



海天水电

Hai Tian Hydropower

HAITIAN HYDROPOWER INTERNATIONAL LIMITED

海天水电國際有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 8261



Interim Report 2012

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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This report, for which the directors (the “Directors”) of Haitian Hydropower International Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) for the purposes of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

CORPORATE INFORMATION

Executive Directors

Mr. Lin Yang (*Chairman*)
Mr. Chen Congwen
Mr. Huang Xiaodong
Mr. Zheng Xuesong

Independent Non-Executive Directors

Mr. Chan Kam Fuk
Mr. Cheng Chuhan
Mr. Zhang Shijiu

Audit Committee

Mr. Cheng Chuhan (*Chairman*)
Mr. Chan Kam Fuk
Mr. Zhang Shijiu

Remuneration Committee

Mr. Lin Yang (*Chairman*)
Mr. Chan Kam Fuk
Mr. Cheng Chuhan

Nomination Committee

Mr. Cheng Chuhan (*Chairman*)
Mr. Chan Kam Fuk
Mr. Zhang Shijiu

Compliance Committee

Mr. Zheng Xuesong (*Chairman*)
Mr. Chan Kam Fuk
Mr. Chen Congwen
Mr. Cheng Chuhan
Mr. Huang Xiaodong
Mr. Lin Yang
Mr. Zhang Shijiu

Compliance Officer

Mr. Lin Yang

Company Secretary

Ms. Lam Sau Ping Melanie

Authorised Representatives

Mr. Huang Xiaodong
Ms. Lam Sau Ping Melanie

Auditor

SHINEWING (HK) CPA Limited
Certified Public Accountants

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong

Unit 606, 6th Floor
Alliance Building
133 Connaught Road Central
Hong Kong

Head Office in the People's Republic of China

19th Floor
Hualin Building
No. 201 Hualin Road
Fuzhou City
Fujian Province
PRC

Share Registrar and Transfer Office

Tricor Investor Services Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

Bank of China, Fujian Branch
China Citic Bank, Fuzhou Mindu Sub Branch
Fujian Haixia Bank, Fuxin Branch
Industrial and Commercial Bank of China,
Zhouning Sub Branch

Compliance Adviser

Ample Capital Limited

Company Website

www.haitianhydropower.com

Stock Code

08261 (since 6 July 2012)

FINANCIAL HIGHLIGHTS

- The Group recorded a turnover of approximately RMB16.3 million for the six months ended 30 June 2012, representing an increase of 44% as compared with corresponding period in 2011.
- Profit attributable to owners of the Company for the six months ended 30 June 2012 amounted to approximately RMB5.2 million, representing an increase of 28% as compared with corresponding period in 2011.
- Basic earnings per share for the six months ended 30 June 2012 amounted to RMB0.69 cents (2011: RMB0.54 cents).
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The shares of the Company were successfully listed on GEM on 6 July 2012.

The Company and its subsidiaries (hereinafter collectively referred to as the “Group”) are principally engaged in the operation and management of small hydropower plants in the People’s Republic of China (the “PRC”) which were either developed by itself or acquired from other parties. As at 30 June 2012, the Group possessed three wholly-owned operating hydropower plants namely, Ma Tou Shan Hydropower Plant, Qianping Hydropower Plant and Jiulong Hydropower Plant which are located in Fujian Province, the eastern part of the PRC.

The Group’s revenues have been derived from the sale of electricity generated by the operating hydropower plants to local power grids in Fujian Province. During the period under review, there was no change in the on-grid tariff rates. Increase in turnover was mainly contributed from the increased precipitation. The electricity generated by the Group in first six months of 2012 surged by 44% when compared to corresponding period of last year and the Group’s turnover recorded a record high in the recent years.

The Group has also derived income from sales of carbon credits, known as CERs, from Ma Tou Shan Hydropower Plant that has been registered as a CDM project with the CDM Executive Board in February 2009 and has commenced to generate income from it since 2009. The income recorded from the sales of CERs for the period ended 30 June 2011 and 2012 were approximately RMB1.9 million and nil respectively. As a result of National Development and Reform Commission (“NDRC”) of the PRC and related PRC authorities promulgated the CDM Measures (Revised) on 3 August 2011, any entity which becomes a foreign-owned enterprise upon the change in shareholding subsequent to the approval by NDRC will be disqualified automatically in CDM project. The Group would not recognise any income from sales of CERs subsequent to 31 December 2011 unless advice can be obtained from NDRC that Liyuan Hydropower will not be disqualified from CDM project.

Overall, the Group continued to maintain a high efficiency and low cost operation of the existing hydropower plants.

