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 2023

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2023	2022	Change
	RMB'000	*RMB'000*	*%*
	(Unaudited)	(Unaudited)	
Revenue	**1,430,452**	2,264,297	(36.8%)
Gross profit	**291,046**	1,179,874	(75.3%)
Profit before tax	**6,186**	532,683	(98.8%)
(Loss)/Profit and total comprehensive (expense)/income for the period	**(12,963)**	449,658	(102.9%)
EBITDA	**291,218**	822,995	(64.6%)
Basic (loss)/earning per share *(RMB cents)*	**(0.3)**	22.0	(101.4%)

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 2023 (the "**Review Period**"), together with the comparative figures for the corresponding period in 2022.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Notes	**Six months ended 30 June** **2023** *RMB'000* **(Unaudited)**	2022 *RMB'000* (Unaudited)
Revenue	*4*	**1,430,452**	2,264,297
Cost of sales		**(1,139,406)**	(1,084,423)
Gross profit		**291,046**	1,179,874
Interest revenue		**6,906**	4,862
Other income	*5*	**14,405**	16,864
Other gains and losses	*6*	**161,625**	(166,733)
Distribution expenses		**(134,067)**	(157,208)
Administrative expenses		**(174,235)**	(197,618)
Share of loss of a joint venture		**(19,260)**	(20,332)
Finance costs	*7*	**(140,234)**	(127,026)
Profit before tax		**6,186**	532,683
Income tax expense	*8*	**(19,149)**	(83,025)
(Loss)/Profit and total comprehensive (expense)/ income for the period		**(12,963)**	449,658
(Loss)/Profit and total comprehensive (expense)/income for the period attributable to:			
– Owners of the Company		**(11,350)**	450,343
– Non-controlling interests		**(1,613)**	(685)
		(12,963)	449,658
(Loss)/Earning per share	*11*		
Basic *(RMB cents)*		**(0.3)**	22.0
Diluted *(RMB cents)*		**(0.3)**	22.0

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2023

	Notes	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**8,990,949**	8,910,021
Right-of-use assets		**85,602**	87,842
Interests in a joint venture		**1,323,143**	1,342,403
Equity investments at fair value through other comprehensive income		**5,500**	5,500
Long-term deposits		**14,259**	14,259
Other receivable		**525,692**	–
Goodwill		**1,730**	–
		10,946,875	10,360,025
CURRENT ASSETS			
Inventories		**314,706**	274,610
Financial assets at fair value through profit or loss		**–**	5,344
Bills and trade receivables	*12(a)*	**600,444**	991,537
Bills receivables discounted with recourse	*12(b)*	**161,088**	346,557
Other receivables and prepayments		**983,278**	921,747
Amount due from a joint venture		**276,688**	237,329
Pledged bank deposits		**820**	821
Bank and cash balances		**43,685**	78,184
		2,380,709	2,856,129
CURRENT LIABILITIES			
Bills and trade payables	*13*	**713,444**	774,240
Contract liabilities		**172,300**	111,901
Advances drawn on bills receivables discounted with recourse		**161,088**	346,557
Accruals and other payables		**1,854,002**	3,044,845
Lease liabilities		**24,383**	28,136
Tax payables		**35,976**	33,732
Senior notes		**–**	1,368,448
Bank borrowings		**3,683,657**	5,716,612
		6,644,850	11,424,471
NET CURRENT LIABILITIES		**(4,264,141)**	(8,568,342)
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,682,734**	1,791,683

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
NON-CURRENT LIABILITIES		
Bank borrowings	**1,974,453**	–
New senior notes	**525,692**	–
Other payables	**289,980**	289,980
Provision for restoration and environmental costs	**14,845**	14,041
Lease liabilities	**20,619**	19,502
Deferred tax liabilities	**13,290**	8,025
	2,838,879	331,548
NET ASSETS	**3,843,855**	1,460,135
CAPITAL AND RESERVES		
Share capital	**421,581**	197,506
Preferred shares	**990,714**	–
Reserves	**2,405,327**	1,233,626
Equity attributable to owners of the Company	**3,817,622**	1,431,132
Non-controlling interests	**26,233**	29,003
TOTAL EQUITY	**3,843,855**	1,460,135

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 Trident Trust Company (Singapore) Pte. Limited, which is controlled by Mr. Xian Yang, the executive director of the Company. The Company acts as an 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. 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**").

