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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: 01393)

UNAUDITED INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		Change
	2021	2020	
	RMB'000	RMB'000	%
	(Unaudited)	(Unaudited)	
Revenue	1,091,282	498,932	118.7%
Gross profit	548,880	167,223	228.2%
Profit/(Loss) before tax	279,804	(134,562)	307.9%
Profit/(Loss) and total comprehensive income/(expense) for the period	279,804	(134,562)	307.9%
EBITDA	467,689	80,013	484.5%
Basic earning/(loss) per share <i>(RMB cents)</i>	13.7	(7)	295.7%

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 2021 (the “**Review Period**”), together with the comparative figures for the corresponding period in 2020.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Notes	Six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Revenue	4	1,091,282	498,932
Cost of sales		<u>(542,402)</u>	<u>(331,709)</u>
Gross profit		548,880	167,223
Interest revenue		2,257	1,040
Other income	5	11,166	3,372
Other gains and losses	6	15,688	(20,249)
Distribution expenses		(80,020)	(46,985)
Administrative expenses		(71,936)	(55,606)
Share of loss of a joint venture		(29,849)	(26,872)
Finance costs	7	<u>(116,382)</u>	<u>(156,485)</u>
Profit/(Loss) before tax		279,804	(134,562)
Income tax credit	8	<u>—</u>	<u>—</u>
Profit/(Loss) and total comprehensive income/(expense) for the period		<u>279,804</u>	<u>(134,562)</u>
Profit/(Loss) and total comprehensive income/(expense) for the period attributable to:			
– Owners of the Company		279,398	(135,583)
– Non-controlling interests		<u>406</u>	<u>1,021</u>
		<u>279,804</u>	<u>(134,562)</u>
Earning/(Loss) per share	11		
Basic (RMB cents)		13.7	(7)
Diluted (RMB cents)		<u>13.7</u>	<u>(7)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

	<i>Notes</i>	30 June 2021	31 December 2020
		RMB'000	RMB'000
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		8,715,285	8,536,819
Right-of-use assets		133,524	134,875
Interests in a joint venture		1,411,379	1,441,228
Long-term deposits		<u>4,975</u>	<u>17,042</u>
		<u>10,265,163</u>	<u>10,129,964</u>
CURRENT ASSETS			
Inventories		161,568	145,089
Bills and trade receivables	12(a)	192,394	126,183
Bills receivables discounted with recourse	12(b)	8,080	67,950
Other receivables and prepayments		718,462	662,613
Amount due from a joint venture		105,740	87,536
Pledged bank deposits		842	847
Bank and cash balances		<u>11,426</u>	<u>32,909</u>
		<u>1,198,512</u>	<u>1,123,127</u>
CURRENT LIABILITIES			
Bills and trade payables	13	825,949	751,272
Contract liabilities		161,713	278,413
Advances drawn on bills receivables discounted with recourse		8,080	67,950
Accruals and other payables		2,650,200	2,600,875
Lease liabilities		30,728	31,729
Tax payables		29,422	29,422
Senior notes		1,269,321	1,282,053
Bank borrowings		<u>5,878,579</u>	<u>5,885,344</u>
		<u>10,853,992</u>	<u>10,927,058</u>
NET CURRENT LIABILITIES		<u>(9,655,480)</u>	<u>(9,803,931)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>609,683</u>	<u>326,033</u>

	<i>Notes</i>	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Provision for restoration and environmental costs		12,051	11,443
Lease liabilities		31,438	28,200
Deferred tax liabilities		8,025	8,025
		<u>51,514</u>	<u>47,668</u>
NET ASSETS		<u>558,169</u>	<u>278,365</u>
CAPITAL AND RESERVES			
Share capital		197,506	197,506
Reserves		331,196	51,798
Equity attributable to owners of the Company		528,702	249,304
Non-controlling interests		29,467	29,061
TOTAL EQUITY		<u>558,169</u>	<u>278,365</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

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 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 2021. 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 condensed 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**”).