Financial Review

Turnover

The revenue, gross profit and gross profit margin of Group for the six months ended 30 June 2011 and six months ended 30 June 2012 are shown below:

	Turnover			Gross profit			Gross profit margin	
	Six months ended 30 June			Six months ended 30 June			Six months ended 30 June	
	2012	2011	Flux	2012	2011	Flux	2012	2011
	Unaudited	Unaudited		Unaudited	Unaudited		Unaudited	Unaudited
	RMB'000	RMB'000	%	RMB'000	RMB'000	%	%	%
— Qianping	6,706	4,784	40%	5,285	3,452	53%	79%	72%
— Ma Tou Shan	6,105	4,310	42%	4,885	3,220	52%	80%	75%
— Jiulong	3,454	2,186	58%	2,538	1,373	85%	73%	63%
Total	16,265	11,280	44%	12,708	8,045	58%	78%	71%

During the period under review, the Group recorded a turnover of RMB16.3 million for the six months ended 30 June 2012, a 44% increase as compared to RMB11.3 million for the six months ended 30 June 2011.

During the six months ended 30 June 2012, Qianping Hydropower Plant, Ma Tou Shan Hydropower Plant and Jiulong Hydropower Plant showed a growth in turnover of approximately 40%, 42% and 58% respectively compared with the six months ended 30 June 2011.

The Group's turnover was increased due to increase of power sale. The volume of electricity sold for the first half of 2012 increased by approximately 44% from 38,973 Mwh to 56,096 Mwh. The increase of power sale was resulted from increased precipitation. The precipitation in Fuan City, Fujian Province in the first half of 2012 was 1,085 mm and the precipitation in Zhouning County, Fujian Province was 1,288 mm in the first half of 2012.

Gross Profit and Gross Profit Margin

The Group achieved a gross profit of approximately RMB12.7 million for the six months ended 30 June 2012 (2011: RMB8.0 million) representing an increase of 58% as compared to that for the corresponding period in 2011. Gross profit margin, calculated as gross profit divided by turnover, for the six months ended 30 June 2012 amounted to 78% (2011: 71%). The increase in gross profit margin in 2012 was mainly attributable by revenue and cost which increased by 44% and 10% respectively compared with those for the prior period. Smaller growth in cost was resulted from fixed cost (such as depreciation) for six months ended 30 June 2012 occupied 66% of total cost.

Administrative Expenses

The administrative expenses of the Group primarily comprised of listing expenses and staff costs. For the six months ended 30 June 2012, the Group's administrative expenses increased to approximately RMB1.8 million compared to approximately RMB1.0 million for the corresponding period of last year, an increase of approximately 80%. The increase was mainly attributed to the increase in listing expenses of approximately RMB530,000.

Finance Costs

The finance costs of the Group represented interest expenses on bank loans. For the first half year ended 30 June 2011 and 2012, finance costs recorded by the Group were approximately RMB4.0 million and RMB4.6 million respectively. The increase of finance costs was due to the increased borrowing during the period.

Income Tax Expenses

Owing to increased profit, the income tax of the Group increased by 52% from approximately RMB1.3 million for the six months ended 30 June 2011 to approximately RMB1.9 million for the six months ended 30 June 2012.

Profit and Total Comprehensive Income

As a result of the above changes and the reduction in other income, the profit and total comprehensive income increased by 28% from approximately RMB4.0 million for the six months ended 30 June 2011 to RMB5.2 million for the six months ended 30 June 2012.

Basic and Diluted Earnings per Share

Basic and diluted earnings per share for the six months ended 30 June 2012 amounted to RMB0.69 cents (2011: RMB0.54 cents), representing an increase of 28% as compared with the corresponding period in 2011.

Liquidity and Financial Resources

The Group had cash and cash equivalents of approximately RMB38.4 million as at 30 June 2012, an increase of approximately RMB21.5 million compared to that of approximately RMB16.9 million as at 31 December 2011. Net cash generated from operating activities amounted to approximately RMB9.4 million for the six months ended 30 June 2012 as compared to net cash generated from operating activities of RMB7.3 million for the corresponding period of last year.

Pledge of Assets

The bank borrowings of approximately RMB119.2 million at 30 June 2012 were secured by certain prepaid lease payments, certain property, plant and equipment and certain trade receivables. The Group pledged the following assets to banks for borrowings granted to the Group:

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
Prepaid lease payments	11,620	9,639
Property, plant and equipment	114,803	100,095
Trade receivables	4,890	815
	131,313	110,549

Foreign Exchange Exposure

The Group's income and expenditure during the six months ended 30 June 2012 were principally denominated in Renminbi ("RMB"), and most of the assets and liabilities as at 30 June 2012 were denominated in RMB. The Group did not experience any material impact or difficulties in liquidity on its operations resulting from the fluctuation in exchange rate, and no hedging transaction or forward contract arrangement was made by the Group during the period under review.

Gearing Ratio

The gearing ratio of the Group, based on total bank borrowings to the total assets of the Group, increased to 63.9% as at 30 June 2012 (31 December 2011: 62.4%).

