197.9 million in the corresponding period in 2019. The decrease was mainly attributable to the decrease in interest expenses on bank borrowings of approximately RMB46.8 million as the rate applied to the calculation of accrued interest to the Lending Banks decreased to 3% per annum pursuant to the Post Syndication Agreement entered into during the Review Period.

Income tax credit

No income tax expenses of the Company incurred during the Review Period, while an income tax credit of approximately RMB0.1 million in the corresponding period in 2019.

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 RMB135.6 million, representing an increase of approximately RMB4.8 million or approximately 3.7%, as compared with approximately RMB130.8 million in the corresponding period in 2019.

Earnings before interest, taxes, depreciation and amortization (“EBITDA”)

The following table illustrates the Group’s EBITDA for the respective periods. The Group’s EBITDA margin was 16.0% for the Review Period as compared with 21.9% in the corresponding period in 2019.

| | Six months ended 30 June | |
|-------------------------------|---------------------------------|----------------|
| | 2020 | 2019 |
| | RMB’000 | RMB’000 |
| Loss for the period | (134,562) | (125,675) |
| Finance costs | 156,485 | 197,948 |
| Income tax credit | – | (62) |
| Depreciation and amortization | 58,090 | 53,037 |
| EBITDA | 80,013 | 125,248 |

Liquidity, Financial Resources and Capital Structure

As at 30 June 2020, the Group incurred net current liabilities of approximately RMB9,572 million as compared to approximately RMB9,369 million as at 31 December 2019.

As at 30 June 2020, the bank and cash balances of the Group amounted to approximately RMB7 million (as at 31 December 2019: approximately RMB18 million).

As at 30 June 2020, the total bank and other borrowings payable within one year of the Group were approximately RMB5,889 million (as at 31 December 2019: approximately RMB5,903 million). As at 30 June 2020, loan amounting to RMB5,846 million carries interest at fixed rate of 3% per annum. The remaining loans carry interest at variable market rates ranging from 3.68% to 5.70% per annum.

The gearing ratio (calculated as the aggregate of total bank and other borrowings and senior notes divided by total assets) of the Group as at 30 June 2020 was 66.0% (as at 31 December 2019: 66.4%).

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.
- (b) On 14 December 2015, following initial discussions with certain Holders, the 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 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 China, a wholly-owned subsidiary of the Company, received a Notice of Court Action attaching the writ of summons (“**2016 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 Lending Banks. Following initial discussion with the 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 the 2017 Termsheet in relation to the proposed restructuring of the onshore and offshore indebtedness of the Company.

- (j) On 1 June 2017, both of Sichuan Haohang Trading Company Limited (“**Sichuan Haohang**”), a wholly-owned subsidiary of the Company and Sichuan Hidili Industry Co., Ltd. (“**Sichuan Hidili**”), a wholly-owned subsidiary of the Company, received a Notice of Court Action attaching the writ of summons (“**2017 Writ**”) issued by the Higher People’s Court of Sichuan Province of the People’s Republic of China (四川省高級人民法院).
- (k) On 17 November 2017, the hearing of the amended Winding Up Petition has been adjourned for substantive argument to a date to be fixed.
- (l) On 21 April 2020, the Company and the Onshore Creditors Committee have reached an agreement on the Preliminary Restructuring Framework pursuant to which (i) the Company has agreed to convert the interest payable to the Lending Banks from the date of default to 31 December 2018 charged at 4.75% per annum to newly issued ordinary shares of the Company; and (ii) the Company, Hidili China, Mr. Xian Yang and Lending Banks have agreed to enter into the Post Syndication Agreement to (a) extend the terms of the remaining onshore banks indebtedness to 4 February 2025; (b) charge interest at 3% per annum in the first three years and 4.275% per annum in the fourth to fifth years from the date of the Post Syndication Agreement respectively; and (c) repay the remaining onshore banks indebtedness in accordance with a fixed and variable portion.

As of the date of this announcement, the terms of the conversion of newly issued ordinary shares of the Company under the Preliminary Restructuring Framework have not yet been finalised. Also, further documents and/or agreements containing detailed terms for the Preliminary Restructuring Framework subject to the latest status of the outstanding onshore banks indebtedness will be concluded and signed by individual Lending Banks with the Company.

- (m) On 13 July 2020, the Company and the Steering Committee entered into the 2020 Termsheet, which are binding on the Company and the Steering Committee, pursuant to which the parties agreed to the key commercial terms for the swap of the Notes into the newly issued ordinary shares of the Company with an option to participate in the SSP to be conducted by the Company.
- (n) Negotiations with the creditors are still in progress and no definitive agreement has been reached as at the date of this announcement.

Pledge of Assets of the Group

As at 30 June 2020, the Group pledged its property, plant and equipment, bank deposits and bill receivables in an aggregate amount of approximately RMB3,723 million (as at 31 December 2019: approximately RMB3,723 million) to banks for credit facilities.

