海天水电
HaiTian Hydropower

HAITIAN HYDROPOWER INTERNATIONAL LIMITED
海 天 水 電 國 際 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 8261

Third Quarterly Report 2012

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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.

FINANCIAL HIGHLIGHTS

- Turnover for the nine months ended 30 September 2012 amounted to approximately RMB23.2 million (2011: RMB18.7 million), representing an increase of 24% as compared with the corresponding period in 2011.
- Gross profit for the nine months ended 30 September 2012 amounted to approximately RMB18.0 million (2011: RMB13.7 million), representing an increase of 31% as compared with the corresponding period in 2011.
- Basic earnings per share for the nine months ended 30 September 2012 amounted to RMB0.38 cents (2011: RMB0.79 cents).
- The Directors do not recommend the payment of a dividend for the nine months ended 30 September 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 September 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. With the approval of Ningde Price Bureau, the on-grid tariff rates applicable to the Group's three hydropower plants increased by RMB1.1 cents effective from 1 July 2012. The electricity generated by the Group in the nine months ended 30 September 2012 surged by 22% when compared to corresponding period of last year resulting from the increased precipitation.

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 September 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 authority 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 30 September 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 Group recorded a turnover of approximately RMB23.2 million for the nine months ended 30 September 2012, representing a 24% increase as compared to approximately RMB18.7 million for the nine months ended 30 September 2011 mainly due to increase of power sale and increase in average on-grid tariff rate.

Gross Profit and Gross Profit Margin

The Group achieved a gross profit of approximately RMB18.0 million for the nine months ended 30 September 2012 (2011: RMB13.7 million) representing an increase of 31% as compared to that for the corresponding period in 2011. Gross margin, calculated as gross profit divided by turnover, for the nine months ended 30 September 2012 amounted to 77% (2011: 74%). The increase in gross margin in 2012 was mainly attributable to revenue and cost which increased by 24% and 6% respectively compared with those for the prior period. Smaller growth in cost was resulted from fixed cost (such as depreciation) for the nine months ended 30 September 2012 occupying 68% of total cost.

Administrative Expenses

The administrative expenses of the Group primarily comprised of listing expenses and staff costs. For the nine months ended 30 September 2012, the Group's administrative expenses increased to approximately RMB6.6 million compared to approximately RMB2.4 million for the corresponding period of last year, representing an increase of approximately 175%. The increase was mainly attributed to the increase in listing expenses.

Finance Costs

The finance costs of the Group represented interest expenses on bank loans. For the nine months ended 30 September 2011 and 2012, finance costs recorded by the Group were approximately RMB6.3 million and RMB7.0 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 20% from approximately RMB2.0 million for the nine months ended 30 September 2011 to approximately RMB2.4 million for the nine months ended 30 September 2012.

Profit and Total Comprehensive Income

The Group recorded a significant growth in the gross profit margin. However, due to the increasing of one-off listing expenses and the reduction in sale income of carbon credits, the profit and total comprehensive income decreased by 46% from approximately RMB5.9 million for the nine months ended 30 September 2011 to approximately RMB3.2 million for the nine months ended 30 September 2012.

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 hyrdropower rich provinces of the southeastern coast of China. With the approval of Ningde Price Bureau, the on-grid tariff rates applicable to the Group's three hydropower plants increased by RMB1.1 cents effective from 1 July 2012. The Directors believe that there is great potential for increase of hydropower tariff in Fujian Province in the coming years.

To strengthen the future cash flow and further expand our operation, the Group plans to develop an additional hydropower plant in Bapu 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 plant in Bapu 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, Bapu Stream, as Jiulong Hydropower Plant. The preliminary construction works of such additional hydropower plant has commenced in September 2012 and the whole project is expected to 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 Fuijian Province to a certain extent, the Group plans to acquire hydropower plants which may be located in provinces of the PRC including Fujian province, 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.

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

As at 30 September 2012, the interests or short positions of the Directors and chief executive in the Shares, underlying shares or debentures of the Company and 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 and 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 which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Long Position in the Shares

Name of Shareholder	Nature of interest	Number of Shares held	Approximate shareholding percentage (%)
Mr. Lin Yang ("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, as at 30 September 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 which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

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

So far as the Directors are aware, as at 30 September 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 and chief executive in the Shares, Underlying Shares or Debentures of the Company and its Associated Corporations" above, the following person had 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 or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

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, as at 30 September 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 and Chief Executive 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 which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

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 nine months ended 30 September 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 September 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 September 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 third quarterly financial results of the Group for the nine months ended 30 September 2012.