Capital Structure

As at 30 June 2012, the Group had total assets of approximately RMB186.5 million, including property, plant and equipment of approximately RMB116.4 million, and intangible asset of approximately RMB8.8 million, and cash and cash equivalents of approximately RMB38.4 million. As at 31 December 2011, the Group had total assets of approximately RMB164.4 million, comprising of property, plant and equipment of approximately RMB118.7 million, and intangible asset of approximately RMB8.9 million, and cash and cash equivalents of approximately RMB16.9 million.

As at 30 June 2012, the Group had total liabilities of approximately RMB123.6 million, mainly comprising bank borrowings of approximately RMB119.2 million. As at 31 December 2011, the Group had total liabilities of approximately RMB125.3 million, mainly consisting of bank borrowings of approximately RMB102.5 million and amount due to Mr. Lin Yang ("Mr. Lin"), the Chairman and the controlling shareholder of the Group, of approximately RMB18.6 million.

As a result of capitalisation of amount due to Mr. Lin at 30 April 2012, the Group's net current assets as at 30 June 2012 was approximately RMB31.7 million compared with net current liabilities of approximately RMB9.0 million at 31 December 2011.

Contingent Liabilities

As at 30 June 2012 save as disclosed in note 20, the Group did not have any significant contingent liabilities.

Interim Dividend

The Directors do not recommend the payment of an interim dividend for six months ended 30 June 2012 (2011: nil).

Bank Borrowings

As at 30 June 2012, the Group's bank borrowings amount to approximately RMB119.2 million, bearing interest rates from 7.76% to 8.11% per annum.

Employees and Remuneration Policies

As at 30 June 2012, the Group employed approximately 49 employees, as compared to 52 employees as at 31 December 2011, including Directors. Total staff costs for the period under review, including Directors' remuneration, amounted to approximately RMB855,000 (for the period ended 30 June 2011: approximately RMB798,000). The Group's remuneration policies are in line with the prevailing market standards and are determined on the basis of performance and experience of individual employee. Other employee benefits include contributions to social insurance scheme.

The Group has adopted a share option scheme (the "Scheme") pursuant to which the Directors may grant options to individuals including Directors, employees or consultants of the Group to acquire shares of the Company. The Directors consider that the Scheme assists in recruiting and retaining high caliber executives and employees.

Significant Investment Held, Material Acquisitions or Disposals of Subsidiaries and Affiliated Companies, and Plans for Material Investments or Capital Assets

There were no significant investments held, material acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30 June 2012. Save for the business plan as disclosed in the prospectus of the Company dated 28 June 2012 (the "Prospectus"), there is no plan for material investments or capital assets as at the date of this report.

Outlook

The PRC government has adopted policies to promote the generation and the use of clean and renewable energy, including hydropower, in the recent years. Hydropower plants, especially small hydropower plants, have benefited from such policies. One of the benefits will be the on-grid tariff.

Hydropower is the cheapest power generation resources in the PRC. With continued encouragement by the PRC government, small hydropower plants is expected to grow further. Several policies had taken place over the last few years in an effort to reduce the dependence on thermal fuels as the resource of power generation, which would, as a result, encourage further investments in the hydropower industry.

The Group currently operates in Fujian Province which is rich in hydropower resources. The hydropower on-grid tariff for hydropower plants in Fujian Province is generally lower than other hydropower rich province and the Directors believe that there is room for increase of hydropower tariff in Fujian Province.

To strengthen the future cash flow and further expand our operation, the Group plans to develop an additional hydropower plant in Babu Stream (八蒲溪), Zhouning County, Fujian Province, the PRC. The Group was granted the development right by the relevant authority to develop additional hydropower plants in Babu Stream for an operating period of 50 years. Such additional hydropower plant is regarded as an extension of the existing Jiulong Hydropower Plant as it will make use of the water resources of the same river, Babu Stream, as Jiulong Hydropower Plant. It is expected that the construction of such additional hydropower plant will commence in September 2012 and be completed in the fourth quarter of 2014.

There is a large number of small hydropower plants all over China. The Company believes that there are over 5,000 hydropower plants in Fujian Province and a lot more in other parts of the PRC. To lower its risk as a result of being affected by the local hydrological conditions of Fujian Province to a certain extent, the Group plans to acquire hydropower plants which may be located in provinces of the PRC other than Fujian province, such as Guangdong province and Zhejiang province. The Group plans to acquire a hydropower plant in 2012 if such suitable target arises, and the Group will keep on identifying potential hydropower plants and there will be further acquisitions in the future if there are suitable targets and available funds.