Going concern assumption

As at 30 June 2023, the Group had net current liabilities of approximately RMB4,264 million. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

With the implementation of the debt restructuring being effective on 31 March 2023 and assuming that the Group's business plan and cash flow forecast can be achieved, the Directors expect to generate sufficient financial resources from future operations to cover the Group's operating costs and to meet its financing commitments, as and when they fall due for the twelve months since 30 June 2023. The achievability of the business and cash flow forecast is dependent upon: (i) the current economic environment and the sustainability of the price of coking coal in the market; and (ii) active and effective measures to control the administrative and production costs.

In the opinion of the directors of the Company, in light of the above, the Group will have sufficient financial resources to finance its operations and fulfil its financial obligations as and when required in the coming twelve months from 30 June 2023. Accordingly, the Directors are satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether management of the Company will be able to achieve its plans and measures as described above. Should the Group be unable to achieve the above plans and measures such that it would not be able to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for any future liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments has not been reflected in these consolidated financial statements.

3. 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 2023. 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.

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	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Sales of clean coal and its by-products:		
Clean coal	**1,302,084**	2,194,206
High-ash thermal coal	**127,059**	68,893
Others	**1,309**	1,198
Revenue from contracts with customers	**1,430,452**	2,264,297

Time of revenue recognition

All timing of revenue recognition is at a point of time for the six months ended 30 June 2023 and 2022.

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	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Customer A[1]	**243,352**	306,169
Customer B[1]	**206,872**	*187,122
Customer C[1]	**170,031**	236,887
Customer D[1]	**162,155**	* 52,118
Customer E[1]	**159,697**	–
Customer F[1]	*** 53,693**	280,346

[1] Revenue from sales of clean coal

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

5. OTHER INCOME

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Government grant *(note)*	**9,688**	9,114
Others	**4,717**	7,750
	14,405	16,864

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	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Exchange loss	**(105,539)**	(79,340)
Gain on debt restructuring	**231,764**	–
Reversal of impairment of trade and other receivables	**28,659**	–
Waive of other payable	**–**	2,131
Written-off of property, plant and equipment	**–**	(45,185)
Impairment loss on property, plant and equipment	**–**	(45,109)
Others	**6,741**	770
	161,625	(166,733)

7. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest expenses on borrowings wholly repayable within five years:		
– bank and other borrowings	**127,514**	110,204
– advances drawn on bills receivables discounted	**12,660**	14,792
	140,174	124,996
Interest expenses on lease liabilities	**60**	2,030
	140,234	127,026

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax:		
PRC Enterprise Income Tax ("**EIT**")	**13,884**	28,429
Deferred taxation	**5,265**	54,596
	19,149	83,025

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)/PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
(Loss)/Profit for the period has been arrived at after charging the following items:		
Provision for restoration and environmental costs	**804**	611
Depreciation of property, plant and equipment	**144,460**	156,699
Depreciation of right-of-use assets	**338**	6,587
Directors' remunerations	**1,063**	1,367
Salaries and other benefits	**475,589**	447,955
Retirement benefits scheme contribution	**6,576**	7,221
Total staff costs	**483,228**	456,543

10. DIVIDENDS

No dividends were paid, declared or proposed for the period ended 30 June 2023 and 2022 or since the end of the reporting period.

11. (LOSS)/EARNING PER SHARE

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
(Loss)/Profit		
(Loss)/Profit for the purpose of basic and diluted (loss)/earning per share		
(Loss)/Profit for the period attributable to owners of the Company	**(11,350)**	450,343

	Six months ended 30 June	
	2023	2022
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted (loss)/earning per share	**3,965,344**	2,045,598

The effect of all potential ordinary shares is anti-dilutive for the six months ended 30 June 2023 and 2022.

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.

	30 June 2023	31 December 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	**577,278**	953,687
Bills receivables	**23,166**	37,850
	600,444	991,537

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 2023	31 December 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Aged:		
0-90 days	**340,945**	834,086
91-120 days	**112,880**	6,357
121-180 days	**43,523**	–
181-365 days	**44,202**	30,300
Over 356 days	**35,728**	82,944
	577,278	953,687

(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 2023	31 December 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
0-120 days	**147,648**	145,548
121-180 days	**3,440**	161,129
181-365 days	**10,000**	39,880
	161,088	346,557

13. BILLS AND TRADE PAYABLES

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

	30 June 2023 *RMB'000* **(Unaudited)**	31 December 2022 *RMB'000* (Audited)
Aged:		
0-90 days	**102,228**	50,991
91-180 days	**98,440**	198,813
181-365 days	**358,939**	66,559
Over 365 days	**153,837**	457,877
	713,444	774,240