Gong concern assumption

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 RMB9,655 million as at 30 June 2021 and recorded profit of approximately RMB280 million for the six months ended 30 June 2021.

During the years ended 31 December 2016, 2017, 2018, 2019 and 2020, 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 RMB1,269 million) which fell due on 4 November 2015; and (iii) repayment of a short-term loan from a PRC bank which fell due in 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 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. On 30 April 2021, the Company and the Steering Committee further entered into an amended and restated termsheet (the “**Amended and Restated Termsheet**”) to amend certain timelines and fees of the debt restructuring, which replaced and superseded the 2020 Termsheet in its entirety. The Company will use its best endeavours to implement a restructuring of the Notes in accordance with the Amended and Restated Termsheet subject to such other terms and conditions as the Company and the Steering Committee may agree in writing and relevant legal and regulatory requirements.

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 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	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Sales of coal and its by-products:		
Clean coal	1,011,966	436,428
Raw coal	3,945	20,898
High-ash thermal coal	72,593	35,801
Others	2,778	5,805
	<hr/>	<hr/>
Revenue from contracts with customers	<u>1,091,282</u>	<u>498,932</u>

Time of revenue recognition

All timing of revenue recognition is at a point of time for the six months ended 30 June 2021 and 2020.

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

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

	Six months ended 30 June	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Customer A ¹	217,735	68,923
Customer B ¹	195,170	*51,257
Customer C ¹	154,652	*36,644
Customer D ¹	<u>146,306</u>	<u>–</u>

¹ Revenue from sales of clean coal

* Revenue from this customer did not exceed 10% of the total revenue during the Review Period. These amounts were shown for comparative purpose.

5. OTHER INCOME

	Six months ended 30 June	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Government grant (<i>note</i>)	10,241	2,357
Others	<u>925</u>	<u>1,015</u>
	<u>11,166</u>	<u>3,372</u>

Note: The amounts represent subsidies received from government for closure of certain coal mines. There are no conditions attached to the subsidies granted to the Group and the assets of the closed mines were fully impaired in previous years.

6. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Exchange gain/(loss)	15,011	(20,636)
Waive of other payable	677	–
Gain on disposal of property, plant and equipment	–	387
	<u>15,688</u>	<u>(20,249)</u>

7. FINANCE COSTS

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Interest expenses on borrowings wholly repayable within five years:		
– bank and other borrowings	105,097	146,451
– advances drawn on bills receivables discounted	8,861	7,776
	<u>113,958</u>	<u>154,227</u>
Interest expenses on lease liabilities	2,424	2,258
	<u>116,382</u>	<u>156,485</u>

8. INCOME TAX CREDIT

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Current tax:		
PRC Enterprise Income Tax (“EIT”)	–	–

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. PROFIT/(LOSS) FOR THE PERIOD

Six months ended 30 June

2021	2020
<i>RMB'000</i>	<i>RMB'000</i>
(unaudited)	(unaudited)

Profit/(Loss) for the period has been arrived at after charging the following items:

Provision for restoration and environmental Costs	608	497
Depreciation of property, plant and equipment	69,544	53,625
Depreciation of right-of-use assets	1,351	3,968
Directors' remunerations	1,364	1,366
Salaries and other benefits	244,290	175,363
Retirement benefits scheme contribution	3,517	1,152
Total staff costs	249,171	177,881

10. DIVIDENDS

No dividends were paid, declared or proposed for the period ended 30 June 2021 and 2020 or since the end of the reporting period.

11. EARNING/(LOSS) PER SHARE

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

Six months ended 30 June

2021	2020
<i>RMB'000</i>	<i>RMB'000</i>
(unaudited)	(unaudited)

Profit/(Loss)

Profit/(Loss) for the purpose of basic and diluted earning/(loss) per share		
Profit/(Loss) for the period attributable to owners of the Company	279,398	(135,583)

Six months ended 30 June

2021	2020
'000	'000

Number of shares

Weighted average number of ordinary shares for the purpose of basic and diluted earning/(loss) per share	2,045,598	2,045,598
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The effect of all potential ordinary shares is anti-dilutive for the six months ended 30 June 2021 and 2020.