OTHER INFORMATION

Comparison between Future Plans and Prospects and Actual Business Progress and Use of Proceeds

The net proceeds from the placing of the shares of the Company were approximately HK\$59.9 million. As the Company's shares were listed on GEM on 6 July 2012, no proceeds raised from the placing of the shares were applied up to 30 June 2012. The future plans and prospects as stated in the Prospectus were based on the best estimation of the future market conditions made by the Group at the time of preparing the Prospectus. As of the date of this report, the Directors are not aware of material change to the planned use of the proceeds from the plan as stated in the Prospectus.

Interests and Short Positions of the Directors in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As the shares of the Company were listed on GEM on 6 July 2012, as at 30 June 2012, none of the Directors who had an interest and short position in shares, underlying shares or debenture of the Company and its associated corporation (with the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) was required (a) to notify to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept under section 352 of the SFO; or (c) to notify the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors referred to in Rule 5.46 of the GEM Listing Rules.

Immediately following completion of the Placing on 6 July 2012, the interests or short positions of the Directors in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to notify the Company and the Stock Exchange pursuant to Rules 5.46 to Rule 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange, will be as follows:

Long Position in the Shares

Name of Shareholder	Nature of interest	Number of Shares held	Approximate shareholding percentage (%)
Mr. Lin (Note)	Interest of controlled corporation	750,000,000 Shares	75

Note: 750,000,000 shares are held by Victor River Limited (“Victor River”), which is wholly and beneficially owned by Mr. Lin. Accordingly, Mr. Lin is deemed to be interested in the shares held by Victor River under the SFO.

Saved as disclosed above, immediately after completion of the Placing on 6 July 2012, none of the Directors and chief executive of the Company had any other interests or short positions in any shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors as referred to in Rule 5.46 of the GEM Listing Rules.

Interests and Short Positions of Substantial Shareholders in Shares and Underlying Shares of the Company

As the shares of the Company were listed on GEM of the Stock Exchange on 6 July 2012, as at 30 June 2012, no person or company (not being a director, chief executive or supervisor of the Company) had any interests and/or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO.

So far as the Directors are aware, immediately following the completion of the Placing on 6 July 2012, other than a Director or chief executive of the Company whose interests or short positions are disclosed under the paragraph headed "Interests and Short Positions of the Directors in the Shares, Underlying Shares or Debentures of the Company and its Associated Corporations" above, the following person will have an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and who are expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group.

Long position in the Shares

Name of Shareholder	Nature of interest	Number of Shares held	Approximate shareholding percentage (%)
Victor River (Note)	Beneficial owner	750,000,000 Shares	75
Ms. Chen Congling (Note)	Interest of spouse	750,000,000 Shares	75

Note: Victor River is wholly and beneficially owned by Mr. Lin. Accordingly, Mr. Lin is deemed to be interested in the 750,000,000 Shares held by Victor River under the SFO. Ms. Chen Congling is the spouse of Mr. Lin. Under the SFO, Ms. Chen Congling is deemed to be interested in the 750,000,000 Shares owned by Mr. Lin through Victor River.

Saved as disclosed above, immediately after completion of the Placing on 6 July 2012, the Directors were not aware of any other person (other than the Directors or chief executive as disclosed in the paragraph headed "Interests and Short Positions of the Directors in the Shares, Underlying Shares or Debentures of the Company and its Associated Corporations" above) who had, or deemed to have, interests or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

Directors' Interests in Competing Business

As far as the Directors are aware of, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) has any interest in a business which competes or may compete with the business of the Group or has any other conflict of interest with the Group during the period under review.

Purchase, Sales or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed shares of the Company during the six months ended 30 June 2012.

Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. Since the Scheme has become effective, no share options were granted, exercised or cancelled by the Company under the Scheme during the period under review and there were no outstanding share options under the Scheme as at 30 June 2012.

Code on Corporate Governance Practice

The Company has complied with the code provisions of the Code on Corporate Governance Practice set out in Appendix 15 of the GEM Listing Rules since the listing of the Company on GEM on 6 July 2012.

Code of Conduct for Securities Transactions by Directors

The Company has adopted a code of conduct regarding securities transactions by Directors on terms which are the same as the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has confirmed, having made specific enquiry of the Directors, that all the Directors have complied with the required standards of dealings throughout the period under review. The Company was not aware of any non-compliance since the listing of the Company on GEM on 6 July 2012.

Compliance Adviser's Interest in the Company

As at 30 June 2012, as notified by the Company's compliance adviser, Ample Capital Limited (the "Compliance Adviser"), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 28 June 2012, neither the Compliance Adviser nor its directors, employees or associates had any interests in relation to the Company which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

Audit Committee

The Company has established the audit committee in accordance with the requirements of the Code on Corporate Governance Practice as set up in Appendix 15 of the GEM Listing Rules. The Audit Committee of the Company has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements and the interim report of the Group for the six months ended 30 June 2012.