14. CAPITAL COMMITMENTS

	30 June 2023 *RMB'000* **(Unaudited)**	31 December 2022 *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	**513,566**	532,094
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	**32,220**	32,220

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

During the Review Period, revenue of the Group amounted to approximately RMB1,430.5 million, representing a drop of approximately 36.8%, as compared to that of approximately RMB2,264.3 million in the corresponding period in 2022. During the Review Period, the Company encountered severe fluctuation in the coking coal market. Accordingly, both sales volumes and average selling prices (net of value added tax) of clean coal were decreased. Sales volume and average selling price of clean coal decreased from 878,200 tonnes to 756,900 tonnes and from RMB2,498.5 per tonne to RMB1,720.2 per tonne respectively, representing a decrease of approximately 13.8% and 31.2% 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 2022:

	Six months ended 30 June					
	2023			2022		
	Turnover	**Sales Volume**	**Average Selling Price**	Turnover	Sales Volume	Average selling price
	RMB'000	***(thousand tonnes)***	***(RMB/ Tonne)***	*RMB'000*	*(thousand tonnes)*	*(RMB/ Tonne)*
Principal products						
Clean coal	**1,302,084**	**756.9**	**1,720.2**	2,194,206	878.2	2,498.5
By-products						
High-ash thermal coal	**127,059**	**607.1**	**209.3**	68,893	507.1	135.9
Other products						
Others	**1,309**			1,198		
Total turnover	**1,430,452**			2,264,297		

Cost of sales

Cost of sales for the Review Period was approximately RMB1,139.4 million, representing an increase of approximately RMB55.0 million, or approximately 5.1%, as compared to that of approximately RMB1,084.4 million in the corresponding period in 2022. The increase was primarily attributable to high material consumption and staff costs during the Review Period. The production volume of raw coal and clean coal amounted to approximately 2,616,000 tonnes and 753,000 tonnes respectively, representing an increase of approximately 10.1% and a decrease of 8.1% respectively, as compared to that of approximately 2,377,000 tonnes and 819,000 tonnes respectively in the corresponding period in 2022.

A series of safety inspections conducted by relevant government authorities, after the ordinary accident occurred in May 2023 at the Company's Hongxing Coal Mine in Guizhou Province, affected the overall production capacity enhancement progress in the Review Period. With the resumption of production in Hongxing Coal Mine, the Company targets a higher growth in the production volume of both raw coal and clean coal in the second half of 2023.

During the Review Period, the Company continued with the production capacity upgrade and process optimization in the coal mines in Sichuan and Guizhou provinces for achievement of full scale production. Accordingly, additional costs relating to material, fuel and power, manpower and manufacturing overheads were consumed during the Review Period. The Company believes that these additional costs can be diluted by increasing production capacity.

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

	Six months ended 30 June			
	2023	**2023**	2022	2022
	Raw coal	**Clean coal**	Raw coal	Clean coal
	('000 tonnes)	***('000 tonnes)***	*('000 tonnes)*	*('000 tonnes)*
Production volume				
Panzhihua	**98**	**3**	89	29
Guizhou	**2,518**	**750**	2,288	790
	2,616	**753**	2,377	819

Material, fuel and power costs for the Review Period were approximately RMB296.1 million, representing an increase of approximately RMB11.9 million, or approximately 4.2%, as compared to that of approximately RMB284.2 million in the corresponding period in 2022. Despite the decrease in sales volume of clean coal, the material, fuel and power costs still remained high due to additional consumption in the production capacity upgrade and process optimization during the Review Period.

Staff costs for the Review Period were approximately RMB407.2 million, representing an increase of approximately RMB26.6 million, or approximately 7.0%, as compared to that of approximately RMB380.6 million in the corresponding period in 2022. The increase was mainly attributable to additional costs engaged in the production capacity upgrade and process optimization during the Review Period. In addition, incentives were given to the miners and management for increasing production volume and enhancement in production efficiency.

Depreciation and amortization for the Review Period were approximately RMB123.3 million, representing a decrease of approximately RMB5.1 million, or approximately 4.0%, as compared to that of approximately RMB128.4 million in the corresponding period of 2022.