On behalf of the Board
Haitian Hydropower International Limited
Lin Yang
Chairman and Executive Director

Fujian Province, The PRC, 14 November 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 nine months ended 30 September 2012

	Notes	Three months ended 30 September 2012 RMB'000 (Unaudited)	Three months ended 30 September 2011 RMB'000 (Unaudited)	Nine months ended 30 September 2012 RMB'000 (Unaudited)	Nine months ended 30 September 2011 RMB'000 (Unaudited)
Turnover	4	**6,959**	7,398	**23,224**	18,678
Cost of sales		**(1,679)**	(1,697)	**(5,236)**	(4,932)
Gross profit		**5,280**	5,701	**17,988**	13,746
Other income	6	**386**	563	**1,205**	2,883
Administrative expenses		**(4,809)**	(1,349)	**(6,646)**	(2,368)
Other operating expenses		**(5)**	(2)	**(8)**	(92)
Finance costs	7	**(2,342)**	(2,292)	**(6,953)**	(6,265)
(Loss) profit before tax		**(1,490)**	2,621	**5,586**	7,904
Income tax expense	8	**(503)**	(750)	**(2,425)**	(2,012)
(Loss) profit for the period and total comprehensive (expense) income for the period	9	**(1,993)**	1,871	**3,161**	5,892
(Loss) earnings per share (RMB cents) Basic and diluted	11	**(0.20)**	0.25	**0.38**	0.79

Condensed Consolidated Statement of Changes in Equity

For the nine months ended 30 September 2012

	Share capital	Share premium	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	RMB'000
At 1 January 2012 (audited)	7	—	362	29,993	1,172	24	7,559	39,117
Arising from reorganisation	(7)	—	—	7	—	—	—	—
Issue of shares upon reorganisation	1	—	—	18,622	—	—	—	18,623
Issue of shares by placing	2,039	59,131	—	—	—	—	—	61,170
Transaction costs attributable to placing	—	(4,233)	—	—	—	—	—	(4,233)
Capitalisation issue	6,116	(6,116)	—	—	—	—	—	—
Profit for the period and total comprehensive income for the period	—	—	—	—	—	—	3,161	3,161
At 30 September 2012 (unaudited)	8,156	48,782	362	48,622	1,172	24	10,720	117,838
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	—	—	—	—	—	—	5,892	5,892
At 30 September 2011 (unaudited)	7	—	362	29,993	692	24	9,475	40,553

Notes to the Condensed Consolidated Financial Statements

For the nine months ended 30 September 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 shares were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 6 July 2012. 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 GEM of 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 nine months ended 30 September 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)

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

2. Basis of Preparation

The unaudited condensed consolidated financial statements for the three months and nine months ended 30 September 2012 have been prepared in accordance with the accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and 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 accounting policies adopted in preparing the unaudited condensed consolidated financial statements for the three months and nine months ended 30 September 2012 were consistent with 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 accountant's report under Appendix I of the Prospectus.

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 September		**Nine months ended 30 September**	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Net exchange gain	**291**	361	**965**	739
Rental income (net of outgoings: nil)	**30**	30	**90**	90
Gain on disposal of property, plant and equipment	**—**	—	**30**	—
Bank interest income	**65**	12	**120**	42
Income from sales of Certified Emission Reductions ("CERs") (2011: net of outgoings of approximately RMB847,000)	**—**	—	**—**	1,852
Compensation income (Note)	**—**	160	**—**	160
	386	563	**1,205**	2,883

Note: The amount represents compensation paid by an infrastructure constructor for disturbing the operation of the group in the course of constructing expressways nearby.

7. Finance Costs

	Three months ended 30 September		Nine months ended 30 September	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Interest on borrowings wholly repayable over five years	**2,342**	2,292	**6,953**	6,265

8. Income Tax Expense

	Three months ended 30 September		Nine months ended 30 September	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
The charge comprises:				
The PRC Enterprise Income Tax ("EIT")	**507**	754	**2,437**	2,024
Deferred taxation	**(4)**	(4)	**(12)**	(12)
	503	750	**2,425**	2,012

(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 all 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 all periods.

9. (Loss) Profit for the Period

	Three months ended 30 September		Nine months ended 30 September	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
(Loss) profit for the period has been arrived at after charging:				
Depreciation	**1,201**	1,197	**3,603**	3,553
Amortisation of prepaid lease payments (included in cost of sales)	**63**	60	**191**	169
Amortisation of intangible asset (included in administrative expenses)	**51**	51	**152**	152
Operating lease charges in respect of properties	**16**	15	**52**	46

10. Dividends

The Directors do not recommend the payment of a dividend for the nine months ended 30 September 2012.

11. (Loss) Earnings Per Share

The calculation of the basic (loss) earnings per share for the three and nine months ended 30 September 2012 is based on the (loss) profit attributable to the owners of the Company of RMB(1,993,000) and RMB3,161,000 respectively (three months and nine months ended 30 September 2011: RMB1,871,000 and RMB5,892,000 respectively) and the weighted average of 986,413,043 and 829,379,562 ordinary shares in issue respectively during the three months and nine months ended 30 September 2012. The weighted average number of ordinary shares in issue during the three months and nine months ended 30 September 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 (loss) earnings per share is equal to the basic (loss) earnings per share as there were no dilutive potential ordinary shares outstanding during the three months and nine months ended 30 September 2012 and 2011.