On behalf of the Board

Haitian Hydropower International Limited

Lin Yang

Chairman and Executive Director

Fujian Province, The PRC, 10 August 2012

At the date of this report, the Board comprises four executive directors, namely Mr. Lin Yang, Mr. Zheng Xuesong, Mr. Chen Congwen and Mr. Huang Xiaodong; and three independent non-executive directors, namely Mr. Zhang Shijiu, Mr. Cheng Chuhan and Mr. Chan Kam Fuk.

Condensed Consolidated Statement of Comprehensive Income

For the three months and six months ended 30 June 2012

	Notes	Three months ended 30 June		Six months ended 30 June	
		2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)	2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Turnover	4	9,472	6,342	16,265	11,280
Cost of sales		(1,784)	(1,547)	(3,557)	(3,235)
Gross profit		7,688	4,795	12,708	8,045
Other income	6	120	2,125	819	2,320
Administrative expenses		(1,018)	(496)	(1,837)	(1,019)
Other operating expenses		(3)	(42)	(3)	(90)
Finance costs	7	(2,443)	(2,122)	(4,611)	(3,973)
Profit before tax		4,344	4,260	7,076	5,283
Income tax expense	8	(1,181)	(1,047)	(1,922)	(1,262)
Profit for the period and total comprehensive income for the period	9	3,163	3,213	5,154	4,021
Earnings per share (RMB cents)					
Basic and diluted	11	0.42	0.43	0.69	0.54

Condensed Consolidated Statement of Financial Position

As at 30 June 2012

	Notes	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	12	116,391	118,734
Prepaid lease payments		11,364	11,492
Goodwill		3,759	3,759
Intangible asset		8,802	8,903
		140,316	142,888
Current assets			
Trade and other receivables	13	7,529	3,951
Prepaid lease payments		256	256
Income tax recoverable		—	361
Bank balances and cash		38,417	16,922
		46,202	21,490
Current liabilities			
Trade and other payables	14	1,877	2,611
Amount due to a controlling shareholder	15	—	18,623
Income tax payables		1,793	765
Bank borrowings	16	10,800	8,500
		14,470	30,499
Net current assets (liabilities)			
		31,732	(9,009)
		172,048	133,879
Capital and reserves			
Share capital	17	1	7
Reserves		62,893	39,110
Total equity		62,894	39,117
Non-current liabilities			
Bank borrowings	16	108,400	94,000
Deferred tax liabilities	19	754	762
		109,154	94,762
		172,048	133,879

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

	Share capital	Other reserve	Special reserve	Statutory reserve	Capital reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011 (audited)	7	362	29,993	692	24	3,583	34,661
Profit for the period and total comprehensive income for the period	—	—	—	—	—	4,021	4,021
At 30 June 2011 (unaudited)	7	362	29,993	692	24	7,604	38,682
At 1 January 2012 (audited)	7	362	29,993	1,172	24	7,559	39,117
Arising from reorganisation (Note 17(e))	(7)	—	7	—	—	—	—
Issue of shares upon reorganisation (Note 17(c))	1	—	18,622	—	—	—	18,623
Profit for the period and total comprehensive income for the period	—	—	—	—	—	5,154	5,154
At 30 June 2012 (unaudited)	1	362	48,622	1,172	24	12,713	62,894

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Net cash from operating activities	9,380	7,269
Net cash from (used in) investing activities	26	(31,872)
Net cash from financing activities	12,089	44,161
Net increase in cash and cash equivalents	21,495	19,558
Cash and cash equivalents at 1 January	16,922	20,158
Cash and cash equivalents at 30 June, represented by bank balances and cash	38,417	39,716

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

1. General Information

Haitian Hydropower International Limited (the “Company”) was incorporated in the Cayman Islands on 27 August 2010 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The addresses of the registered office and the principal place of business of the Company are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and Unit 606, 6th Floor, Alliance Building, 133 Connaught Road Central, Hong Kong respectively.

The condensed consolidated financial statements are presented in Renminbi (“RMB”), which is the same as the functional currency of the Company and its primary subsidiaries. RMB is the currency of the primary economic environment in which the principal subsidiaries of the Company operate (the functional currency of the principal subsidiaries).

The directors of the Company consider that Victor River Limited, a company incorporated in the British Virgin Islands (“BVI”) with limited liability, is the ultimate holding company of the Company and Mr. Lin Yang is the ultimate controlling shareholder.

Pursuant to a group reorganisation (the “Reorganisation”) to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) in preparation of the listing of the Company’s shares on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the Group on 19 June 2012. Details of the Reorganisation were set out in the section headed “History and Development — Reorganisation” to the prospectus of the Company dated 28 June 2012 (the “Prospectus”).

The Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, these condensed consolidated financial statements have been prepared on the basis as if the Company has always been the holding company of the companies comprising the Group throughout the six months ended 30 June 2012, using the principles of merger accounting as prescribed in Hong Kong Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

1. General Information (Continued)

Subsequent to 30 June 2012, the shares of the Company have been listed on the GEM of the Stock Exchange on 6 July 2012.

The Company is engaged in investment holding while the Group is principally engaged in hydropower generation.

2. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the HKICPA as well as with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

3. Principal Accounting Policies

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group’s financial information for each of the two years ended 31 December 2011 as included in the accountants’ report under Appendix I of the Prospectus (the “Accountants’ Report”).

3. Principal Accounting Policies (Continued)

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA.

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendments to HKFRS 7	Disclosures — Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax — Recovery of Underlying Assets

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

The Group has not early adopted new or revised HKFRSs, interpretations and amendments (hereinafter collectively referred to as “New HKFRSs”) that have been issued but are not yet effective as set out in Note 3 to section A of the Accountants’ Report.

In addition, there are the following amendments to HKFRSs have been issued but are not effective subsequent to the date of the Prospectus:

Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance ¹
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¹ Effective for annual periods beginning on or after 1 January 2013.

The directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the results and the financial position of the Group in the future.

4. Turnover

Turnover represents the amounts received and receivable for electricity sold in the normal course of business, net of sales related taxes.

5. Segment Information

HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the board of directors) in order to allocate resources to the segment and to assess its performance.

For management purpose, the Group operates in one business unit based on their products, and has one reportable and operating segment: hydropower generation. The board of directors monitors the revenue of its business unit as a whole based on the monthly sales and delivery reports for the purpose of making decisions about resource allocation and performance assessment. Segment revenue and results; and segment assets and liabilities are presented in the condensed consolidated statement of comprehensive income and condensed consolidated statement of financial position respectively.

6. Other Income

	Three months ended 30 June		Six months ended 30 June	
	2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)	2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Net exchange gain	45	233	674	378
Rental income (net of outgoings: nil)	30	30	60	60
Gain on disposal of property, plant and equipment	14	—	30	—
Bank interest income	31	10	55	30
Income from sales of Certified Emission Reductions ("CERs") (2011: net of outgoings of approximately RMB847,000)	—	1,852	—	1,852
	120	2,125	819	2,320

7. Finance Costs

	Three months ended 30 June		Six months ended 30 June	
	2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)	2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Interest on borrowings wholly repayable over five years	2,443	2,122	4,611	3,973

8. Income Tax Expense

	Three months ended 30 June		Six months ended 30 June	
	2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)	2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
The charge comprises:				
The People's Republic of China (the "PRC")				
Enterprise Income Tax ("EIT")	1,185	1,051	1,930	1,270
Deferred taxation (Note 19)	(4)	(4)	(8)	(8)
	1,181	1,047	1,922	1,262

- (i) Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group is not subject to any income tax in the Cayman Islands and BVI.
- (ii) No provision for Hong Kong Profits Tax has been made for the subsidiary established in Hong Kong as the subsidiary did not have any assessable profits subject to Hong Kong Profits Tax during both periods.
- (iii) Under the Law of the PRC on EIT and implementation regulation of the EIT Law, the tax rate of all subsidiaries established in the PRC is 25% during both periods.

9. Profit for the Period

	Three months ended 30 June		Six months ended 30 June	
	2012	2011	2012	2011
	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)
Profit for the period has been arrived at after charging:				
Depreciation	1,196	1,178	2,402	2,356
Amortisation of prepaid lease payments (included in cost of sales)	64	57	128	109
Amortisation of intangible asset (included in administrative expenses)	51	51	101	101
Operating lease charges in respect of properties	16	15	36	31

10. Dividends

No dividends were paid, declared or proposed during the interim period. The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: nil).

11. Earnings Per Share

The calculation of the basic earnings per share for the three months and six months ended 30 June 2012 and 2011 is based on the profit attributable to the owners of the Company and the weighted average number of ordinary shares in issue during the three months and six months ended 30 June 2012 and 2011 on the assumption that 750,000,000 shares of HK\$0.01 each, representing the number of shares of the Company immediately after the Reorganisation and the capitalisation issue as disclosed in Appendix V to the Prospectus but excluding any shares to be issued pursuant to the placing had been effective on 1 January 2011.

The dilutive earnings per share is equal to the basic earnings per share as there were no dilutive potential ordinary shares outstanding during the three months and six months ended 30 June 2012 and 2011.

12. Movements In Property, Plant and Equipment

During the six months ended 30 June 2012, the Group spent approximately RMB71,000 (six months ended 30 June 2011: approximately RMB726,000) on acquisition of property, plant and equipment.

In addition, during the six months ended 30 June 2012, the Group disposed of certain property, plant and equipment with an aggregate carrying values of approximately RMB12,000 for cash proceeds of approximately RMB42,000, resulting in a gain on disposal of approximately RMB30,000. The Group did not dispose of any property, plant and equipment during the six months ended 30 June 2011.