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

	Six months ended 30 June	
	2023	2022
	RMB per tonne	*RMB per tonne*
Coal mining		
Cash cost	**321**	344
Depreciation and amortization	**46**	51
Total production cost	**367**	395
Average cost of clean coal	**1,447**	1,213

Gross profit

As a result of the foregoing, the gross profit for the Review Period was approximately RMB291.0 million, representing a sharp decrease of approximately RMB889.0 million or approximately 75.3%, as compared to that of approximately RMB1,180.0 million in the corresponding period in 2022. The gross profit margin during the Review Period was approximately 20.3% as compared with approximately 52.1% in the corresponding period in 2022.

Other income

During the Review Period, other income amounted to approximately RMB14.4 million, as compared to approximately RMB16.9 million in the corresponding period in 2022. The decrease was mainly attributable to the decrease in gain on sales of scrapped materials during the Review Period.

Other gains and losses

During the Review Period, the Company reported other gains in total of approximately RMB161.6 million, representing an increase of approximately RMB328.3 million, as compared to aggregate losses of approximately RMB166.7 million in the corresponding period in 2022. The increase was mainly attributable to: (i) the gain on debt restructuring and reversal of impairment of trade and other receivables of approximately RMB231.8 million and RMB28.7 million respectively during the Review Period; and (ii) no written-off or impairment loss provided to property, plant and equipment for the Review Period as compared to that of approximately RMB90.3 million in the corresponding period in 2022.

Distribution expenses

Distribution expenses for the Review Period were approximately RMB134.1 million, representing a decrease of approximately RMB23.1 million or approximately 14.7%, as compared to that of approximately RMB157.2 million in the corresponding period in 2022. The decrease was in line with the decrease in sales volume of clean coal during the Review Period.

Administrative expenses

Administrative expenses during the Review Period were approximately RMB174.2 million, representing a decrease of approximately RMB23.4 million or approximately 11.8%, as compared to that of approximately RMB197.6 million in the corresponding period in 2022. The decrease was mainly attributable to the decrease in general administrative costs incurred during the Review Period.

Finance costs

Finance costs during the Review Period were approximately RMB140.2 million, representing an increase of approximately RMB13.2 million or approximately 10.4%, as compared to that of approximately RMB127.0 million in the corresponding period in 2022. The increase was mainly attributable to the increase in interest rate from 3% per annum to 4.275% per annum for certain onshore bank borrowings.

Income tax expense

Income tax expense for the Review Period amounted to approximately RMB19.1 million, representing provision for EIT and deferred taxation of approximately RMB13.9 million and RMB5.2 million respectively for the Review Period as compared to the provision of approximately RMB28.4 million and RMB54.6 million in the corresponding period in 2022.

(Loss)/Profit for the period

As a result of the foregoing, the loss attributable to the owners of the Company for the Review Period was approximately RMB11.4 million, representing a decrease of approximately RMB461.7 million or approximately 102.5%, as compared to a profit of approximately RMB450.3 million in the corresponding period in 2022.

Earnings before interest, taxes, depreciation and amortization ("EDITDA")

The following table illustrates the Group's EBITDA for the respective periods. The Group's EBITDA margin was 20.4% for the Review Period as compared with 36.3% in the corresponding period in 2022.

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Profit before tax	**6,186**	532,683
Finance costs	**140,234**	127,026
Depreciation and amortization	**144,798**	163,286
EBITDA	**291,218**	822,995

Liquidity, Financial Resources and Capital Structure

As at 30 June 2023, the Group incurred net current liabilities of approximately RMB4,264.1 million as compared to approximately RMB8,568.3 million as at 31 December 2022. The reduction in the net current liabilities in the Review Period was mainly resulted from the implementation of the debt restructuring.

As at 30 June 2023, the bank and cash balances of the Group amounted to approximately RMB43.7 million (as at 31 December 2022: approximately RMB78.2 million).

As at 30 June 2023, the bank borrowings payable within one year and after one year but within five years of the Group were approximately RMB3,683.7 million and RMB1,974.5 million respectively (as at 31 December 2022: payable within one year of approximately RMB5,716.6 million). As at 30 June 2023, bank borrowings amounting to RMB5,636.4 million carry interest at a fixed rate of 3% to 4.275% per annum. The remaining borrowings carry interest at variable market rates of around 4.00% per annum.

The gearing ratio (calculated as the aggregate of total bank borrowings and senior notes divided by total assets) of the Group as at 30 June 2023 was 46.4% (as at 31 December 2022: 53.6%).