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 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Aged:		
0-90 days	97,498	125,980
91-120 days	72,865	–
121-180 days	17,473	–
181-365 days	4,558	203
	<u>192,394</u>	<u>126,183</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 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
0-90 days	8,080	42,950
91-120 days	–	25,000
	<u>8,080</u>	<u>67,950</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 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Aged:		
0-90 days	87,554	89,139
91-180 days	132,284	49,584
181-365 days	193,404	128,934
Over 365 days	412,707	483,615
	<u>825,949</u>	<u>751,272</u>

14. CAPITAL COMMITMENTS

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 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>599,731</u>	<u>588,863</u>
The Group's share of the capital commitment made jointly with other 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>48,512</u>	<u>48,512</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

During the Review Period, revenue of the Group amounted to approximately RMB1,091.3 million, representing a sharp increase of approximately 118.7%, as compared to that of approximately RMB499.0 million in the corresponding period in 2020. With the recovery of the steel industry and infrastructure development after the control of the wild spread of the COVID-19 in the second half of 2020, the demand for commodities including coking coal led a gradual growth. Accordingly, both sales volume and average selling price (net of value added tax) of clean coal were increased. The revenue from sales of clean coal increased from approximately RMB436.4 million in the corresponding period in 2020 to approximately RMB1,012.0 million, representing a sharp increase of 131.9%. Sales volume and average selling price of clean coal increased from 432,000 tonnes to 703,600 tonnes and from RMB1,010.3 per tonne to RMB1,438.3 per tonne respectively, representing an increase of 62.9% and 42.4% respectively.

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 2020:

	Six months ended 30 June					
	2021			2020		
	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	<u>1,011,966</u>	703.6	1,438.3	<u>436,428</u>	432.0	1,010.3
By-products						
High-ash thermal coal	<u>72,593</u>	374.9	193.6	<u>35,801</u>	194.2	184.4
Other products						
Raw coal	3,945	7.4	532.4	20,898	57.4	364.2
Others	<u>2,778</u>			<u>5,805</u>		
Other products total	<u>6,723</u>			<u>26,703</u>		
Total turnover	<u><u>1,091,282</u></u>			<u><u>498,932</u></u>		

Cost of sales

Cost of sales for the Review Period was approximately RMB542.4 million, representing an increase of approximately RMB210.7 million, or approximately 63.5%, as compared to that of approximately RMB331.7 million in the corresponding period in 2020. The increase was primarily in line with the increase in the sales volume of clean coal in the Review Period. The production volume of raw coal and clean coal amounted to approximately 1,758,000 tonnes and 668,000 tonnes respectively, representing an increase of approximately 35.0% and 40.6% respectively, as compared to that of approximately 1,302,000 tonnes and 475,000 tonnes respectively in the corresponding period in 2020.

The following table illustrates the production volume of the principal products in Sichuan and Guizhou provinces:

	Six months ended 30 June			
	2021	2021	2020	2020
	Raw coal	Clean coal	Raw coal	Clean coal
	('000 tonnes)	('000 tonnes)	('000 tonnes)	('000 tonnes)
Production volume				
Panzhihua	–	–	90	40
Guizhou	<u>1,758</u>	<u>668</u>	<u>1,212</u>	<u>435</u>
	<u><u>1,758</u></u>	<u><u>668</u></u>	<u><u>1,302</u></u>	<u><u>475</u></u>

Material, fuel and power costs for the Review Period were approximately RMB133.4 million, representing an increase of approximately RMB56.9 million, or approximately 74.4%, as compared to that of approximately RMB76.5 million in the corresponding period in 2020. The increase was mainly attributable to the increase in production volume of raw coal and clean coal and the material consumed in strengthening the mining work face during the Review Period.