13. Trade and Other Receivables

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
Trade receivables	4,890	1,292
Prepayments	1,627	1,709
Deposits and other receivables	1,012	950
	7,529	3,951

The Group allows a range of credit period of 15 to 30 days to its trade customers. The Group did not hold any collateral over the trade receivable balances. The following is an aged analysis of trade receivables presented based on invoice date at the end of the reporting period.

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
Within 30 days	4,890	1,292

14. Trade and Other Payables

The following is an aged analysis of the Group's trade payables presented based on the invoice date at the end of the reporting period:

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
Within 180 days	181	324
181 to 365 days	—	97
Over 1 year	—	55
Trade payables	181	476
Construction payables	250	776
Other payables and accrued expenses	994	1,110
Other tax payables	452	249
	1,877	2,611

15. Amount Due to a Controlling Shareholder

The amount due to a controlling shareholder, Mr. Lin Yang is unsecured, interest-free and repayable on demand.

16. Bank Borrowings

During the six months ended 30 June 2012, the Group obtained a new bank borrowing in the amount of RMB21,000,000. The bank borrowing carries interest at market rate of 7.76% per annum and is repayable in installments over a period of 10 years. The proceeds were used to finance the general working capital of the Group.

During the year ended 31 December 2011, the Group obtained new bank borrowings in the amount of RMB110,000,000. The bank borrowings carry interest at variable market rates of 7.82% to 8.11% per annum and are repayable in installments over a period of 11 years. The proceeds were used to repay the existing bank borrowings of the Group for the sake of lower interest rate.

17. Share Capital

	Notes	Number of shares	Nominal value of ordinary shares	
			HK\$'000	RMB'000
Ordinary shares of HK\$0.01 each				
Authorised:				
At 1 January 2011, 30 June 2011, 1 January 2012 and				
30 June 2012	(b)	38,000,000	380	
Increase during the period	(d)	1,962,000,000	19,620	
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At 30 June 2012		2,000,000,000	20,000	
<hr/>				
Issued and fully paid:				
At 1 January 2011, 30 June 2011 and 1 January 2012				
	(b)	10,000	—	—
Issue of shares upon Reorganisation	(c)	90,000	1	1
<hr/>				
At 30 June 2012		100,000	1	1
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- (a) The share capital of the Group as at 1 January 2011 and 30 June 2011 represented the share capital of Haitian Hydropower Group Limited (“Haitian BVI”), a wholly-owned subsidiary of the Company and the Company prior to the completion of the Reorganisation.

Haitian BVI was incorporated in the British Virgin Islands on 22 April 2010 with an authorised capital of US\$50,000 divided into 50,000 shares of US\$1.00 each.

On 22 April 2010, 100 shares were issued and allotted as fully paid to Mr. Lin Yang. On 24 September 2010, in consideration of the assignment of a debt of RMB30,000,000, Haitian BVI issued and allotted 900 shares of US\$1.00 each in the share capital of Haitian BVI to Mr. Lin Yang (equivalent to approximately RMB7,000).

17. Share Capital (Continued)

- (b) The Company was incorporated on 27 August 2010 with an authorised share capital of HK\$380,000 (equivalent to approximately RMB329,000) divided into 380,000 shares of HK\$1.00 each. At the time of incorporation, one share of HK\$1.00 each was allotted and issued at par to the initial subscriber. On 27 August 2010, 99 shares of HK\$1.00 each were allotted and issued at nil. Pursuant to a special resolution passed on 12 October 2010, each of the issued and unissued shares of HK\$1.00 each in the share capital of the Company was subdivided into 100 shares of HK\$0.01 each. Accordingly, the Company has an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each and an issued share capital of HK\$100 divided into 10,000 shares of HK\$0.01 each as at 31 December 2010, 1 January 2011, 30 June 2011 and 1 January 2012.
- (c) On 30 April 2012, Victor River Limited subscribed for, and the Company issued and allotted 90,000 shares of HK\$0.01 each fully paid to Victor River Limited (equivalent to approximately RMB1,000) in consideration of the debt assignment of HK\$23,763,058 (equivalent to approximately RMB18,623,000).
- (d) Pursuant to an ordinary resolution in writing passed by the Company on 19 June 2012, the authorised share capital of the Company was increased from HK\$380,000 to HK\$20,000,000 by the creation of an additional of 1,962,000,000 shares of HK\$0.01 each.
- (e) Pursuant to the reorganisation agreement dated 19 June 2012, the Company acquired the remaining 1,000 shares of Haitian BVI from Mr. Lin Yang and Haitian BVI became a wholly-owned subsidiary of the Company. In consideration for the aforesaid acquisitions, 10,000 nil paid shares of HK\$0.01 each held by Victor River Limited were credited as fully paid.