As at 30 June 2020, the executive director of the Company, Mr. Xian Yang, guaranteed the bank borrowings of approximately RMB4,875 million (as at 31 December 2019: approximately RMB4,875 million).

Employees

As at 30 June 2020, the Group maintained an aggregate of 8,253 employees as compared with 5,795 employees at 31 December 2019. During the Review Period, the staff costs (including directors' remuneration in the form of salaries and other allowances) was approximately RMB178 million (corresponding period in 2019: approximately RMB219 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 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\$ 0.2 million and HK\$0.1 million.

Significant Investments

During the Review Period, the Group did not hold any significant investments.

Material Acquisition and Disposal of Subsidiaries, Associates and Joint Ventures

During the Review Period, there was no material acquisition or disposal of subsidiaries, associates and joint ventures by the Group.

Future Plans for Material Investment and Capital Assets

Save as disclosed in this announcement, the Group does not have other plans for material investment and capital assets during the Review Period.

Events After the Review Period

Save as disclosed in this announcement, there is no other material subsequent event undertaken by the Company or the Group after 30 June 2020 and up to the date of this announcement.

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.
- (b) Hidili China, a wholly owned subsidiary of the Company, received a Notice of Court Action attaching the 2016 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 2016 Writ, China Merchants Bank, Shenzhen Chegongmiao Branch ("**2016 Plaintiff**") filed a civil claim 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, a wholly owned subsidiary of the Company, in respect of a loan agreement dispute case. The 2016 Plaintiff claimed 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 2016 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.

- (c) Both of Sichuan Haohang and Sichuan Hidili received the 2017 Writ issued by the Higher People's Court of Sichuan Province of the People's Republic of China (四川省高級人民法院) on 1 June 2017.

Pursuant to the 2017 Writ, Chengdu Branch of Shanghai Pudong Development Bank ("**2017 Plaintiff**") filed a civil claim against (i) Sichuan Haohang, (ii) Sichuan Hidili, (iii) Liupanshui Hidili and (iv) Hidili China in respect of a loan agreement dispute case. The 2017 Plaintiff claimed against Sichuan Haohang and Sichuan Hidili for relief, among others, the outstanding principal amount as of 25 August 2016 and the default interest payment (calculated as at 18 April 2017) of approximately RMB134 million and RMB134 million respectively under the Agreement of Establishing Bank Promissory Note Business entered into between the 2017 Plaintiff and Sichuan Haohang and Sichuan Hidili on 25 February 2016 where Liupanshui Hidili pledged certain assets and mining rights and Hidili China acted as guarantor.

As advised by the legal advisor of the Company, 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 2020, the Group did not have any material contingent liabilities.

Outlook

During the Review Period, wide range of curbing and quarantine policies were implemented by the government during the outbreak of COVID-19, mining and coal washing activities of the Company in Sichuan and Guizhou provinces were affected. Accordingly, to avoid community transmission of the COVID-19, only limited production was maintained in certain coal mines and coal washing plants. The raw coal production cannot be completed on schedule. As the strict prevention and control measures imposed by the government were gradually released, the Company believed that mining and coal washing activities can be properly resumed by September 2020.

During the Review Period, the Company, the Steering Committee and the Onshore Creditors Committee have reached significant constructive terms of the Debt Restructuring. Pursuant to the Preliminary Restructuring Framework and the Post Syndication Agreement entered into by the Company and the Onshore Creditors Committee, part of the onshore indebtedness will be converted into newly issued ordinary shares of the Company and the remaining balance of the indebtedness will be extended to February 2025 with interest charged at 3% per annum in the first three years and 4.275% per annum in the fourth to fifth years. Besides, pursuant to 2020 Termsheet entered into by the Company and the Steering Committee, the outstanding Notes will be converted to newly issued ordinary shares of the Company with an option to participate in the SPP to be conducted by the Company. Currently, the Company is working closely with the onshore and offshore creditors together with the professionals to strive to finalize the detailed terms of the Debt Restructuring as soon as possible and prepare the formal documentation for approval in shareholders' meeting. Upon the completion of the restructuring, the Company believes that it will have a healthy financial position and sustainable cashflow for operation and development.

OTHER INFORMATION

Audit committee

An audit committee of the Company (the “**Audit Committee**”) was established on 25 August 2007 in compliance with Rule 3.21 of 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. Chan Shiu Yuen Sammy (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 not 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.

Publication of interim results and interim report

This interim results announcement will be published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (<http://www.hidili.com.cn>). The interim report of the Company for the six months ended 30 June 2020 will be dispatched to shareholders of the Company and published on the aforementioned websites in due course.

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

Hong Kong
31 August 2020

As at the date hereof, the executive Directors are Mr. Xian Yang (Chairman), Mr. Sun Jiankun and Mr. Zhuang Xianwei and the independent non-executive Directors are Mr. Chan Shiu Yuen Sammy, Mr. Huang Rongsheng and Ms. Xu Manzhen.