Staff costs for the Review Period were approximately RMB222.6 million, representing an increase of approximately RMB78.2 million, or approximately 54.2%, as compared to that of approximately RMB144.4 million in the corresponding period of 2020. The increase was mainly attributable to the increase in production volume of raw coal and clean coal during the Review Period.

Depreciation and amortization for the Review Period were approximately RMB62.4 million, representing an increase of approximately RMB10.3 million, or approximately 19.8%, as compared to that of approximately RMB52.1 million in the corresponding period of 2020. The increase was in line with the increase in production volume of raw coal and clean coal during the Review Period.

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

	Six months ended 30 June	
	2021	2020
	<i>RMB per tonne</i>	<i>RMB per tonne</i>
Coal mining		
Cash cost	223	237
Depreciation and amortization	36	39
	<hr/>	<hr/>
Total production cost	259	276
	<hr/>	<hr/>
Average cost of clean coal	664	696
	<hr/>	<hr/>

Gross profit

As a result of the foregoing, the gross profit for the Review Period was approximately RMB548.9 million, representing a remarkable increase of approximately RMB381.7 million or approximately 228.3%, as compared to that of approximately RMB167.2 million in the corresponding period in 2020. The gross profit margin during the Review Period was approximately 50.3% as compared with approximately 33.5% in the corresponding period in 2020.

Other income

During the Review Period, other income amounted to approximately RMB11.2 million, as compared to approximately RMB3.4 million in the corresponding period in 2020. The increase was mainly attributable to the increase in the government grant of approximately RMB7.8 million.

Other gains and losses

During the Review Period, the Company recorded an aggregate gain of approximately RMB15.7 million, representing an increase of approximately RMB35.9 million, as compared to an aggregate loss of approximately RMB20.2 million in the corresponding period in 2020. The increase was mainly attributable to the turnaround of exchange loss of approximately RMB20.6 million in the corresponding period of 2020 to the gain of approximately RMB15.0 million in the Review Period.

Distribution expenses

Distribution expenses for the Review Period were approximately RMB80.0 million, representing an increase of approximately RMB33.0 million or approximately 70.2%, as compared to that of approximately RMB47.0 million in the corresponding period of 2020. The increase was in line with the increase in transportation expenses incurred as a result of the sales growth of both clean coal and its by-products.

Administrative expenses

Administrative expenses during the Review Period were approximately RMB71.9 million, representing an increase of approximately RMB16.3 million or approximately 29.3%, as compared to that of approximately RMB55.6 million in the corresponding period in 2020. The increase was mainly attributable to the increase in professional expenses of approximately RMB12.1 million in relation to the fee payable to working parties in debt restructuring and technical consultants, external valuer and auditor for the addition work done on valuation of the Company's mining assets and the interests in a joint venture.

Finance costs

Finance costs for the Review Period amounted to approximately RMB116.4 million, representing a decrease of approximately RMB40.2 million or approximately 25.7%, as compared to that of approximately RMB156.5 million in the corresponding period in 2020. The decrease was mainly attributable to the decrease in interest expenses on bank borrowings of approximately RMB41.4 million as the rate applied to the calculation of interest payable to the Lending Banks decreased to 3% per annum pursuant to the Post Syndication Agreement entered into in April 2020 with the Onshore Creditors Committee.

Income tax credit

No income tax credit of the Company incurred during the Review Period and the corresponding period in 2020.

Profit/(Loss) for the period

As a result of the foregoing, the profit attributable to the owners of the Company for the Review Period was approximately RMB279.8 million, representing an increase of approximately RMB414.4 million or approximately 307.9%, as compared to the loss of approximately RMB134.6 million in the corresponding period in 2020.

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 42.9% for the Review Period as compared with 16.0% in the corresponding period in 2020.