18. Share Option Scheme

Pursuant to a written resolution of the Company passed on 19 June 2012, the Company has conditionally adopted the share option scheme (the "Scheme") on 19 June 2012 for the primary purpose of providing incentives to eligible participants. No share option has been granted since the Scheme has been adopted. As at 30 June 2012, there are no outstanding share options under the Scheme.

19. Deferred Taxation

The following are the major deferred tax liabilities recognised and movements thereon during the current and preceding interim periods:

	Fair value adjustment on property, plant and equipment RMB'000	Fair value adjustment on prepaid lease payments RMB'000	Fair value adjustment on intangible asset RMB'000	Total RMB'000
At 1 January 2011 (audited)	204	31	544	779
Credited to the condensed consolidated statement of comprehensive income	(2)	—	(6)	(8)
At 30 June 2011 (unaudited)	202	31	538	771
At 1 January 2012 (audited)	200	30	532	762
Credited to the condensed consolidated statement of comprehensive income	(2)	—	(6)	(8)
At 30 June 2012 (unaudited)	198	30	526	754

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards.

Deferred taxation has not been provided for in the condensed consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

20. Contingent Liabilities

Up to date of this report, no rules have been issued on whether the income from sales of CERs is subject to any value-added tax or business tax. Based on discussion with local tax authorities, the directors of the Company are of the opinion that no such taxes will be applicable to the income from sales of CERs. Therefore, the Group has not made any provision on such contingencies.

21. Operating Leases

Details of the Group's commitments under non-cancellable operating lease are set out as follows:

(a) The Group as lessee

The Group leases certain of its premises and offices under operating lease arrangements. The leases typically run for an initial period of one year. Lease payments are usually increased annually to reflect market rentals. No provision for contingent rent and terms of renewal was established in the leases.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
Within one year	49	19

21. Operating Leases (Continued)

(b) The Group as lessor

The Group leases certain of its staff quarters under operating lease arrangements. The leases typically run for an initial period of five years. No provision for contingent rent and terms of renewal was established in the leases.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
Within one year	120	120
In the second to fifth year inclusive	180	240
	300	360

22. Capital Commitments

	30 June 2012 RMB'000 (unaudited)	31 December 2011 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	59	59

23. Pledge Of Assets

At the end of the reporting period, the Group pledged the following assets to banks for borrowings granted to the Group.

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
Prepaid lease payments	11,620	9,639
Property, plant and equipment	114,803	100,095
Trade receivables	4,890	815
	131,313	110,549

24. Related Parties Transactions

The Group entered into the following transactions during the period:

- (i) The Group may not be qualified to the Clean Development Mechanism (“CDM”) project upon the date from it changed to a foreign-owned enterprise and may be requested to refund the cash received (“Cash Refund”) to the respective PRC authority should the PRC authorities have different interpretations on the Measures for Operation and Management of Clean Development Mechanism Projects 《清潔發展機制項目運行管理辦法》 (Revised) promulgated on 3 August 2011 from the Group.

Pursuant to a deed of indemnity dated 19 June 2012, the controlling shareholder and Victor River Limited would jointly and severally indemnify the Group for the Cash Refund.

- (ii) Under a deed of indemnity dated 19 June 2012, the controlling shareholder and Victor River Limited, have jointly and severally undertaken to provide indemnities on all penalties which would be incurred or suffered by the Group as a result of any non-compliance with the PRC regulatory requirements in relation to the loans advancing to a related company on or before the listing of the shares of the Company on the Stock Exchange.
- (iii) Under the deed of assignment dated on 19 June 2012 entered into between Mr. Lin Yang and Haitian Hydropower (HK) Limited (“Haitian HK”), Mr. Lin Yang agreed to assign, and Haitian HK accepted to the assignment of, all rights, title, benefit and interest in the domain name for the consideration of HK\$1.00.

24. Related Parties Transactions (Continued)

- (iv) Compensation to key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	Three months ended 30 June		Six months ended 30 June	
	2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)	2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Short-term benefits	44	42	87	84
Post-employments benefits	5	4	10	8
	49	46	97	92

The remuneration of directors and key executives is determined with regards to the performance of individuals and market trends.

25. Events After the End of the Interim Period

Pursuant to the written resolution passed on 3 July 2012, a sum of HK\$7,499,000 standing to the credit of the share premium account of the Company as a result of issue of 250,000,000 new shares by the Company pursuant to the listing of the Company's shares on the GEM of the Stock Exchange, was capitalised and applied in paying up in full at par 749,900,000 shares of HK\$0.01 each, allotted and issued to the Victor River Limited, being the sole shareholder appearing on the register of members of the Company at the close of business on 19 June 2012 (or as they may direct) so that the shares to be allotted and issued shall rank pari passu in all respects with the then existing issued shares.