Debt Restructuring

During the Review Period, the Company implemented the debt restructuring involving: (1) the Scheme; (2) issue of Preferred Shares to certain PRC Lending Banks; and (3) settlement agreements with certain Onshore Operating Creditors. All the resolutions set out in the notice of the extraordinary general meeting ("**EGM**") dated 30 December 2022 were duly passed by the Shareholders by way of poll at the EGM. The debt restructuring was announced effective on 31 March 2023.

The Scheme

(i) As at 31 March 2023, the Scheme Creditors were entitled to receive the Scheme Consideration, which comprised: (1) the Scheme Shares; (2) the Zero-coupon Bonds and (3) the Cash Payment. Accordingly, 2,276,816,383 Scheme Shares were issued and allotted to the Participating Scheme Creditors. The Zero-coupon Bonds amounting to approximately USD31.5 million was made payable to the Initial Scheme Creditors by installments by 30 June 2023 and Cash Payment of approximately USD18.0 million was paid off to Participating Scheme Creditors on 31 March 2023.

(ii) The Scheme Creditor that failed to submit the Account Holder Letter by 30 June 2023 shall not receive any Scheme Consideration. As at the date of this announcement, the Company is working closely with professionals and agents to handle the claims. The Company believes that further adjustments will be made to the gain on debt restructuring arising from the unclaimed Scheme Consideration.

(iii) For those Scheme Creditors that elected to participate in the SPP, the Scheme Shares to which they are entitled were issued directly to and held on behalf by the Creditor SPV. The Company will use its best efforts to sell or procure the sale of all the SPP Shares for the SPP Participants. At the same time, the Company issued the New USD Senior Notes in the aggregate principal amount of USD76,501,000 to the Creditor SPV as an added measure of protection to the SPP Participants.

The Onshore Debt Restructuring

(i) On 28 February 2023, the Company has issued 1,793,524,789 Preferred Shares to certain PRC Lending Banks to satisfy and discharge the Conversion Interest in the amount of approximately RMB948 million.

(ii) On 31 March 2023, the Company issued and allotted 282,844,625 Onshore Operating Creditors Converted Shares to 125 Onshore Operating Creditors to settle outstanding debts in the amount of approximately RMB149.4 million.

Note: Unless otherwise defined, please refer to the circular of the Company dated 30 December 2022 for the capitalised terms stated above.

Pledge of Assets of the Group

As at 30 June 2023, the Group pledged its property, plant and equipment and bank deposits in an aggregate amount of approximately RMB4,230 million (as at 31 December 2022: approximately RMB4,220 million) to banks for credit facilities.

As at 30 June 2023, the executive director of the Company, Mr. Xian Yang, guaranteed the bank borrowings of approximately RMB4,873 million (as at 31 December 2022: approximately RMB4,873 million).

Employees and remuneration policies

As at 30 June 2023, the Group maintained an aggregate of 10,089 employees as compared with 9,834 employees at 31 December 2022. During the Review Period, the staff costs (including directors' remuneration in the form of salaries and other allowances) was approximately RMB483.2 million (corresponding period in 2022: approximately RMB456.5 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$1.7 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 2023 and up to the date of this announcement.

Contingent Liabilities

(a) Hidili Industry (China) Group Limited ("**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 Industry Co., Ltd. ("**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.

(b) Both of Sichuan Haohang Trading Company Limited ("**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 2023, the Group did not have any material contingent liabilities.

OUTLOOK

In 2023, the Company enters into a new milestone. With the support of the shareholders, bankers, creditors and professionals parties of the Company, the debt restructuring was successfully implemented. The Company is able to release heavy indebtedness by new issue of shares and delay repayment of considerable proportion of bank borrowings to a term of further two to five years. The Company can take time to recover from the financial difficulty.

For the mining operation, the Company puts great effort to engage in the production upgrade and process optimization and aims at speeding up the release of production capacity in the coal mines in Guizhou province and resumption of production in the coal mines in Sichuan province. The coking coal market fluctuation experienced during the Review Period brought along with pressure to the operating margin of the Company. Gross margin was deteriorated to around 20.3% in the Review Period as compared to approximately 52.1% in the corresponding period of 2022. To amid the challenge, the Company is in the progress of implementing various active and effective measures to strengthen the production process and to control the administrative overheads. Currently, the price of clean coal is rebounded. With the enlarging scale of production in the second half of 2023, the Board considers that the overall financial, business and trading position of the Company remain healthy.

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 "**Corporate Governance 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 nonexecutive 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 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 2023 will be despatched 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
31 August 2023

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.