	Six months ended 30 June	
	2021	2020
	RMB’000	RMB’000
Profit/(Loss) for the period	279,804	(134,562)
Finance costs	116,382	156,485
Income tax credit	–	–
Depreciation and amortization	71,503	58,090
EBITDA	<u>467,689</u>	<u>80,013</u>

Liquidity, Financial Resources and Capital Structure

As at 30 June 2021, the Group incurred net current liabilities of approximately RMB9,655.5 million as compared to approximately RMB9,803.9 million as at 31 December 2020.

As at 30 June 2021, the bank and cash balances of the Group amounted to approximately RMB11.4 million (as at 31 December 2020: approximately RMB32.9 million).

As at 30 June 2021, the total bank borrowings payable within one year of the Group were approximately RMB5,878.6 million (as at 31 December 2020: approximately RMB5,885.3 million). As at 30 June 2021, loan amounting to RMB5,839.3 million carries interest at fixed rate of 3% per annum. The remaining loan carries 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 2021 was 62.4% (as at 31 December 2020: 63.7%).

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 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) On 30 April 2021, the Company and the Steering Committee entered into the Amended and Restated Termsheet to amend certain timelines and fees of the debt restructuring, which replaced and superseded the 2020 Termsheet in its entirety.
- (o) 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 2021, the Group pledged its property, plant and equipment and bank deposits in an aggregate amount of approximately RMB3,670.6 million (as at 31 December 2020: approximately RMB3,704.6 million) to banks for credit facilities.

As at 30 June 2021, the executive director of the Company, Mr. Xian Yang, guaranteed the bank borrowings of approximately RMB4,875 million (as at 31 December 2020: approximately RMB4,875 million).

Employees and remuneration policies

As at 30 June 2021, the Group maintained an aggregate of 8,610 employees as compared with 7,486 employees at 31 December 2020. During the Review Period, the staff costs (including directors' remuneration in the form of salaries and other allowances) was approximately RMB249.2 million (corresponding period in 2020: approximately RMB177.9 million).

The salary and bonus policy of the Group is principally determined by the qualifications, 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 during the Review Period.

Significant Investment Held

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 2021 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 2021, the Group did not have any material contingent liabilities.

Outlook

During the Review Period, the Company's coal mines in Guizhou province continued to release further production capacity. Benefit from the recovery in the steel industry and infrastructure development, both the sales volume and average selling price in clean coal reported a sharp increase from approximately 430,000 tonnes and RMB1,010.3 per tonne in the corresponding period in 2020 to that of approximately 703,600 tonnes and RMB1,438.3 per tonne in the Review Period. At the same time, the unit production cost of raw coal and clean coal further reduced to approximately RMB259 per tonne and RMB664 per tonne respectively. As a result, gross profit of approximately RMB548.9 million was recorded and EBITDA of approximately RMB467.7 million was achieved. The Company believes that the strong market position in coking coal will continue in the second half of 2021 and will contribute remarkable revenue and profit to the Company throughout 2021.

In 2020, the Company, the Onshore Creditors Committee and the Steering Committee have come to a remarkable progress in the debt restructuring plan. The Company and the Onshore Creditors Committee have reached the Preliminary Restructuring Framework to convert part of the indebtedness to newly issued ordinary shares of the Company and to extend the remaining indebtedness to 2025. At the same time, the Company has entered into revised termsheet with the Steering Committee for key commercial terms for the swap of the Notes into converted shares 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, the professionals and relevant regulated parties 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 by 2021. Upon the completion of the debt 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 Company failed to timely publish the 2021 unaudited interim results in accordance with Rule 13.46(6) of the Listing Rules. The Company has been reviewing and closely monitoring its internal control systems to avoid delay in publication of its periodic financial and non-financial information under the Listing Rules in the future.

Save as disclosed above, the Board is of the view that the Company has complied with the provisions of the Corporate Governance Code during the Review Period. The Directors are not 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 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 for Securities Transactions by the Directors (the “**Code**”). All Directors have confirmed their compliance throughout the Review Period with the required standards set out in the Model Code and the Code.

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 2021 will be dispatched to shareholders of the Company and published on the aforementioned websites in due course.

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

Hong Kong
17 September 2021

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.